



**Chief Internal Auditor
Jill Stacey**

Audit Committee
Tuesday 28 May 2019
Item No: 5.3

Auditor: Amber Ahmed

Final Internal Audit Report

to

**Chief Executive
Director, Resources
Head of Finance and Integrated Service Support
Financial Services Manager
Senior Accountant Projects and Treasury
Business Services Manager
Business Applications Manager
Revenues Services Manager**

on

Sales to Cash

09 May 2019

1 Introduction

1.1 The purpose of the audit was to review the adequacy of the control framework over the income collection on the ICON receipting system.

2 Audit Scope

2.1 The scope of this audit was to examine and evaluate the following areas:

- defined policies and procedures are in place for cash and income banking and that the Council's Financial Regulations are being complied with;
- the controls in place that ensure the integrity of income and banking transactions are adequate; and
- that there is effective security in place for processing cash and other receipts.

3 Management Summary

- 3.1 Midlothian Council receipts its income in the ICON receipting system which was upgraded last year. Personal payments are collected at a number of locations (eg Buccleuch House, Midlothian House, Registrars and Newbattle Library (for Blue Badge payments only)). The Council has a contract with G4S to uplift cash and cheques from dedicated locations which is subsequently banked by the company. Non Domestic rates are collected by Edinburgh Council and is posted through Midlothian's ICON receipting system. Other income, such as school meals, is collected through a different income receipting stream.
- 3.2 The total net amount of income collected through the ICON receipting system during 2018/19 was £64,065,244. This figure excludes income collected by direct debit as this is posted straight to the Council's bank account. Customers are encouraged to pay by direct debit but a range of other payment methods is also offered to customers such as cash, cheque, debit/credit card or over the phone on the automated telephone system (ATP). Council Tax, Rents, Housing Benefit Overpayments, Integra Invoices, Non Domestic Rates can be paid online or ATP. Council tax payers and rent payers can also pay by standing order, direct debit, at a bank, at a post office or at any shop displaying the pay point logo. Garden Waste can be paid online only. Planning payments can be paid online through the Scottish Government portal and by cash, cheque, and debit/credit card.
- 3.3 Internal Audit considers that the level of assurance we are able to give is **Substantial Assurance**. There are adequate and effective systems of control for the identification, recording and banking of income and any payments which do not reconcile are investigated.
- 3.4 Up to date procedures and guidance is required over the processing of refunds and the requirement to undertake spot checks on cash floats should be undertaken by Service Managers and documented in the refreshed Financial Regulations. Banking arrangements at sites need to be reviewed to ensure there is an adequate audit trail. Sample checks need to be undertaken on the VAT default setting to each fund account code within the ICON receipting system and staff should be advised that cash floats should be locked away in the safe at the end of the day.
- 3.5 The Internal Audit function conforms with the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.
- 3.6 We would like to thank those officers who assisted us during our review.

4 Findings

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
<p>4.1 Lack of policies and procedures could potentially result in legal and regulatory sanction by failing to accurately account for income received or adequately account for VAT.</p>	<p>Defined policies and procedures are in place for cash and income banking and that the Council's Financial Regulations are being complied with.</p>	<p>The governance arrangement for the Council's income collection is detailed in the Financial Regulations and is supported by Income Collection procedures. The Financial Regulations and the Income Collection procedures are available on the Finance Intranet however these have not been updated or reviewed since 2011.</p> <p>The Anti-Money Laundering policy is available on the Finance Intranet but has not been updated since 2013 and does not reflect the new Anti-Money Laundering legislation which came into force in June 2017. No annual reminders of the Anti-Money Laundering policy are sent out to staff. The last reminder was sent out in April 2017 however it has been advised that no cash over £5k has been collected since April 2017.</p> <p>Internal audit noted that 3 of the service areas that we visited were compliant with the current Financial Directives (apart from undertaking spot checks on floats). Occasionally service areas may delay banking their income by a day or two but the Financial Directives state it should be banked without delay. It was advised that the Financial Directives needs to be updated to ensure it is taking account of the Council's current processes as it is not practical for all services to do their banking every day.</p> <p>Operational procedures are in place on how refunds should be processed in the ICON receipting system. However there are no governance procedures on how refunds should be controlled and managed by service areas.</p>	<p>Satisfactory but requires updating and further guidance is required on refunds</p>	<p>5.1</p> <p>5.2</p>
<p>4.2 Financial loss due to funds not being correctly allocated to the Council's bank accounts</p>	<p>Controls are in place to ensure the integrity of income and banking transactions is adequate.</p>	<p>Reconciliations are undertaken on a regular and timely basis. A number of reconciliations are automated. The Business Applications team are in the process of updating the system to allow more automated reconciliations to be undertaken.</p> <p>For reconciliations that are not automated services collecting income undertake reconciliations on a daily basis and ensure the income collected through the ICON receipting system is reconciled to the services fund account. Finance undertake reconciliations on a monthly basis and make</p>	<p>Good</p> <p>Good</p>	

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
		<p>sure the income collected from the ICON receipting system reconciles to the income credited to the Council's bank account. Any mismatches are investigated by Finance with the service area.</p> <p>The Business Applications team liaises with Financial Services to ensure the correct VAT treatment is applied when the fund account is set up on the ICON receipting system. When income is recorded by the service on the ICON receipting system, the VAT is defaulted to the fund account code. No checks have been undertaken by Finance to ensure the VAT treatment is still being correctly applied in the ICON receipting system.</p>	Satisfactory subject to sample check of VAT treatment	5.3
4.3 Financial loss due to fraud or misappropriation of funds	Effective security controls are in place for processing cash and other receipts.	<p>As part of the end of day cash up process, cash is sealed in a G4S bag with the totals and reference noted and is dropped in the G4S safe where it remains until collected by the company. Only G4S staff have access to the drop-in safe.</p> <p>The Financial Directive and the Income Collection Guidance states "transfers of money between employees must be evidenced in divisional records by the signature of the receiving official". At the end of the day, 2 areas hand their banking to the cash room but don't obtain confirmation from the cash room to declare the amount of banking they have deposited.</p> <p>Internal Audit noted that in one area, floats were left in the till at the end of the day and in 3 areas we noted no spot checks were undertaken by Management. This control is documented in the 2017 Petty Cash Imprest procedure and requires to be reflected in the refreshed Financial Regulations. This has been discussed with the relevant sampled services who have agreed to implement improved practices.</p> <p>Digital Services (Back office and Business Solutions), Revenues Control and the Business Application team have access to the files in the directory where the importing of files into the ICON receipting system are stored (for a very limited time) however we noted that access to the directory needs to be reviewed and restricted.</p>	<p>Good</p> <p>Satisfactory</p> <p>Weak - Though improvement is underway by service managers.</p> <p>Satisfactory subject to restricting access to the directory</p>	5.4

5 Recommendations

Rec. Ref No	Recommendation	Rating	Management Response	Responsibility and Timescale
5.1	<p>Financial Regulations, the Anti-Money Laundering policy and Income Collection procedures need to be reviewed and updated in line with changes to the legislation and Council's structure and processes.</p> <p>The updated guidance should be communicated to the appropriate areas to ensure compliance with the new guidance and the requirement to undertake spots check and to lock tills away at night. Services handling cash should be reminded that transfer of cash between areas needs to be receipted.</p>	Medium	Agreed	<p>Head of Finance and Integrated Services Support</p> <p>Senior Accountant Projects and Treasury</p> <p>31 December 2019</p>
5.2	The updated Financial Regulations need to include the controls and governance over how refunds should be processed in service areas.	Medium	Agreed	<p>Senior Accountant Projects and Treasury</p> <p>31 December 2019</p>
5.3	A sample check should be undertaken on the VAT treatment for the income collected via the ICON receipting system.	Low	Agreed	<p>Senior Accountant Projects and Treasury</p> <p>31 December 2019</p>
5.4	Access to the directory where the files are imported to the ICON receipting system needs to be reviewed and restricted to ensure only appropriate officers have access.	Medium	Agreed	<p>Business Applications Manager, 31 July 2019</p>

Overall Audit Opinion level and definition

Comprehensive Assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas might be required.
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

- High – Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual Assurance Statement.
- Medium – Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
- Low – Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of Senior Management.
- Other - Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations have been input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the agreed timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

Jill Stacey
Chief Internal Auditor