



## Internal Audit Report

### Review of Controls Operating Over Petty Cash, Follow-up Review

Issued: September 2016

<b>Level of Assurance</b>	N/A – Follow-up reviews are not rated.
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# Midlothian Council - Internal Audit – Review of Controls Operating Over Petty Cash, Follow-up Review

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## Executive Summary

### 1.0 Introduction

In 2014/15, a full audit of the Council's Petty Cash controls was carried out to form an opinion on:

- the adequacy of the processes and controls established at a Council level over the operation of petty cash imprest accounts; and
- the level of compliance against the established processes and controls for a sample of petty cash imprest accounts.

The petty cash imprest account is intended to be used to claim for small day to day expenditures such as postage, clients' travel expenses, pre-paid utility cards etc and for emergency purchases / disbursement of funds.

The 2014/15 petty cash audit highlighted control issues in all 9 of the areas that were reviewed during the audit, including:

- the need to improve written procedures, provide better guidance to staff and to create a single Council wide procedure;
- examples of petty cash being used for unallowable expenditure as per the petty cash policy such as for payments to casual workers, travel and subsistence, payments for invoiced goods which should be paid through the Council's Accounts Payable system, and fuel for Council vehicles;
- a lack of monitoring and scrutiny by budget holders, insufficient evidence of review by management and petty cash reconciliations being carried out below the recommended frequency per the guidance;
- examples of petty cash not being held securely;
- instances where the Council was neglecting to recover VAT on petty cash expenditure;
- a lack of standardisation of forms for petty cash vouchers and petty cash claim forms;
- missing receipts from the sample reviewed and inconsistent use of petty cash vouchers;
- examples of employees using their personal credit or debit cards to purchase items from shops online and claiming back the expenditure through the petty cash float instead of using a Council approved procurement route.

Improvements over the controls of petty cash were recommended by Internal Audit in the 2014/15 report to mitigate the risk of financial loss, ensure compliance with HM Revenues and Customs requirements and protect against reputational damage to the Council. These recommendations were endorsed by management and revised Petty Cash guidelines were developed by Financial Services (with the assistance of Internal Audit) and distributed to relevant staff.

### 2.0 Objectives of the Audit

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The objective of the review was to:

- determine whether the recommendations made in the 2014/15 Audit of Petty Cash have been implemented; and
- assess the level of compliance with the Council's updated Petty Cash Guidelines for a sample of petty cash imprest accounts.

A sample of 9 of the total of 54 active petty cash imprest accounts (59 active in 2014/15) from across the Council were selected to test compliance against the petty cash procedures as follows:

- 4 petty cash imprest accounts in Health and Social Care Directorate; and
- 5 petty cash imprest accounts in Education, Communities and Economy Directorate.

The audit focussed on some of the largest and most frequently used petty cash imprest accounts.

A copy of the terms of reference for the review is attached on page 19.

## 3.0 Conclusion

During the review, some petty cash control issues were found in all of the 9 areas reviewed. Although it is recognised that a number of improvements have been made since the last review to comply with the recommendations and subsequent revised procedures, further recommendations are appropriate to bring the Council up to full compliance with the revised Petty Cash Guidelines. It is noted that the level of petty cash spend for the Council has reduced from 2014/15 to 2015/16 from £175,335 to £140,552 respectively. This is principally due to the introduction of purchasing cards and the implementation of Purchase to Pay which management have advised will provide an effective and efficient alternative means to procure smaller value goods and services (this is a planned audit review in 2017/18). It is noted that as an organisation there will be less need to have large petty cash imprest accounts with the implementation of purchasing cards.

Key strengths and improvements identified in the review were as follows:

- fewer instances of unallowable items were identified during the audit for the 9 areas reviewed. The main issue noted in terms of unallowable items was that some purchases were identified which appeared to be above what may be deemed 'petty', and therefore should have preferably been paid through the Accounts Payable system instead of using petty cash;
- a comprehensive revised petty cash procedure has been developed and distributed to staff. The procedure encompasses all the guidance points recommended in the previous audit. 8 of the 9 areas visited advised they were aware of the revised petty cash

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guidelines and had copies of the guidelines available. However, as noted above, none of the areas visited had full compliance with the guidelines so would benefit from reinforcement of the guidelines;

- petty cash reconciliations were found to be complete and arithmetically correct in 8 of the 9 areas reviewed. One area identified had inadequate record keeping; and
- petty cash top-up claims were found to be authorised by a manager in all cases. However, 8 managers were noted as not having the appropriate authorisation as per the Council's Authorised Signatory Database.

It was noted during this audit that additional training in petty cash procedures was provided by the Senior Accountant Projects and Treasury to Head Teachers. This training reminded Head Teachers of the correct processes for petty cash, including the treatment of VAT.

The main control issues identified during the review were as follows:

- 6 of the 9 services reviewed failed to always record VAT on their disbursement logs when carrying out a reimbursement claim to Finance. This will result in some financial loss to the Council as VAT cannot be reclaimed from HMRC if the service fails to declare purchases which include VAT;
- there is now a copy of the Council wide disbursement petty cash voucher included within the updated petty cash guidelines, however, 7 of the 9 reviewed services were still not using any disbursement vouchers. Not all receipts and invoices provide full details of goods purchased. The use of the disbursement voucher provides a detailed explanation of the goods purchased, the amount disbursed, whom it is being paid to, authorised by and a suitable audit trail;
- several services have made purchases which are not petty and should have been paid through Accounts Payable;
- petty cash imprest levels could be reduced further in some areas;
- it was identified during the review that the security of cash at some of the sites could be improved. This includes introducing safe boxes instead of using drawers and maintaining a log of who has keys to the safe boxes; and
- although standard forms have been developed and are included within the Petty Cash Guidelines, all of the areas reviewed are still using outdated forms.

Additionally, the recommendations from the previous audit were reviewed as part of this audit and are outlined in detail in Appendix 1. From the 11 recommendations made it was identified that further work is required on 6 of the issues and 3 of the issues are still in progress.

The 6 issues requiring further work are encompassed in this report's management action plan. 2 of the issues still in progress relate to the implementation of electronic forms for authorising petty cash disbursements and the rollout of Purchasing Cards. These actions originally had a completion date of October 2015, but there has been some slippage due to implementation of e-forms which could not be progressed until an

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upgrade of the Integra system (the Council's finance system) took place. Further information on the progress with these actions is detailed in Appendix 1 in audit action numbers 4 and 5 respectively.

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted 10 recommendations where we have agreed with management that further improvements can be made. These recommendations are detailed in the Audit Issues and Management Action Plan below.

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## 4.0 Audit Issues and Management Action Plan

### 4.1 Unallowable Expenditure Claimed through Petty Cash

The new petty cash guidelines clearly dictate what expenditure is unallowable and that payment through the Accounts Payable systems should always be the primary method of making payment other than for petty expenditure.

This review has highlighted some instances where unallowable expenditure was purchased using the petty cash imprest account. However, it is noted that the extent of unallowable items found in this review has reduced significantly from the previous audit and was mainly limited to purchases which should have been made through the Council's Accounts Payable system due to their size. This is a significant improvement from the prior review.

Within the Education, Communities and Economy Directorate sample a number of purchases were identified that, although were allowable purchases, were not 'petty' in nature so should have been paid through the Council's Accounts Payable system rather than using the petty cash imprest account. These included:

- payments for Staff Development totalling £591;
- in excess of £500 for franking machine costs;
- £200 for summer activities for young people (Social Work). No receipt was available for this expenditure and due to the size of the expenditure, this expense should have been processed through Accounts Payable; and
- payments for Vocational expenditure totalling £236. The Imprest Account holder advised that there is a separate budget for this expenditure and it should not have been paid via the Petty Cash account.

The main reason given for larger items going through petty cash in these areas was that this was considered normal for the service and the way it had always been done.

Additionally, within the Education, Communities and Economy sample it was noted that for some schools, the petty cash account is used to refill a cashless catering card for teachers' lunch duty. In the sample reviewed this was £200 (£50 per card). This has been the practice for some time although alternatively they can be processed through an internal recharge rather than using the petty cash imprest account via the school contacting the Cashless Catering team. The Petty Cash Guidelines specify that internal recharges between Council departments should be used rather than the physical transfer of cash between departments.

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For the Health and Social Care Directorate, very few instances of unallowable items were found within the sample. However we did note staff stationery was purchased using the petty cash imprest account. The Council's supplier, Lyreco, should be used for all purchases of stationery.

## **Unbanked Income**

It was identified that in an Adult Day Care centre there was a small amount of undeclared income for lunch monies on day outings for the users of the service (the income being offset against costs instead of being banked intact). It was found that only 'day outing' income was not banked intact; other income from users of the service at the centre was being banked intact.

## **4.2 Authorisation of Petty Cash Disbursements and Authorisation for Access to the Petty Cash Imprest Bank Accounts**

The review identified 8 employees who were authorising petty cash disbursements, but did not have the authority to 'Authorise Petty Cash Disbursements' specified in the Council's Authorised Signatory Database. 6 of these employees were on the Authorised Signatory Database with other authorities outlined, such as the authority to authorise invoices within a specific value range, and had a sample specimen signature uploaded. The remaining 2 employees were not on the Council's Authorised Signatory Database. The issue identified was that the Authorised Signatory Database was not up to date, not that the employees were carrying out duties that they should not have been.

Additionally, it was noted that Financial Services did not have a fully up to date record of employees authorised to obtain funds from the petty cash imprest bank accounts. Bank mandates should be kept up to date to prevent against the risk of a leaver obtaining access to the petty cash imprest account.

## **4.3 Value Added Tax (VAT *input tax*)**

The current procedures state that receipts should be provided for all payments made from the petty cash account and these should include VAT (*input tax*) details where appropriate. A copy of the Council wide disbursement log with a VAT column for recording VAT (input tax) is included in the procedures and assistance is available when reimbursement claims are being made. The review has highlighted that 7 of the 9 services reviewed failed to declare VAT (*input tax*) when carrying out a petty cash imprest account reimbursement claim to Accounts Payable resulting in financial loss to the Council due to the inability to reclaim VAT.

## **4.4 Standardisation of Forms and use of Disbursement Vouchers**

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The petty cash guidelines provide clear instructions on the correct forms to use when applying for funds (disbursement) from the petty cash imprest account and also when recording the disbursement. There is a Council wide disbursement voucher and log included in the guidelines, however the review has highlighted that not all services were using the Council wide disbursement vouchers or disbursement log. This resulted in disbursements being made without clarification of the purchase and has resulted in some areas not obtaining appropriate authorisation for claims and a lack of a suitable audit trail for the disbursement of petty cash payments.

## **4.5 Reconciliation Monitoring and Petty Cash Claims**

A reconciliation of the petty cash imprest account is required to be undertaken on a weekly basis. The review identified that 7 services only carried out a reconciliation when a top-up reimbursement claim was required. This was more evident in the services that now have a purchase card as the petty cash imprest account was being used less. A lack of regular monitoring could result in unallowable purchases being overlooked or abuse of the petty cash imprest account.

The imprest level and frequency of claims was reviewed as part of the audit. It was noted that high schools had particularly high imprest levels, ranging between £1,000 and £3,200 but were only making 1 or 2 claims in a year. Given the infrequency of the claims, we recommend that the petty cash imprest level of high schools should be reviewed. It is noted that high schools have received purchasing cards and this is reflected in the infrequency of petty cash claims.

Additionally, given the rollout of purchasing cards, and the new recommended limit of expenditure for petty cash (£100 as per recommendation 1), it would be beneficial to carry out a further review of petty cash imprest levels so they are no higher than necessary. The review found that although the petty cash imprest levels are low for many areas, in some cases claims were being made infrequently so there is scope for further reduction of the imprest level.

## **4.6 Security of Cash and Keys**

Not all services have suitable controls in place for accessing the safe and petty cash box. They did not keep an adequate log of who held keys to access the safes/drawers where the petty cash is held. In 1 service (Libraries), there was a lack of segregation of duties as the same employee raised an order to purchase goods, received these goods and administered the petty cash payment. However, the manager has now advised us that this issue has been rectified.

## **4.7 Retention Period for Records**



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Several services are not aware of the correct retention procedures for financial documents. Some of the areas visited have in excess of 6 years petty cash receipts held on site. Effective records management is central to upholding the Council's obligations under information legislation, including the Data Protection Act 1998, the Freedom of Information (Scotland) Act 2002 and the Public Records (Scotland) Act 2011.

## 4.8 Risk Registers

The 2014/15 audit recommended that risk registers should be reviewed based on the results of the Audit and the risks identified. No significant update appears to have been made in this regard however there has been a shift in risk management and reporting to concentrate on the more significant risks currently facing the Council.

It is noted that all services did have a generic risk included within their risk registers for 'Fraud, Waste and Error', although Adult and Social Care and Children's Services have removed this risk in the past year. As both services use petty cash imprest accounts, and there are other potential avenues for fraud and error to occur in these services, Internal Audit recommend that these risks should be reinstated into the service risk register and updated quarterly.

## 5.0 Revised Action Plan

No	Recommendation	Priority	Manager	Target Date
1	Consideration should be given to providing an indicative amount within the Petty Cash Guidance as to what is a 'petty' amount. Internal Audit recommend this should be no more than £100 unless for exceptional circumstances.  The guidance should be updated that as a rule, petty cash should only be used as a last option given the other means now available for making a payment (Purchasing Cards and the Accounts Payable system).	Medium	Senior Accountant Projects and Treasury	31/12/2016

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No	Recommendation	Priority	Manager	Target Date
2	<p>A reminder should be issued to all petty cash imprest holders and authorisers of the petty cash procedures. The reminder should cover the following:</p> <ul style="list-style-type: none"> <li>• the types of expenditure that can and cannot be claimed for through petty cash;</li> <li>• instructions on the appropriate action to be taken when VAT (input tax) has been applied to a purchase;</li> <li>• that a standard disbursement voucher and disbursement log be used (included within the petty cash guidelines);</li> <li>• that the petty cash reconciliations and checking of 'cash in hand' balances should be undertaken on a regular basis and this should be documented and independently checked. Any discrepancies should be immediately reported to line management;</li> <li>• a written log should be held detailing who has a key to the petty cash safe, as per the petty cash guidelines. Also, managers of petty cash imprest holders should ensure there is a nominated stand-in for when the imprest holder is on annual leave and that this is documented; and</li> <li>• that documents are retained as per the Council's Records Management and Retention Schedules policies and procedures.</li> </ul>	Medium	Senior Accountant Projects and Treasury	31/12/2016
3	<p>Schools should use an internal recharge to credit teachers' cashless catering cards rather than using a general card which is topped up with physical cash. The Petty Cash Guidelines specify that internal recharges between Council departments should be used rather than the physical transfer of cash between departments.</p>	Medium	Catering Services Manager	31/12/2016
4	<p>All income, including income received from day outings, should be banked intact with the Midlothian Council General Fund Account and should not be used to offset expenditure.</p>	Medium	Manager Cherry Road Centre	31/12/2016

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No	Recommendation	Priority	Manager	Target Date
5	<p>The petty cash top-up claims forms should only be approved by those listed on the Authorised Signatory Database.</p> <p>The Authorised Signatory Database needs to be updated to reflect which managers are authorised to approve petty cash disbursements.</p>	Medium	Business Applications Manager	31/12/2016
6	Financial Services should issue an annual declaration to imprest holders and authorised signatories to enable the bank mandate list to be kept up to date and to ensure the petty cash imprest holder list is up to date.	Medium	Senior Accountant Projects and Treasury	31/03/2017
7	A further review of petty cash imprest levels should be undertaken to ensure that the level is appropriate for the usage of the service. In particular, given the infrequency of petty cash claims by high schools, consideration should be given to reducing these petty cash imprest levels.	Medium	Senior Accountant Projects and Treasury	31/12/2016
8	The Top service was using an insecure drawer to hold petty cash. We recommend that a more secure location should be used instead of a drawer.	Medium	TOP Service Depute Head Teacher	31/12/2016
9	Segregation of duties should be introduced for the management of the Petty Cash Imprest Account for the Libraries Service.	Medium	Customer Services manager	31/12/2016
10	<p>Adult and Social Care and Children's Services should review the appropriateness of removing their generic risk of 'Fraud, Waste and Error' from the risk register particularly as these two services are among the higher users of petty cash imprest accounts.</p> <p>The risk relating to 'Fraud, Waste &amp; Error' should be reviewed for each service's risk register to ensure that controls to mitigate this risk are accurately reflected.</p>	Medium	Heads of Services /  Risk, Health, Safety and Civil Contingencies Manager	31/03/2017

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## APPENDIX 1

### Audit Actions from the 2014/15 audit and action taken by management

No	Recommendation	Priority	Manager	Action Taken
1	<p>Staff should be reminded of the controls over petty cash and that these should be followed for all expenditure claimed from petty cash. Areas where controls need to be reinforced are:</p> <ul style="list-style-type: none"> <li>the types of expenditure that can be claimed through petty cash. All staff subsistence / travelling expenses, payments for additional hours worked and payments to casual workers must be paid via the payroll system and that all payments to contractors / suppliers should be processed via the Accounts Payable system. Staff can also arrange for travel (eg train tickets) to be booked and paid for via the Council's travel company supplier;</li> <li>the petty cash system should not be used for vehicle fuel payments. Staff should claim for mileage using the expenses claim form and paid via the payroll system and Council standby vehicles should be fuelled in accordance with normal practice. Agency workers should claim for mileage via the Accounts Payable system;</li> <li>increased scrutiny and monitoring of expenditure (including undertaking unannounced checks) paid through the petty cash system and greater challenge over claims for petty cash should be undertaken by budget holders;</li> <li>petty cash reconciliations and checking of 'cash in hand' balances should be undertaken on a regular basis (Council wide) and this should be documented and independently checked. Any discrepancies should be immediately reported to line management;</li> </ul>	High	Directors	<p><b>Further work Required</b></p> <p>Reminder emails were issued by senior management to relevant managers and staff with copies of the revised guidelines.</p> <p>Within the emails, it was noted that the Senior Accountant Projects and Treasury was available to discuss the guidelines with staff if required.</p> <p>The revised guidelines and guidance issued to staff recommended all the controls listed should be implemented.</p> <p>However, in the course of this audit issues have been noted with the regularity of reconciliations, unbanked income and the security of petty cash held in a drawer rather than a safe. Therefore, some further work is required in bringing services to full compliance with the guidelines. These issues are encompassed in the management action plan.</p>

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No	Recommendation	Priority	Manager	Action Taken
	<ul style="list-style-type: none"> <li>• petty cash payments should not be paid by imprest holders unless receipts and supporting documentation are provided;</li> <li>• authorisers of petty cash disbursements should ensure that the amount claimed always matches the receipt and supporting documentation;</li> <li>• bank statements should be independently reconciled to the petty cash records at least once a month for areas that operate a petty cash bank account;</li> <li>• the petty cash imprest account should be used for petty cash disbursements only and should not be used for any other purposes;</li> <li>• the petty cash system should not be used to internally reimburse other internal Council service areas;</li> <li>• cash should not be left unattended and should be held securely at all times. Keys to the safe should also be held securely at all times;</li> <li>• income should not be allocated to the petty cash float / bank account but should be banked and accounted for separately;</li> <li>• bank statements should be addressed to the correct officer responsible for the petty cash imprest account; and</li> <li>• a review of the number, location and purpose of petty cash imprest accounts should be undertaken by each Director.</li> </ul>			
2	The Petty Cash procedure should be updated, consolidated into one Council-wide procedure, and provided to all staff involved in the processing of petty cash claims. Advice and guidance on the new procedure should also be available to all relevant staff. The procedure should be updated to include:	High	Senior Accountant Projects & Treasury	<p><b>Satisfactory</b></p> <p>Revised petty cash guidance has been drafted and distributed to all relevant staff.</p>

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No	Recommendation	Priority	Manager	Action Taken
	<ul style="list-style-type: none"> <li>• clear guidance on the treatment on VAT and that claims made must clearly split the VAT element. It should highlight that VAT can only be recovered when a VAT invoice is received and that staff should always be requested to provide such a receipt where the expenditure is subject to VAT. The procedures should include the calculation / rates used to recover VAT;</li> <li>• clear guidance over allowable purchases such as the purchase of food and drinks for meetings (internal and external) and the reimbursement of staff expenses;</li> <li>• details on how to treat cash advances;</li> <li>• what the maximum allowable petty cash limit is;</li> <li>• access to Council safes should always be undertaken by at least two employees; and</li> <li>• for areas with more than one petty cash float, these should be recorded and reconciled separately and the 'cash in hand' balances should be verified independently.</li> </ul>			The revised guidance encompasses all of the audit's recommendations.
3	The VAT errors highlighted in the review should be rectified and any tax liability on staff payments should be calculated and paid.	High	Directors	<p><b>VAT - Satisfactory</b></p> <p>Errors identified have been reviewed by management and are noted as being significantly below the HM Revenue and Customs reporting threshold and were not deliberate on the part of the staff. Staff have been advised to include VAT in full in future on the petty cash disbursement logs provided there is a valid VAT receipt.</p>

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No	Recommendation	Priority	Manager	Action Taken
				<p><b>Staff Payments - In Progress</b></p> <p>A detailed schedule has been prepared for the staff payments by Internal Audit and action is being taken to address this by management.</p>
4	Appropriate facilities such as Purchasing Cards should be rolled out throughout the Council to facilitate the purchase of goods, discourage employees from having to use their personal debit or credit cards and ensure that goods are delivered directly to the Council.	Medium	Business Applications Manager / Procurement Manager	<p><b>Satisfactory</b></p> <p>Pilot programmes for the Purchasing Cards implementation were carried out in five primary schools and Lasswade High School.</p> <p>Rollout of purchasing cards and provision of relevant training in the use of the cards is ongoing and is nearing completion. 187 cards are now live. This has completed the roll out of Purchasing Cards for services that have already implemented Purchase Ordering as part of the P2P project. Rollout of Purchase to Pay to Children's Services is currently underway.</p> <p>Any need for Purchasing Cards within other services will be considered as part of the ongoing project plan for P2P. Any other ad-hoc requests will be considered separately.</p>
5	As part of the Purchase to Pay Project, electronic petty cash forms and the scanning and attachment of receipts / vouchers to claims should be implemented across the Council (for areas with a petty cash imprest account).	Medium	Business Applications Manager / Procurement Manager	<p><b>In Progress</b></p> <p>E-forms will be used in the future for authorisation of petty cash disbursements. However, a technical problem was discovered in the petty cash E-form validation</p>

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No	Recommendation	Priority	Manager	Action Taken
				<p>process and the provider of the Council's finance software anticipates the fix for this system issue will likely be September 2016. Because of this system issue there is some slippage from the original due date of October 2015.</p> <p>Therefore, document scanning for petty cash receipts and vouchers is not yet in place.</p>
6	A review of all petty cash imprest levels should be undertaken to ensure they are at the correct amount for the needs of the service and comply with the Council's insurance policy.	Medium	Directors	<p><b>Further Work Required</b></p> <p>A review was undertaken after the October 2014 audit report. However, this follow-up audit has identified that there would be benefit for a further review of imprest levels as some imprest levels were noted as being higher than necessary. This is partly because many services now have purchasing cards so should be using their petty cash imprest account less.</p>
7	A review of the petty cash imprest holders list should be undertaken on a regular basis (eg when there has been a change in the Council's management structure) to ensure it remains accurate and up to date.	Medium	Senior Accountant Projects & Treasury	<p><b>Further work required</b></p> <p>A review was undertaken but some gaps in the imprest holders list were still noted. Therefore, we have recommended that this should be carried out annually (recommendation 6 in the management action plan).</p>



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No	Recommendation	Priority	Manager	Action Taken
8	The Petty Cash top-up claim form should be updated to include a declaration stating that only valid expenditure has been claimed.	Medium	Senior Accountant Projects & Treasury	<p><b>Further work required</b></p> <p>The petty cash top-up claim form has been updated to include the declaration.</p> <p>However, a number of areas were identified in this review as not using the up to date form. We have recommended in this audit that management should ensure that all employees are using the correct forms (recommendation 2 in the management action plan).</p>
9	The petty cash top-up claims forms should only be approved by those listed on the authorised signatory system. The authorised signatory system needs to be updated to reflect which managers are authorised to approve petty cash disbursements and the signatories on petty cash top up claims forms should be checked against the authorised signatories list before processing payments.	Medium	Business Applications Manager / Heads of Service	<p><b>Further work required</b></p> <p>Updates were made to the Authorised Signatories Database after issue of the previous audit report.</p> <p>However, some signatories were identified in this audit as signing forms without having the appropriate authority detailed in the Authorised Signatories Database. We have recommended in this audit that the authorisation list is reviewed again (recommendation 5 in the management action plan).</p>
10	Improvements over vouchers should be implemented so that: a standard Council-wide voucher is used, general ledger codes used on all vouchers, all vouchers are authorised and	Medium	Senior Accountant Projects &	<p><b>Further work required</b></p> <p>A standard voucher has been developed and</p>

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No	Recommendation	Priority	Manager	Action Taken
	cancelled vouchers are marked as 'void' and retained for audit purposes.		Treasury	is included within the Petty Cash Guidelines.  However, not all areas are making use of this voucher. A new recommendation has been raised for this issue within this audit report (recommendation 2 in the management action plan).
11	All services that operate a petty cash imprest account should include a risk of theft of cash and the key controls they have in place to reduce this risk within their risk register.	Medium	Risk, Safety, Health and Contingenci es Manager	<b>Further work required</b>  We have raised a further recommendation for the Council's risk registers (recommendation 10 in the management action plan).

### **Distribution List**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Health and Social Care Joint Director
- Mary Smith, Director, Education
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Garry Sheret, Head of Property and Facilities Management
- Ricky Moffat, Head of Commercial Operations
- Alison White, Head of Adult and Social Care
- Kevin Anderson, Head of Customer and Housing Services
- Grace Vickers, Head of Education
- Ian Johnson, Head of Communities and Economy
- Joan Tranent, Head of Children’s Services
- David Gladwin, Financial Services Manager
- Gary Thomson, Senior Accountant Projects & Treasury
- Jacqui Dougall, Business Services Manager
- Mike O’Rourke, Business Applications Manager
- Nicola McDowell / Alan Wait / Donny MacDonald, Schools Group Managers
- Keth Millar, Depute Head Teacher
- Jane Milne, Customer Services Manager
- Margaret McKenzie, Catering Services Manager
- Elizabeth Davidson, Manager Cherry Road
- Grant Thornton, External Audit

### **Audit Team**

James Polanski	Auditor
Raymond Trower	Corporate Fraud Officer
Elaine Greaves	Audit Manager

### TERMS OF REFERENCE:

#### **Audit Objective and Scope**

##### Audit Objective

The objective of the audit is to:

- determine whether the recommendations made in the 2014/15 Audit of Petty Cash have been implemented; and
- assess the level of compliance with the Council's updated Petty Cash Guidelines for a sample of petty cash imprest accounts.

##### Scope of Audit

The audit will focus on reviewing whether the recommendations made in the 2014/15 audit of petty cash have been adequately implemented and for a sample of locations which operate imprest accounts to test compliance against the updated Petty Cash policies and procedures.

##### Excluded from the scope of the audit

No specific exclusions.

#### **Potential Risks**

The main risks associated with the Petty Cash system are as follows:

- misappropriation of cash from the petty cash imprest account;
- fraudulent requests for payment from cash floats;
- financial loss and / or reputational damage through using the petty cash float for inappropriate payments (eg salary costs); and
- financial loss and / or reputational damage through failing to adequately account for petty cash.

#### **Audit Approach**

The audit approach will consists of:

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- fact finding interviews with relevant employees;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to the Audit Committee.

## **Timescales & Reporting**

The audit will commence in January 2016 and is expected to be completed by the end of March 2016 and be reported to the next available Audit Committee.

Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.

## **Information Requirements**

Access to all relevant systems, documentation and employees.

## **Audit Resource**

Auditor	James Polanski	0131 270 5646
Fraud Officer	Raymond Trower	0131 271 3573