

Causeway Coast and Glens Borough Council

Internal Audit Report Leisure Services-Cash Handling

March 2020



INTERNAL AUDIT REPORT

Leisure Services – Income & Cash Handling

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2019/20. This report summarises the findings arising from a review of

Through our audit we found the following examples of good practice:

- The Legend Income Management (IT) System is now being used in all Council's leisure facilities
- Council actively encourages leisure facility members to take up an annual membership and pay via Direct Debit. This is an efficient way of collecting leisure income; reducing cash handling and reducing the amount of administration time required to manage leisure income. An analysis of Council income for the period Sept 2019-Jan 2020 revealed that during that on average 34% of Council's leisure monthly income was from membership DDs.

It should be noted that Covid-19 has resulted in the closure of Council's Leisure Facilities and that some of the recommendations made in this report cannot be addressed until the facilities re-open.

The table below summarises the key risks reviewed:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be insufficient controls in place in relation to the receipt of income at point of sale leading to an increased risk of loss of income to the Council due to misappropriation or errors	-	-	4
There may be inadequate controls over the recording and reconciliation of income leading to incorrect accounting treatments and loss of income to the Council	-	-	2
There may be inadequate controls over the security of cash leading to potential theft or misappropriation and loss of income to the Council	-	-	2
There may be inadequate controls over the security and operation of petty cash leading to potential theft or misappropriation and loss of income of the Council	-	-	-
Total recommendations made	0		8

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory

Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

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Auditor:	Catriona McHugh
Distribution:	Audit Committee Chief Executive Director of Leisure and Development Head of
	June 2020

Audit progress	Date
Audit commenced	17/02/2020
Draft Report issued to senior management for response	29/05/2020
Responses Received	05/06/2020
Responses Agreed	05/06/2020
Report Issued	05/06/2020

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and considered the main risks facing fuel management and a review the key systems and controls in place to address these. The objective being to ensure that there is an adequate framework in place:

- to manage Leisure Services income and avoid misappropriation, error or loss of income, and that
- processes are operating as expected

2 Background

Causeway Coast and Glens Borough Council manages has a number of Leisure/Sports Centres across the Borough offering a variety of sport and leisure activities. Examples of facilities are:

- Coleraine Leisure Centre
- The Joey Dunlop Leisure Centre
- Roe Valley Leisure Centre
- Dungiven Sports Centre
- Jim Watts Sports Centre
- Sheskburn Recreation Centre

The use of leisure facilities can be paid for by the public via monthly membership fees (by direct debit or using a debit/credit card). In addition, the public can pay for individual leisure activities by card or cash each time they visit a Council managed centre. The management of income is an important area for leisure centres, and cash handling, in particular, is inherently risky. Income and cash handling require robust controls to be in place to confirm revenue is collected, recorded and lodged on a timely basis to reduce the opportunity for error, fraud or misappropriation. Therefore, consistent policies and procedures should be followed when managing income and handling cash.

3 Risks

The risks identified by Internal Audit relating to income and cash handling at leisure facilities and agreed with management are as follows:

- There may be insufficient controls in place in relation to the receipt of income at point of sale leading to an increased risk of loss of income to the Council due to misappropriation or errors
- There may be inadequate controls over the recording and reconciliation of income leading to incorrect accounting treatments and loss of income to the Council

- There may be inadequate controls over the security of cash leading to potential theft or misappropriation and loss of income to the Council
- There may be inadequate controls over the security and operation of petty cash leading to potential theft or misappropriation and loss of income of the Council

4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

For this audit we visited and performed testing at two Leisure facilities:

- Coleraine Leisure Centre (CLC)
- Dungiven Sports Centre (DSC)

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Head of Leisure Services
Business Support & Administration Manager – Sport & Wellbeing
Business Support & Administration Manager - Leisure & Development
Administration Officer - Leisure & Development

5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Loss of Income at Point of Sale

ISSUE 1 – Policies & Procedures

a) Observation-

At Dungiven SC (DSC) Audit found there were short documented procedures for cash handling and receiving payments (including invoice payments).

At Coleraine Leisure Centre (CLC) there were documented procedures for

- Safe Procedure
- Lodgement Procedure
- Start End of Day Procedure
- Refund Procedure

Upon review Audit found that the procedures require some updating e.g. in DSC they need to reflect the introduction of the Legend (income IT) system. The Business Support & Administration Manager advises audit that the procedures do need to be updated and standardised.

b) Implication-

If documented procedures are not up to date and standardised there is a risk of errors in managing receipt of income at the point of sale.

c) Priority Rating- 3

d) Recommendation- The procedures for managing Leisure income and cash need to be updated and standardised as soon as possible

e) Management Response-

Senior Receptionists had started to pull together all procedures in order for us standardise everything across centres. This work will continue once we are back in offices after the Covid 19 closure.

f) Responsible Officer & Implementation Date-

Business Support and Admin Manager – October 2020

ISSUE 2 – Reconciliation of Till Takings

a) Observation-

When testing a sample of daily till takings at DSC Audit found a small number of minor differences between the takings recorded on the till and the amounts on the daily cash sheet records; 3 differences were £5.00 and less and 1 difference was £22.60. No explanation for the differences were noted on the daily cash sheet.

<p>b) Implication-</p> <p>If there no record retained of reasons for discrepancies when reconciling till takings there is an increased risk of loss of income to Council either through errors or misappropriation.</p>
<p>c) Priority Rating-3</p>
<p>d) Recommendation-</p> <p>DSC - When reconciling till takings a record of investigation and reason for all discrepancies (over an agreed level e.g. greater than £10.00) should be noted on the cash sheet and initialled or signed by the relevant staff member.</p> <p>All centres - When lodgements are being prepared any trends in high numbers of discrepancies should be noted and management should be informed. A record should be retained of such information and management response.</p>
<p>e) Management Response-</p> <p>Legend has a facility to record all discrepancies and their reasons. This is part of our procedures and will be rolled out across all centres (inc DSC). In these procedures it does state any discrepancy £10.00 or over needs to be investigated by relevant staff.</p> <p>Discrepancies are investigated at the time of cash up and again in the morning when the Admin staff complete the lodgement process, however the Legend report available will let us run it daily or weekly. I will update procedures to include this for our Admin Staff to run weekly and report upon it looking for trends.</p>
<p>f) Responsible Officer & Implementation Date-</p> <p>Business Support and Admin Manager – immediately (upon return to centres operating again)</p>

ISSUE 3 – Handover at Reception

<p>a) Observation-</p> <p>Audit observed a hand over at CLC reception when the shift of 1 member of staff ended and another begins. Audit noted appropriate level of checks and reconciliation taking place. On the day of Audit testing there had been some issues with the Legend IT system (linked to the tills) during the shift. The receptionist had made handwritten manual notes of transactions. These notes were used by the supervisor to reconcile the till takings to system reports. The manual note was to be retained with the daily cash sheet and then forwarded to the Administration staff (in the office upstairs) so they could make any corrections and code the changes. Audit observed that the note may have been difficult to follow in the absence of the relevant receptionist to provide an explanation.</p>

Currently at DSC there is no check of the till takings at the hand over point (when 1 staff shift ends and another takes over).

b) Implication-

In the absence of checking a till at handover there is an increased risk of a lack of audit trail and possible loss of income to Council either through errors or misappropriation. (DSC)

If a standard template is not used to record transactions when there are technical issues at the till (e.g. Legend system not operational) there is an increased risk of a lack of audit trail and possible loss of income to Council either through errors or misappropriation (CLC)

c) Priority Rating- 3

d) Recommendation-

At DSC some form of checking of the till at hand over when a staff shift ends should occur where a print-out of the till reading is taken and verified to takings in till (and this should be signed by both staff). This information should be retained.

All leisure reception staff should be reminded that the standard template for recording transactions during any period of technical issues with the till should be always be used. This is necessary to ensure all appropriate information is available for both the reconciliation at a shift end and also for the use of Administration staff (in the office upstairs) so they can make any corrections and code any necessary changes in the financial records.

e) Management Response-

Legend has a facility that lets us run a till reading of takings at any stage of the day without logging out of shift. This will be brought in to Tier 2 sites where the amount of monies being put through the till is significantly less than Tier 1 sites. This receipt will then be attached to end of day sheet with 2 signatures included as recommended.

Leisure Centres have a Manual Income Sheet that is used at times when we have technical issues with Legend. All staff will be reminded to use this.

f) Responsible Officer & Implementation Date-

Business Support and Admin Manager - immediately (upon return to centres operating again)

ISSUE 4 – Collecting Cash from Vending Machines, Hairdryers etc.

a) Observation-

Audit observed at CLC that the café and vending machines are franchised out; and that hairdryer takings are collected and paid into the till at reception. The hairdryer takings had been noted as paid into till at reception and the amount put into the till had been signed as verified by the receptionist and 1 other member of staff at that time. However, there was no documentary evidence that 2 people had collected the cash from the hairdryers.

b) Implication-

In the absence of an audit trail to verify that two persons collected the coins from the hairdryers there is an increased risk of possible loss of income to Council either through errors or misappropriation (CLC)

c) Priority Rating- 3

d) Recommendation-

A standard template to record when coins are collected from the hairdryers including the signature of 2 staff members present during emptying of the hairdryers should be used.

e) Management Response-

A small slip will be produced that will need to be signed by the 2 people emptying the hairdryers that will then get attached to cash sheet along with the Till receipt already attached and initialled.

f) Responsible Officer & Implementation Date-

Business Support and Admin Manager - immediately (upon return to centres operating again)

5.2 Risk 2 – Inaccurate Recording of Income

ISSUE 5 – Recording of Income

a) Observation-

The Legend Income Management IT system is used in all Leisure facilities and records point of sale transactions (at tills at each reception) and also manages the membership fees paid by Direct Debit (DD). The only Leisure facility income which

is separate from the Legend IT system is the invoicing of group users of leisure facilities (i.e. schools, sports clubs etc.).

Audit reviewed total income records for the period September 2019 – January 2020; tested the invoicing of (CLC) users in early January 2020 and tested the recording of Leisure Centre membership fee income in the Council's Finance system for January 2020.

Audit notes a small difference between the Leisure and Development records (from the Legend system) for membership DD income and the Finance records used to post this income to the Council Financial system. The difference was circa £500 and was coded to a suspense account. Audit was advised that this difference, which is being investigated by the Business Support & Administration Manager - Leisure & Development has only occurred since detailed bank transaction lists are no longer provided (following a change in banking service provider). Audit was also advised that there can be a cut-off difference between the Legend records and bank records e.g. if a DD cannot be collected on the first attempt in a month, a second attempt is made part way through the month, but this may not be recorded until the following month. The overall difference is not material (in relation to the total membership income).

Audit was also advised that invoicing of leisure facility users (such as schools and sports clubs) had moved from a monthly to a weekly process at the time of Audit.

b) Implication-

The small difference in membership DD income increases the risk of inaccurate accounting of Council income. The weekly raising of invoices increases the volume of invoices to be raised; thereby increasing the amount of administration time to be spent on invoicing and collecting leisure income and also increases the risk of errors or loss of income to Council.

c) Priority Rating- 3

d) Recommendation-

It is recommended that the Business Support & Administration Manager - Leisure & Development and the relevant Finance officer compare their source documents and agree a process for reconciling the income which addresses any cut-off issues while fulfilling the needs of both users. Finance should review the information received from the bank and determine if more detailed transactions lists can be made available to assist Leisure & Development in this reconciliation process.

It is recommended that the benefit of moving to weekly invoicing (which Audit was advised was to improve Council's cash flow) be measured and considered in terms of the possible cost of increased administration time and the risk of increased errors in processing and collecting debts (arising from a larger volume of low value invoices).

e) Management Response-

A meeting has been arranged with the relevant Finance Officer and Business Support and Admin Manager on return to work from Covid Closures, in which the itemised statements and reporting issues will be discussed and amended accordingly (if possible from the Bank Statements). A further meeting is then arranged between Legend Reporting and Business Support Manager with any outcome of first meeting which would affect how Legend are reporting the DD and Representations. The Business Support Manager believes this will be rectified once itemisation of income/rejections are given from the Bank as the income from the Caravan Sites also come through the SUN set up for Legend initially.

The need for Weekly invoicing will be reviewed once leisure centres re-open.

f) Responsible Officer & Implementation Date-

Business Support and Admin Manager and Finance Officer - immediately (upon return to centres operating again)

ISSUE 6 – Contract Management

a) Observation-

Audit found that a detailed contract is in place between Council and the suppliers of the Legend IT system used for income at leisure facilities. It includes specific delivery objectives and detailed targets and also contains a number of provisions which were to be agreed (after the contract was put in place) e.g. a maintenance schedule. Audit was advised that there is a good working relationship with the supplier who is very responsive when there are any issues with the Legend system. Audit was also advised that at the time of audit that no nominated Council officer had been given the specific responsibility of managing the contract by monitoring the supplier's performance against the agreed delivery objectives and targets within the contract.

b) Implication-

In the absence of formal contract management arrangements for the Legend income management IT system, there is a risk of issues arising which may result in inadequate control of recording of leisure income

c) Priority Rating- 3

d) Recommendation-

A contract manager should be put in place and all contract provisions and options must be agreed and documented especially but not limited to the software maintenance schedule. A formally documented monitoring of the contracts agreed service levels and KPIs should be put in place by the contract manager.

<p>e) Management Response-</p> <p>Management accepts the recommendation to appoint a contract manager for the Legend System as recommended in this report. At this point Management expect that a cross departmental collaboration will be required to meet the requirements of this recommendation. Management expect that Finance and ICT will be involved in this process. Management will commence discussions with our service provider Legend so that they are in a position to appoint the equivalent contract manager on the Legend side.</p>
<p>f) Responsible Officer & Implementation Date-</p> <p>General Manager – Oct 2020</p>

5.3 Risk 3 – Inadequate Security of Cash

ISSUE 7 – Physical Security of Cash	
<p>a) Observation-</p> <p>At DSC the safe is in an office behind reception and the key for safe is kept hidden out of sight. Audit observed that a swipe card mechanism for certain doors (including the door for accessing reception) have not yet been activated. The door to reception is not locked at all times.</p> <p>At CLC There are 2 safes (change and main) which are in a secure room within the office used by the Duty Manager.</p> <ul style="list-style-type: none">• The Duty Manager office is locked if the Duty Manager is not in the office• The keys are in a key box on the wall• The room in which the safes are located can only be entered by a minimum of 2 people• There are books to record who opens the safe	
<p>b) Implication-</p> <p>If the swipe card access at DSC is not activated there is an increased risk of potential theft or misappropriation and loss of income to the Council</p>	
<p>c) Priority Rating- 3</p>	
<p>d) Recommendation-</p> <p>Arrange to have the swipe card access installed at DSC activated as soon as is practical</p>	

e) Management Response-

The Access Control in the centres are included in Phase 2 of implementing the Legend system in all sites. This phase has now been postponed due the closure of sites during the Covid lockdown. This will be taken back up again, with Councillors approval in our return to normality.

f) Responsible Officer & Implementation Date-

Head of Service – Jan 2021

ISSUE 8 – Safe Insurance Limits

a) Observation-

Audit performed a check and count of cash held in the safe at DSC. The amount in the safe was below the limit for insurance purposes and agreed to supporting documents. Audit also reviewed the lodgement records for the period 13th January 2020 – 11th February 2020. It was noted that there was 1 instance where the cash in the safe during that period exceeded the insurance limit by a small amount.

At CLC There are 2 safes (change and main) which are in a secure room within the office used by the Duty Manager.

- The Duty Manager office is locked if the Duty Manager is not in the office
- The keys are in a key box on the wall
- The room in which the safes are located can only be entered by a minimum of 2 people
- There are books to record who opens the safe(s)

There was no evidence that the insurance limit for the safe at CLC had been exceeded during the periods tested by Audit.

b) Implication-

If the insurance limits are insufficient there is a risk of loss of income to the Council; in the event of a theft from Council premises of an amount exceeding the safe insurance limit.

c) Priority Rating- 3

d) Recommendation-

Leisure Centre Business Support should perform a review of the insurance limits for the safes in all SC & LC and ensure that the limit is sufficient.

e) Management Response-

A review of CLC, JDLC, RVLC and DSC has now been carried out and limits have been increased to reflect income being kept in the buildings. SRC and JWSC will get reviewed once we open back up again.

<p>f) Responsible Officer & Implementation Date- Business Support and Admin Manager – Dec 2020</p>

5.4 Risk 4 – Inadequate Operation of Petty Cash

There are no issues to note

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Key Controls
<p>There may be insufficient controls in place in relation to the receipt of income at point of sale leading to an increased risk of loss of income to the Council due to misappropriation or errors</p>	<ul style="list-style-type: none"> • Income and cash handling procedures are in place to provide guidance to staff collecting payments • Adequate training is provided to staff who receive income and handle cash • A separate float is held for each till which is counted and verified before each shift • Receipts are produced and issued for every transaction • Membership types are checked and are verified to be up to date before members can access Leisure facilities • Till reconciliation is performed at the end of each shift • All till discrepancies are fully investigated and records maintained • Where possible more than one employee collects cash from vending/ hairdryer/ shower/laundry and adequate records are maintained • Any income received by post is promptly recorded and receipted. • Tills are restricted to one cashier/user or have individual user logins where operated by more than one staff member
<p>There may be inadequate controls over the recording and reconciliation of income leading to incorrect accounting treatments and loss of income to the Council</p>	<ul style="list-style-type: none"> • End of day till reports are generated and reconciled to cash in till; card readings; agreed to takings • All voids/ cancelled till transactions are supported by appropriate documentation • Separation of duties exists between staff responsible for income collection and staff with responsibility for reconciling income received to the bank. • There is adequate completion of daily/ weekly sales/income sheets • There is adequate Manager/ Supervisor oversight over the reconciliation process and evidence of this • Finance receives accurately coded and timely Leisure Centre income records • There are appropriate procedures governing the management and recording of Membership fee income • Membership income is properly accounted for in Council's financial system or appropriate level of transactional records
<p>There may be inadequate controls over the security of cash leading to potential theft or misappropriation and loss of income to the Council</p>	<ul style="list-style-type: none"> • Monies are held securely in a safe which is in an appropriate location • There are adequate access control arrangements to the safe • Where a large build-up of cash occurs, takings are removed from the till and held securely in the safe • Surprise cash counts are performed periodically (at tills and in safe) • Lodgements are prepared by two staff members • Lodgements are made regularly and promptly • Adequate insurance is in place to cover cash held on the premises until lodged and cash held does not exceed the amount insured

Risk	Key Controls
There may be inadequate controls over the security and operation of petty cash leading to potential theft or misappropriation and loss of income of the Council	<ul style="list-style-type: none">• There are clear policies and procedures covering petty cash• When the petty cash float is not in use it is kept in a secure location• The petty cash float is reconciled regularly, and the reconciliation is completed by someone other than the person in charge of the float• Petty cash is only issued on presentation of authorisation and evidence of the expenditure incurred