

# **Causeway Coast and Glens Borough Council**

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## ***Internal Audit Report Cash Handling***

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May 2016  
Final Report

**MOORE STEPHENS**

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# INTERNAL AUDIT REPORT

## Cash Handling

### Executive Summary

This internal audit was completed following a request by management and as part of audit work for 2016/17. This report summarises the findings arising from a review of cash handling at Coleraine Leisure Centre and is part of a wider review of cash handling arrangements in selected outlying Council facilities which was allocated 12 days (to be reported separately). We spent 2 days on this assignment.

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

- Good controls are in place around the reconciliation of income at that the end of each shift including oversight by the duty supervisor during the counting of takings and float
- The preparation of lodgements is carried out by two staff members in a secure area and was found to be processed efficiently
- Till discrepancies were minimal and any small anomalies identified were followed up and documented in a timely basis
- Two staff members must be present when the safe is being opened in line with good practice. A safe ledger and change float book have also recently been introduced and are signed as evidence of this process
- Receipts were presented for all petty cash payments and a reconciliation is carried out and signed by the leisure centre manager

One Priority 2 area where controls could be enhanced was noted during our review:

- Lodgements are placed in sealed bags and taken by car to the Council office in Coleraine by two members where it is stored in the strong room prior to being collected by the Council's designated security provider. The value of lodgements observed during audit was between £1k-7.5k (average £2.9k). Transporting cash presents an increased risk to the safety of staff and the security of cash during the transit of lodgements from the leisure centre to the Council office.

The following table summarises the total number of recommendations from our audit (all recommendations being accepted by management):

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	-	-	2
There may be inadequate controls over the recording and reconciliation of cash leading to incorrect accounting treatments and loss of income to the Council	-	-	1
There may be inadequate controls over the security of cash leading to potential theft or misappropriation and loss of income to the Council	-	1	1
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	-	-	-
<b>Total recommendations made</b>	<b>-</b>	<b>1</b>	<b>4</b>

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

**Satisfactory**

Overall there is an adequate and effective system of governance, risk management and control. While there is some residual risk identified this should not significantly impact on the achievement of objectives. Some improvements are required to enhance the adequacy and / or effectiveness of governance, risk management and control

Points for the attention of Management

In addition to the recommendations noted above we have identified four system enhancements during the course of the audit which do not form part of our formal findings, but may help enhance the existing controls. These are detailed at Appendix 3.

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Distribution:	Chief Executive Director of Performance Director of Leisure and Development Head of Compliance Head of Sport, Well-being and Leisure Coleraine Leisure Centre Manager Audit Committee
	May 2016

<b>Audit progress</b>	<b>Date</b>
Audit commenced	3 May 2016
Draft Report issued to senior management for response	24 May 2016
Responses Received	26 May 2016
Responses Agreed	27 May 2016
Report Issued	31 May 2016

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 scope of the audit was agreed with the Head of Leisure, Well-being and Sport. The agreed audit objectives were to ensure that:

- There are adequate controls over the receipt of cash income
- Adequate arrangements are in place in relation to the recording and reconciliation of cash
- Adequate arrangements are in place in relation to the security of cash
- Petty cash is sufficiently controlled and monitored.

The scope of this audit was to consider the main risks facing the Council in relation to cash handling at selected leisure facilities and to review the key systems and controls in place to address these. This audit report focuses on cash handling within Coleraine Leisure Centre including:

- Controls over the security of cash, cash registers and safes
- Reviewing procedures for end of shift/ daily cash reconciliations.
- Completeness of recording of cash received and lodgements made
- Management oversight including reconciliations and authorisation arrangements
- Petty cash and floats.

## 2 Background

The management of cash is an important area for Causeway Coast and Glens Borough Council. Cash handling is inherently risky and requires robust controls in place to confirm all cash revenue is collected, recorded and lodged on a timely basis to reduce the opportunity for error, fraud or misappropriation. The Council has a number of revenue streams which accept payment in cash and therefore consistent policies and procedures should be followed when handling cash.

## 3 Risks

The risks identified relating to information management and agreed with management are as follows:

1. 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
2. There may be inadequate controls over the recording and reconciliation of cash leading to incorrect accounting treatments and loss of income to the Council
3. There may be inadequate controls over the security of cash leading to potential theft or misappropriation and loss of income to the Council.
4. 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

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## 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.

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 Sport, Well-being and Leisure
Manager, Coleraine Leisure Centre
Business Support Officer, Coleraine Leisure Centre
Back office staff, Coleraine Leisure Centre

## 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 – Receipt of Cash

#### Recommendation 1 – Control issue – Cash Handling Policy and Procedures

**a) Observation-**

Draft policies and procedures in relation to cash handling have been recently developed by the Leisure Centre Manager and Business Support Officer. These include procedures for start and end of day processes, preparation of lodgements, and access to the safe. The procedures are yet to be formalised and are in the process of being modified to ensure that they are practical and fit for purpose. Informal training has taken place as part of the testing of the policy and procedures.

**b) Implication-**

Without formal procedures and training around cash handling, staff may not be fully aware of their responsibilities and there is an increased risk of misappropriation due to errors.

**c) Priority Rating-**

3

**d) Recommendation-**

The Manager and Business Support Officer should continue with refining and modifying the policy and procedures for cash handling. Once formalised, these should be provided to all staff involved in handling cash and training rolled out.

**e) Management Response-**

Policies and Procedures for cash handling in CLC have always been present. A review of these procedures was carried out in April 2016, as management felt they were not robust enough. Following this review, and in consultation with the staff, draft procedures were created. The training in these new procedures was only commencing pre Audit. Some procedural related issues had been raised by staff and were being addressed by Management.

The new procedures for Cash Handling in CLC are now in place.

**f) Responsible Officer & Implementation Date-**

Stacy McClarty (Complete)

#### Recommendation 2 – Compliance Issue – Income from hairdryers

**a) Observation-**

There are several hairdryers located in the leisure centre which generate income of £200 - £400 per collection. The normal practice is for two people to collect the contents of the hairdryers on a monthly basis and return to the office where it is counted and processed through the till. The till receipt is signed by both staff members as evidence of this process. During our audit we found that hairdryer income was collected less frequently (approximately every 2 months) and on one

occasion there was no till receipt to confirm it was collected by more than one staff member.
<b>b) Implication-</b> There is an increased risk of lack of accountability of miscellaneous income from the hairdryers and loss of income to the Council.
<b>c) Priority Rating-</b> 3
<b>d) Recommendation-</b> Duty supervisors should ensure that hairdryers are emptied on a monthly basis, and that the till receipt is signed by both staff members involved in the collection and attached to the daily income analysis sheet. Consideration should also be given to documenting the procedures on the collection of income from hairdryers in the cash handling procedures for reference purposes.
<b>e) Management Response-</b> Management accept the findings of the report. A documented procedure will be formulated to address this issue, and staff trained accordingly.
<b>f) Responsible Officer &amp; Implementation Date-</b> Brian Tohill (July 2016)

## 5.2 Risk 2 – Recording and Reconciliation of Cash

Recommendation 3 – Compliance Issue – Refund receipts
<b>a) Observation-</b> Refunds are issued by leisure centre staff (for example if a class/lesson has been cancelled, or an activity has been processed incorrectly through the till). In these instances, the receipt is printed and signed by the receptionist with a short explanation of the reason for the refund, countersigned by the Duty Supervisor and attached to the daily shift income analysis sheet. From our review of 20 daily income analysis sheets we noted 7 occasions where the receipt for the refund (for small amounts <£10) was not available for review and a further 2 occasions where it had not been signed off by the Duty Supervisor.
<b>b) Implication-</b> If receipts are not in place for all refunds made there is an increased risk of misappropriation of income via the fraudulent processing of refunds.
<b>c) Priority Rating-</b> 3
<b>d) Recommendation-</b> Staff should be reminded to ensure that receipts for refunds printed with an explanation of the reason for the refund and signed by the duty officer as authorisation of the refund. This could be reinforced with the cash handling procedures.



**e) Management Response-**

Whilst Centre Management accept that receipts for refunds were not present and on occasions, not signed by the Duty Supervisor, the value of this process needs to be reviewed with a view to maximising the use of the Legendware System (front of house booking system) and minimising the number and relevance of receipts attached to daily reconciliations.

Legendware holds information on every transaction at front of house and the exact dates and times of transactions can be selected for reporting purposes. The staff who issued the refund and the individual the refund was issued to are all held with the web based system.

Centre Management will review the process of issuing refunds, set the limits of refund and the authorisation levels for these, and identify who is best placed to sign off refunds.

In the interim period the existing control measures will be reinforced by Centre Management.

**f) Responsible Officer & Implementation Date-**

Brian Tohill/Stacy McClarty (July 2016)

**5.3 Risk 3 – Security of Cash****Recommendation 4 – Banking Arrangements****a) Observation**

Lodgements are prepared by two back office staff three times per week in a secure office (where the safe is located). A lodgement sheet (showing the expected amount of each note and coin denomination) is pre-prepared and the cash is counted and marked off against this. The notes and coins are then placed in sealed bags and taken by car to the Council office in Coleraine (by the same two staff members) where it is stored in the strong room prior to being collected by the Council's designated security provider. (Lodgement values range from approximately £1.1k to £7.5k, averaging £2.9k).

**b) Implication-**

There is an increased risk to the safety of staff and the security of cash during the transit of lodgements from the leisure centre to the Council office. There is also a risk that, whilst staff have business insurance cover for their vehicles, they may not be covered for cash in transit.

**c) Priority Rating-**  
2**d) Recommendation-**

Consideration should be given to making arrangements for the collection of lodgements directly from the leisure centre by the security provider. This would reduce the time spent by back office staff in the possession of large sums of cash.

**e) Management Response-**

Centre Management have to date been adopting the Corporate approach to Lodging Income. Centre Management will investigate the collection of lodgements by a security provider with the Head of Finance.

**f) Responsible Officer & Implementation Date-**  
Brian Tohill (July 2016)

#### Recommendation 5 – Control issue – Insurance Limits

**a) Observation**

The insurance limit for the safe located in the leisure centre is £4k. From a review of lodgements prepared during 2015/16 we noted that these were made frequently, however on at least 5 occasions the total cash lodgement exceeded the insurance limits of the safe (excluding the floats of £600) – on some occasions the amount lodged was £7k. We were advised that some outlying facilities deposit takings from summer schemes and other seasonal activities at the leisure centre (with no prior notice), which resulted in the insurance limits being exceeded on at least 3 of these occasions.

**b) Implication-**

If the leisure centre exceeds its insurance limits, there is an increased risk that cash is not adequately covered in the event of theft

**c) Priority Rating-**

3

**d) Recommendation-**

Consideration should be given to reviewing the insurance limits for the safe at the leisure centre. It may also be appropriate for takings from outlying facilities to be taken directly to the main Council offices (rather than the leisure centre) to reduce the potential of the leisure centre exceeding its limits.

**e) Management Response-**

The insurance limits on the Safes for Coleraine Leisure are acceptable for normal operating of the facility. Centre Management will conduct a review of the collection of takings from outside facilities/services, so that monies collected and reconciled in CLC do not compromise the systems already in place in the Centre.

**f) Responsible Officer & Implementation Date-**

Brian Tohill/Stacy McClarty (June 2016)

## 5.4 Risk 4 – Controls over Petty Cash

We have no findings or recommendations to make in relation to this risk area.

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## Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

### Substantial Assurance

*Evaluation Opinion:* There is a robust system of governance, risk management and control which should ensure that objectives are fully achieved.

*Testing opinion:* There is evidence that the controls are being consistently applied.

### Satisfactory Assurance

*Evaluation opinion:* Overall there is an adequate and effective system of governance, risk management and control. While there is some residual risk identified this should not significantly impact on the achievement of objectives. Some improvements are required to enhance the adequacy and / or effectiveness of governance, risk management and control.

*Testing opinion:* There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

### Limited Assurance

*Evaluation opinion:* There is an inadequate and/or ineffective system of governance, risk management and control in place. Therefore there is significant risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and/or effectiveness of governance, risk management and control.

*Testing opinion:* The level of non-compliance puts the system objectives at risk.

### 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. Urgent action is required to improve the adequacy and effectiveness of governance, risk management and control.

*Testing opinion:* Significant non-compliance with the basic controls leaves the system open to error or abuse.

### 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:** Major issues which require urgent attention and the implementation of agreed audit recommendations in the short term.

**Priority 2:** Important issues which require immediate attention and the implementation of agreed audit recommendations in the short to medium term.

**Priority 3:** Detailed issues of a less important nature which require attention and the implementation of agreed audit recommendations in the medium to long term.

## Appendix II: Summary of Key Controls Reviewed

### CASH HANDLING

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"> <li>• Cash handling procedures are in place to provide guidance to staff collecting payments – Subject to recommendation</li> <li>• Adequate training is provided to staff who handle cash</li> <li>• A separate float is held for each till which is counted and verified before each shift</li> <li>• Till reconciliation is performed at the end of each shift</li> <li>• Receipts are produced and issued for every transaction</li> <li>• All till discrepancies are fully investigated and records maintained</li> <li>• Where possible more than one employee collects cash from vending/ hairdryer/ shower/laundry and adequate records are maintained – subject to recommendation</li> <li>• Cash received by post is promptly recorded and receipted.</li> <li>• Tills are restricted to one cashier/user or have individual user logins where operated by more than one staff member</li> </ul>
<p>There may be inadequate controls over the recording and reconciliation of cash leading to incorrect accounting treatments and loss of income to the Council</p>	<ul style="list-style-type: none"> <li>• End of day till reports are generated and reconciled to cash in till - Z readings agreed to takings</li> <li>• All voids/ cancelled till transactions are supported by appropriate documentation – subject to recommendation</li> <li>• Separation of duties exists between staff responsible for income collection and staff with responsibility for reconciling income received to the bank.</li> <li>• There is adequate completion of daily/ weekly cash sales sheets</li> <li>• There is adequate Manager/ Supervisor oversight over the reconciliation process and evidence of this</li> <li>• Surprise cash counts are performed periodically</li> </ul>
<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"> <li>• Monies are held securely in a safe which is in an appropriate location</li> <li>• There are adequate access control arrangements to the safe</li> <li>• Where a large build-up of cash occurs, takings are removed from the till and held securely in the safe</li> <li>• Lodgements are prepared by two staff members</li> <li>• Lodgements are made regularly and promptly</li> <li>• Adequate insurance is in place to cover cash held on the premises until lodged and cash held does not exceed the amount insured – subject to recommendation</li> <li>• Reserve/ foreign exchange floats are securely held and regularly checked.</li> </ul>
<p>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</p>	<ul style="list-style-type: none"> <li>• There are clear policies and procedures covering petty cash</li> <li>• When the petty cash float is not in use it is kept in a secure location</li> <li>• The petty cash float is reconciled regularly and the reconciliation is completed by someone other than the person in charge of the float                         <ul style="list-style-type: none"> <li>• Petty cash is only issued on presentation of authorisation and evidence of the expenditure incurred</li> </ul> </li> </ul>

## Appendix III: Points for the Attention of Management

### Cash lifts

We noted from review of daily income analysis sheets that cash of up to £700 can be in the till cash drawers at the end of a shift (in addition to the £100 float) and frequently takings in excess of £400 could be in the till at a given time - cash lifts are not performed mid shift however. Consideration should be given to setting a limit at which a cash lift is performed to minimise large build ups of cash in the tills and reduce risk of misappropriation.

#### **Management Response-**

Centre Management will consult with the Head of Finance regarding an acceptable maximum level of income held in a till at a given time. Following the outcome of this, a mid shift cash lift will be implemented with the relevant staff involved trained accordingly.

### Safe Keys

The safe is located in a locked room off the Duty Supervisor's office. Keys to the safe are kept in a key cabinet in the Supervisor's office. During our audit we noted occasions when the Supervisor's office was left open and no staff members were on hand. On these occasions, sets of keys (to gain access to the key cabinet) were visible and therefore exposed to theft. Supervisors should ensure that the office is locked when no staff are on hand to supervise.

#### **Management Response-**

The Supervisors key set contains all the keys they may require to carry out their duties, including those needed to open the cabinet for safe keys. More control over these keys, and the control of unauthorised access to certain areas will be considered by Management.

### Confirmation of float

Three floats are in use at the leisure centre; two of these are set at £100 and are used for the day to day operation of the tills. The third float is maintained at £300 and is used as a change float. The on-duty supervisor and receptionist count the contents of the till float bag at the start. When cashing up at the end of the evening shift, the receptionist removes the float and counts the remaining cash in the presence of the duty supervisor, who then enters the total on to the leisure software system. A daily cash sheet is signed as evidence of having checked that the takings are correct, however no record is maintained of having checked the float at the start/end of the shift by either the receptionist or duty supervisor. Consideration should be given amending the income analysis sheet to include a float section to be signed by the receptionist and duty supervisor as evidence that they have counted the float (as well as reconciling the takings to the legend system). This would provide additional assurance should a discrepancy arise between shifts.

#### **Management Response-**

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The recommendations included in the about section will be implementation by the end of June 2016.

### Spot Checks

We noted that periodic spots checks on tills and floats are not currently carried out, reconciling the contents of cash drawer to the till report and ensuring that the floats are correct in the safe. Once the cash handling procedures are finalised, periodic spot checks should be carried out in line with good practice.

#### **Management Response-**

Business Support Officer should be in a position to implement a schedule of spot checks by the end of August 2016.

