



Item: 11

Monitoring and Audit Committee: 6 June 2024

Internal Audit Report – Cash and Income

Report by Chief Internal Auditor

1. Overview

- 1.1. The internal audit plan 2023/24 included a review of Cash and Income, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council receives income in many forms, including cash, cheques, bank transfer, standing orders, credit cards and direct debits. There are various sources of income such as council tax, non-domestic rates, housing or garage rents and direct payments accepted across different service locations.
- 1.3. There are two Customer Service Reception Centres (Stromness and Kirkwall) where payments for different services can be made, and cash or cash equivalents collected from other service locations can be deposited and processed.
- 1.4. The objective of this audit was to review the effectiveness of the cash and income processes and the controls in place to ensure that transactions are secure, complete, and accurately recorded.
- 1.5. The audit provides Adequate assurance that processes and controls relating to Cash and Income are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes two medium priority recommendations regarding security and compliance with Financial Regulations. There are also four low priority recommendations regarding a document review process, ongoing compliance with the payment card industry data security standards, two-person authorisation and system logins. There are no high priority recommendations made as a result of this audit.

2. Recommendations

2.1. It is recommended that members of the Committee:

- i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to cash and income, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

Andrew Paterson, Chief Internal Auditor, Extension 2107, email andrew.paterson@orkney.gov.uk.

Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** None.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** None directly related to the recommendations in this report.
6. **Island Communities Impact:** None directly related to the recommendations in this report.
7. **Links to Council Plan:** Not Applicable.
8. **Links to Local Outcomes Improvement Plan:** Not Applicable.
9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** None directly related to the recommendations in this report.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2023/24

Appendix

Appendix 1: Internal Audit Report – Cash and Income.



Internal Audit

Audit Report

Cash and Income

Draft issue date: 30 April 2024

Final issue date: 13 May 2024

Distribution list:	<p>Corporate Director for Enterprise and Sustainable Regeneration</p> <p>Corporate Director for Strategy, Performance and Business Solutions</p> <p>Head of Finance</p> <p>Head of Improvement and Performance</p> <p>Service Manager (Revenue and Benefits)</p> <p>Service Manager (Customer Services & Corporate Admin)</p> <p>Customer Services Manager</p>
---------------------------	---

Contents

Audit Opinion	1
Executive Summary	1
Introduction	2
Audit Scope.....	2
Audit Findings	3
Action Plan.....	6
Key to Opinion and Priorities.....	8

Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

This audit focused on cash and banking processes at Orkney Islands Council to review whether adequate controls are in place to ensure that transactions are secure, complete and accurately recorded. Payments are taken on behalf of the Council over the phone, in person, online and by post at many locations throughout Orkney but most notably through the Kirkwall and Stromness Cash Offices, operated by Customer Services.

Based on our findings, our review of the processes and procedures as to cash and income provides adequate assurance that processes are well controlled and managed.

Several areas of good practice were identified during the audit including:

- Cash office procedures are thorough, regularly updated and accessible to all staff. They refer to the financial regulations and were observed being used during the audit.
- Daily reconciliation processes involve two members of staff where required to check accuracy, completeness and security.
- Monthly reconciliation is checked by the accounting team who verify accuracy against the bank statements.
- Training provided to new cash office staff is comprehensive and consistent due to the training checklist that has been created specifically for each setting. This sits alongside a responsive and ongoing weekly training session which promotes the knowledge and skills of the team.
- There are good security measures in place at both customer service locations.
- All customer service staff have completed mandatory GDPR and Information Security training.
- Controls around the payment processing systems used at the cash offices are robust with user access regularly monitored and appropriate authorisations are in place.
- There are procedures in place to follow for manual payments in the case that systems fail.
- Customer accounts are updated timeously to reflect income received.

The report includes six recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
6	0	2	4

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

Orkney Islands Council receives income in many forms, including cash, cheques, bank transfer, standing orders, credit cards and direct debits. There are various sources of income such as council tax, non-domestic rates, housing or garage rents and direct payments accepted across different service locations. There are two main Customer Service Reception Centres (Stromness and Kirkwall) where payments for different services can be made, and cash (and cash equivalents) collected from other service locations can be deposited and processed.

The objective of this audit was to provide assurance that cash and banking processes are effective and that adequate controls are in place to ensure that transactions are secure, complete and accurately recorded.

This review was conducted in conformance with the Public Sector Internal Audit Standards

Audit Scope

The scope of this audit included a review of the following:

- Compliance with the Council's Financial Regulations.
- Policies and procedures related to collection and recording of cash and income.
- Staff roles and responsibilities within teams responsible for identifying, recording and processing income.
- Records related to the collection, processing and reconciliation of income.
- Security arrangements for customer service areas and banking arrangements.
- Insurance arrangements for cash and income processes.
- IT systems used in the collection and processing of income, including access policies.
- Information and data security for customer details.
- Business continuity arrangements.
- Risk assessments and management.

Audit Findings

1 Governance

- 1.1 The Financial Regulations encompass cash and cash equivalents and the relevant elements of these are reflected in the cash office procedures as well as procedures for external units who take payments on behalf of Orkney Islands Council. Cash office procedures are clear and cover all aspects of the daily operations to support consistency and accuracy. Most documents supporting the cash office operations are regularly reviewed and updated as well as being accessible on Teams for all customer service staff. A small number were identified as requiring an update including the business continuity plan for customer services.
- 1.2 To ensure that all documents related to supporting the successful and secure running of the cash offices are regularly reviewed and kept up to date, a system of review should be implemented. This system should cover policies, procedures, risk assessments, business continuity plans and documentation related to security such as the safe key holder list.

Recommendation 1

- 1.3 The Customer Service Manager has been working with support from an external consultant on achieving compliance with the Payment Card Industry Data Security Standard (PCIDSS). The attestation of compliance documents have been submitted after ensuring that PCIDSS requirements are met and the contract with the external consultant has now ended. This process will be ongoing as the requirements for PCIDSS accreditation evolve, with a change expected next year requiring further work to ensure compliance.
- 1.4 Once further requirements for PCIDSS compliance are known, investigations should take place into what resources will be required to ensure that ongoing compliance is assured.

Recommendation 2

2 Security

- 2.1 There are risk assessments in place that address security risks and the mitigations in place were observed at both cash offices and through the transportation of money to the bank. The cash office rooms are secure with key code access and CCTV covering the reception desk. The codes to the cash office rooms are changed regularly or when the required access to the room changes. A log of key code changes for Kirkwall and Stromness has been developed.
- 2.2 To further enhance security and to support the management of key holder lists, the staff leavers and movers online form should be altered to include a prompt for line managers to ensure that all keys have been returned following a staff member leaving their post.

Recommendation 3

3 Banking Arrangements

- 3.1 Part of daily operations at the cash office include receipt of cash and cheques from external units. These are accompanied by an income voucher and processed into the system using the information on the voucher to ensure it is correctly recorded to the corresponding cost centre. Twelve of the fourteen income vouchers sampled provided

evidence that cash (and cash equivalents) had been promptly taken to customer services by external units. Two from the sample had not been paid in within a week and with one of the vouchers, it was several weeks before customer services received the income to process. Once income is received at customer services, it is processed immediately.

- 3.2 The external unit procedures are clear on the requirements to adhere to the financial regulations and pay in all monies without delay. Customer service staff also contact services to remind them of these requirements when needed. As part of establishment audits, internal audit review financial management which includes testing the expected control that banking is done regularly and that financial regulations are adhered to.
- 3.3 A recommendation has already been made as part of the Creditors Audit that the Head of Finance should issue a Council wide communication reinforcing the requirement to adhere to the Council's Financial Regulations.

No Recommendation

- 3.4 There are good procedures being followed in relation to segregation of duties within the cash office including daily reconciliation procedures where the cashing up, pay-in and reconciliation is checked by two officers in Kirkwall and in Stromness. The completeness and accuracy of all sampled pay-ins provides good assurance that procedures at the cash office are working well. There were some minor administrative errors identified but overall, the controls in place as well as the knowledge and experience of the customer services team, minimise risk to the accuracy of identifying, recording, and processing income.
- 3.5 As part of the evidence to indicate that the cash being paid in to the bank has been checked by two officers, two members of customer services staff initial the pay-in stubs. This practice was observed at the site visit in Kirkwall. The stubs are subsequently shredded once the pay-in book has been used meaning this form of evidence is lost. From a pay-in book in use, only 9 out of 14 contained two initials with 5 having just one initial visible.
- 3.6 If an error occurs on the Pay360 system, a reversal can be processed with the proper authorisation from a senior member of the customer services team. This is another procedure requiring a two-person process. The procedure involves printing a reversal slip from the system which is then initialled by a senior member of staff. From the sample of reversals tested, 3 out of 9 did not have a corresponding reversal slip kept as evidence of the two-person procedure, however evidence was provided that showed these transactions were legitimate.
- 3.7 All records should be kept that evidence a two-person authorisation process.

Recommendation 4

4 Refunds

- 4.1 Refunds are requested by services across the Council through the use of refund requests that are sent to the customer services team. These are then processed by senior members of customer service staff after they have been authorised by the relevant manager from the corresponding service. Although a few minor administrative errors were identified from our sample, the majority of refunds sampled were correctly processed. The Customer Service Manager has developed a new streamlined procedure for refund requests, making use of the Dash online system.

No Recommendation

5 Postal Receipts

- 5.1 All Orkney Islands Council addressed envelopes are opened by Customer Services Staff. The procedures direct staff to be familiar with the financial regulations section 22.1.15 which requires that; 'all mail received by the Council should be opened in a secure area by two members of staff. In the case of mail opened that contains cash, cheques, postal orders, or any other form of payment, this should be recorded in a register. The amount of the payment, the date of payment and details of who made the payment should be noted. The signature or initials of the two officials opening the mail should be written next to these details'. The process observed at Customer Services complied with the Financial Regulations however only one member of staff adds their name to the register.
- 5.2 Procedures in other services that receive money by post vary with some recording the receipt of mail in a log and some not. All services within the council offices endeavour to take the money with an income voucher to Customer Services as soon as possible however in some cases, the availability of staff can delay this process.
- 5.3 To ensure that the financial regulations are complied with in respect of postal receipts, we recommend that procedures and the spreadsheet used by Customer Services is shared with all services who are responsible for the opening of mail. We also recommend that an additional column is added to the spreadsheet where receipt of money by post is logged to include the name of the staff member who has witnessed the post being opened.

Recommendation 5

6 Systems

- 6.1 The system used to process income at the cash offices (Pay360) is restricted to the appropriate staff with regular monitoring of user access requirements and suitably stringent password requirements. An access policy has been developed to support the security of the system.
- 6.2 All staff using Pay360 have individual logins which further supports the security of the system. When we checked this for the Worldpay system which is used in a read only capacity, we found one instance within the Accountancy team where a member staff did not have an individual login.
- 6.3 An individual login should be set up for the member of staff to ensure that all staff using the Worldpay system have their own logins.

Recommendation 6

7 Document Retention

- 7.1 Paper based records at the Kirkwall Customer Services are held in the cash office which is locked when not in use and there are security controls in place to prevent unauthorised access. There were no records held in the Stromness cash office.
- 7.2 Files are securely stored before being destroyed in line with the Council's document retention schedule.

No Recommendation

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1. To ensure that all documents related to supporting the successful and secure running of the cash offices are regularly reviewed and kept up to date, a system of review should be implemented. This system should cover policies, procedures, risk assessments, business continuity plans and documentation related to security such as the safe key holder list.</p>	Low	<p>A document has been set up in the cash office procedures folder in Teams which contains all of the document review dates. The review dates have also been added to the customer services Kanban board and to the Customer Services Team Manager and Senior Customer Services Advisers calendars for regular review.</p>	Customer Services Manager	Complete
<p>2. Once further requirements for PCIDSS compliance are known, investigations should take place into what resources will be required to ensure that ongoing compliance is assured.</p>	Low	<p>A dedicated resource from the Council or a consultant will be required to assist with the work required to attest our compliance from 1 April 2025 onwards. Budget will need to be identified for this work.</p>	Head of Improvement and Performance	31 December 2024
<p>3. To further enhance security and to support the management of key holder lists, the staff leavers and movers online form should be altered to include a prompt for line managers to ensure that all keys have been returned following a staff member leaving their post.</p>	Medium	<p>The Staff Changes Form currently available on the Dash area of the Customer Service Platform will be updated to include the management of keys within services.</p>	Customer Services Manager	31 August 2024

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
4. All records should be kept that evidence a two-person authorisation process.	Low	The importance of a two-person authorisation process for pay-ins and reversals has been highlighted to all customer services staff at team meetings since the audit. This has also been added to the cash office training plan for new staff.	Customer Services Manager	Complete
5. To ensure that the financial regulations are complied with in respect of postal receipts, we recommend that procedures and the spreadsheet used by Customer Services is shared with all services who are responsible for the opening of mail.	Medium	The cheque and cash log in Teams will be shared with all services who are responsible for opening mail and procedures provided on the opening and logging of cheques and cash will also be shared with relevant staff.	Customer Services Manager	31 May 2024
6. An individual login should be set up for the member of staff to ensure that all staff using the Worldpay system have their own logins.	Low	All users of the Worldpay System now have their own logins.	Service Manager Corporate Finance	Complete

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.