

Internal Audit



Financial Controls – Treasury & Cash Management

February 2019

Internal Audit Assurance assessment:

Objective One	Objective Two	Objective Three	Objective Four	Objective Five	Objective Six
Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance

Timetable

Date closing meeting held: 20 January 2020

Date draft report issued: 30 January 2020

Date management comments received: 6 February 2020

Date Final report issued: 7 February 2020

Date presented to Audit and Risk Committee: 24 February 2020

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1. Introduction

- 1.1 NHS Lothian's Standing Financial Instructions record that the Director of Finance is responsible for managing the Board's banking arrangements and for advising the Board on the provision of banking services and operation of accounts. Treasury and Cash Management procedures are required to delegate this responsibility and maintain an adequate and effective system of internal control. Internal audit last considered treasury and cash management controls in 2016/17.
- 1.2 The central Treasury Team are responsible for maintaining and reconciling bank accounts on a daily basis. NHS Lothian operates one bank account with the Royal Bank of Scotland Government Banking Service. This account is used for making supplier and salary payments through the Bankers Automated Clearing Service (BACS), and for receiving income from the Scottish Government Health Department and other health boards. For day-to-day banking, NHS Lothian holds two further accounts with the Royal Bank of Scotland, as part of an arrangement set up by the Scottish Government. One account is used for receiving income including lodging cheques, and the other account for making payments, including standing orders and direct debits. Processes for the effective management of cash are laid out in the Treasury Financial Operating Procedures.
- 1.3 In addition to services provided by the Treasury Team, there are various cash offices at hospital sites across the Board area. The cash offices are run by cashiers who are responsible for receiving income and paying out cash in small amounts to patients, staff and others. These are mainly to service patient's requirements for reimbursement of travel expenses as receipt income from catering within the sites.
- 1.4 Lastly wards and departments can hold petty cash floats, particularly to cover patients' and operational needs. Accurate records of petty cash floats must be maintained at all times and is the responsibility of the designated float holder.
- 1.5 Cash flow and budget forecasts are regularly prepared and presented to the Scottish Government for review.

Scope

- 1.6 The audit reviewed the effectiveness of the key controls over cash management, including the management and operation of bank accounts and cash flow management; the design and operation of controls at cash offices and the design and operation of controls in relation to petty cash

Acknowledgements

- 1.7 We would like to thank all staff consulted during this review for their assistance and cooperation.

2. Executive Summary

Summary of Findings

2.1 The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 3.

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
1	The Board has prepared detailed procedures on the operation of bank and GBS accounts that comply with the Board's Standing Financial Instructions.	Significant Assurance	-	-	-	1
2	All receipts and payments are accounted for properly, promptly and in full.	Significant Assurance	-	-	-	-
3	Access to bank accounts is restricted and bank accounts are regularly reconciled to NHS Lothian accounting records.	Significant Assurance	-	-	-	-
4	There is accurate reporting of cash flow information, with cash flows being monitored on a regular basis.	Significant Assurance	-	-	-	-
5	Policies and procedures are established and followed for recording, authorising and processing income and expenditure within the cash offices.	Significant Assurance	-	-	-	-
6	Policies and procedures are established and followed for recording, authorising and processing	Significant Assurance	-	-	-	1

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
	petty cash claims and all petty cash floats are identified and accounted for.					
Total			-	-	-	2

Conclusion

2.2 Overall, effective controls are in place around treasury and cash management. The Standing Financial Instructions and Scheme of Delegation give specific instruction and Finance have developed a number of Financial Operating Procedures around these to ensure compliance with the scheme of delegation. Processes and systems are in place for the receipt, handling and banking of cash, including petty cash. Two minor issues have been identified around completeness of the information on the Finance Intranet and the management of petty cash floats.

Main findings

- 2.5 NHS Lothian's banking arrangements are in line with the Scottish Government Banking Contract and includes daily and month-end reconciliations, monitoring and update of bank signatories and delegated authority, and maintaining commercial account balances in line with the requirements of the Scottish Public Finance Manual.
- 2.6 Financial Operating Procedures have been prepared in respect of Treasury, Cashiering and Petty Cash Functions. The Treasury procedures comply with the Boards Standing Financial Instructions and Scottish Public Finance Manual.
- 2.7 Effective controls are in place within Treasury for identifying and accounting for all receipts and payments. Each day, Treasury staff review movements on the Board's bank accounts and post them in the ledger. Formal reconciliations are carried out at each month end between the GBS account, two commercial accounts, petty cash and general ledger. Authorised signatory lists are maintained by the Treasury Team Leader and updated mandates issued to the bank whenever there is a change in personnel or level of authority.
- 2.8 Each year Treasury obtains confirmation for each float holder of the float holder and the value of the float. Appropriate approvals are in place for new floats and in general the Financial Operating Procedures governing petty cash are being followed.
- 2.9 Stationery, facilities and systems are in place for all staff with the responsibility for collecting, holding and depositing cash.
- 2.10 We identified two improvement opportunities during this review:

Low Rating

- The Treasury Financial Operating Procedures have passed their review date of December 2019 and require to be updated to accurately reflect the Board's Standing Finance Instructions around its Scheme of Delegation. Also, effort should be taken to address the incomplete Treasury pages on Finance Online and make the updated Procedures available through these.

- Controls around the management of petty cash floats out with the cashiers offices are being applied inconsistently and not entirely in line with the Petty Cash Financial Operating Procedures, which have also passed their review date.

Further details of these points are set out in the Management Action Plan.

3. Management Action Plan

Control objective 1: The Board has prepared detailed procedures on the operation of bank and GBS accounts that comply with the Board's Standing Financial Instructions	
Finding 1:	
Associated risk of not achieving the control objective:	Low
<p><u>Background</u></p> <p>Detailed Financial Operating Procedures for Treasury are in place and these were approved in December 2017 by the Head of Financial Control. The procedures are available to staff through the Financial Services shared drive and have a review date of December 2019.</p> <p>Section three of the Procedures provides an overview of the banking structure and includes detailed information on the types of account used and their purpose.</p> <p>The Board's Standing Financial Instructions are reflected in the Procedures in a number of ways, including the management of surplus funds, and controls around authorised signatories and electronic banking.</p> <p><u>Observation and Risk</u></p> <p>The Procedures have listed several members of staff categorised as levels 1, 2 and 3 authorised signatories. The levels indicate the value of payment that they are authorised to approve. For example, level 1 authorised signatories are permitted to sign cheques of a value more than £100,000. All designated cheque signatories are included in the bank mandate.</p> <p>However, the Procedures have also listed two members of staff that are not included in the Board's Scheme of Delegation. They are Finance Manager - Income and Projects and Head of Finance (PCCO).</p> <p>Also, the Treasury pages included with the Finance Online intranet site are incomplete, with only guidance over petty cash included. Furthermore, the Treasury Financial Operating Procedures are not available to staff through the Policies and Procedures page.</p> <p>There is a risk that payment approval is made that is not in line with the Board's own instruction. Also without reasonable guidance and instruction available online, there is a risk that staff are unable to access appropriate information relating to Treasury activities.</p> <p><u>Recommendation</u></p> <p>It is recommended that the review of the Treasury operating procedures is completed and added to the Policies and Procedures section of Finance Online. This work should also consider whether the Board' Scheme of Delegation should be updated to include the two individuals recorded in the Financial Operating Procedures.</p> <p>The Treasury intranet pages should also be brought up to date to include all information necessary to provide staff with a comprehensive guidance on the role of the Treasury</p>	

department.	
<u>Management Response</u> The first review of the procedures has been undertaken but due to the internal audit being performed and the Scheme of Delegation currently being reviewed (presented to December's Audit and Risk Committee and December's Board Committee for approval) the final review of the procedures would be undertaken and published once picking up the amendments in these other two pieces of work. This will include the review of the various role titles, although it is recognised that departments often have employees in roles that do not equate to what is included in the Scheme of Delegation and some leeway into interpretation is required for practicality. Although Finance Online is the desired way forward there is currently a wider evaluation of the project being undertaken as the initial project has not had the desired outcome. Once the evaluation has been completed and a clear structure and format has been agreed all current and relevant information will be published.	
<u>Management Action</u> Final review of procedures to be performed of procedures with approval being obtained in February 2020.	
<u>Responsibility:</u> Financial Controller – Financial Accounts	<u>Target date:</u> 29 February 2020

Control objective 2: All receipts and payments are accounted for properly, promptly and in full

Each day, Treasury Staff carry out informal reconciliation on all back accounts in order to maintain timely postings to the ledger and to identify unusual or irregular transactions.

Income is received by cash, cheque or directly into the bank account. When cash is banked, the Finance Cashiers with access to eFinancials post this to the ledger and retain all paperwork. Only cashiers working out of the Royal Edinburgh Hospital send documentation to Treasury for entering onto eFinancials.

Direct Income is processed By Treasury Staff. All bank accounts are downloaded from the electronic banking system on a daily basis and used to identify income paid directly into the accounts. A posting voucher is raised for each transaction and posted to eFinancials. The posting vouchers are passed to Accounts Receivable to confirm that the income has been correctly allocated.

For payments, the Financial Controller or Head of Financial Control are authorising the posting of the creditors' batch and subsequent payment. Once posted, several documents are produced from eFinancials, including a payments list and request for payments transfer. These are passed to BACS authorisers for review and submission.

All back-up documentation and authorisations are saved to the Financial Services shared drive.

Sample testing was also carried out on Internal Account Transfers, with no issues noted.

Control Objective 3: Access to banks accounts is restricted and bank accounts are regularly reconciled to NHS Lothian accounting records

We identified no significant issues in relation to this control objective.

Authorised signatory lists are maintained by the Treasury Team Leader. Before cheques are signed or electronic payments processed, Treasury checks that instructions have been approved by budget holders in line with the Authorised Signatory Database.

NHS Lothian's Scheme of Delegation sets out authority levels granted to specific roles for signing cheques, with back mandates required to reflect the Scheme of Delegation. Changes to bank mandates are authorised by the Associate Director of Finance/Director of Finance plus one other signatory.

In addition to the informal reconciliations, formal reconciliations are prepared, reviewed and recorded as per the Financial Services operational procedures 'Preparation of Balance Sheet Reconciliations'.

Reconciliations are carried out on the two commercial accounts and the GBS NatWest account. Once prepared they are passed to a reviewer, who grades the reconciliation A, B, C, or D as appropriate. Testing on a sample of three months for each of the accounts confirmed that reconciliations are being carried out and reviewed.

Control Objective 4: There is accurate reporting of cash flow information, with cash flows being monitored

We identified no significant issues in relation to this control objective.

Several spreadsheets are maintained by Treasury and updated each month using data downloaded from the bank accounts and extracted from eFinancials:

Cash Analysis

This records forecasted creditor payment runs against actual spend.

Cash Forecast

Records for each month the forecasted expenditure and income against the actual income and expenditure.

Cashbook

Records all movement through the GBS Accounts.

Cashflow

Records all GBS account cashflow and presents this in a format for reporting to the Scottish Government

Treasury calculates and forecasts required cash requisitions and liaise with the Corporate Reporting Team on a monthly basis to ensure that they are aware of funding needs.

Control Objective 5: Policies and procedures are established and followed for recording income and expenditure in the petty cash offices.

We identified no significant issues in relation to this control objective.

Cash, cheque and credit card income is receipted and recorded on income collection sheets by the cashiers. The Cashier sign's off income sheets as an accurate record of the income received.

Once the cash is banked the Finance Cashiers with access to eFinancials will post the income to the ledger and retain all paperwork. Cashiers elsewhere from the smaller and community sites send all documentation to Treasury for entering on to eFinancials.

Expenditure is not processed through the petty cash offices.

Control objective 6: Policies and procedures are in place and followed for recording, authorising and processing petty cash claims and all petty cash floats are identified and accounted for

Finding 2:

Associated risk of not achieving the control objective:

Low

Background

Petty Cash Financial Operating Procedures are in place to instruct all staff on the appropriate use and management of petty cash floats.

Petty cash floats are set up only once a completed application form has been received by Treasury and approved by personnel as per the Scheme of Delegation and Authorised Signatory Database. Approved applications are signed-off by a Treasury member of staff and a float number assigned.

At the end of the financial year, Treasury obtains confirmation from each petty cash float holder that the float is still required. During the year Treasury staff are required by the Procedures to monitor float reimbursement and, where reimbursement claims are infrequent, will review whether the float is required.

All transaction should be recorded on a Petty Cash Expenditure Sheet and the balance recorded checked against the cash and receipt held on a daily basis or when there is a changeover of staff responsible for the cash within the same day.

Each month Treasury carry out a reconciliation of the record of petty cash floats held by NHS Lothian and the General ledger. They are signed by the preparer and reviewed by a second member of staff. As with the bank account reconciliations, they are graded A, B, C or D. All reconciliations reviewed as part of this audit had been graded A.

Observation and Risk

The operating procedures were approved by the Head of Financial Control in October 2015 and have passed their review date of September 2017.

Currently there are 131 petty cash floats across NHS Lothian, with a total value of £39,787. Seven floats were identified and testing carried out to confirm that the Petty Cash operating procedures were being followed. Several issues were noted and these have been listed below:

- For one float reviewed, Petty Cash Expenditure sheets are not being used to record cash reimbursements (float 44).
- Floats 495 and 44 are not being checked daily by staff.
- Float 438 holds a maximum amount of £35 and not £75, which is recorded in the Treasury petty cash register.
- The float holder for float 495 was different from that recorded in the petty cash register.

Also, float reimbursement is not being reviewed by Treasury during the year.	
<p><u>Recommendation</u></p> <p>Management should review, update and reissue the Petty Cash Financial Operating Procedures. Petty cash float holders should be reminded of the correct procedures for handling and recording petty cash instructions, including, where necessary, daily checks.</p> <p>Additionally, management should also schedule an annual review of float reimbursement to identify the value and frequency of cash reimbursements. Action should be taken to revoke floats that are no longer required or reduce in value those floats where reimbursement is infrequent (for example float 495).</p>	
<p><u>Management Response</u></p> <p>Accepted</p> <p><u>Management Action</u></p> <p>The procedures will be reviewed and updated where appropriate. As part of the annual confirmation a copy of the updated procedures will be issued. Confirmation of float holders' names, balances and acknowledgment of receipt and reading of the updated procedures will be a requisite of the return.</p> <p>Treasury/Cashiering staff will identify areas of non-compliance and provide onsite training to relevant staff.</p>	
<p><u>Responsibility:</u></p> <p>Financial Controller – Financial Accounts</p>	<p><u>Target date:</u></p> <p>31 March 2020</p>

4. Internal Audit Follow-up Process

- 4.1 Approximately two weeks following issue of the final Internal Audit report, a member of the Audit Team will issue an 'evidence requirements' document for those reports where management actions have been agreed.
- 4.2 This document forms part of the follow up process and records what information should be provided to close off the management action.
- 4.3 The follow-up process is aligned with the meetings of the Board's Audit & Risk Committee. Audit Sponsors will be contacted on a quarterly basis with a request to provide the necessary evidence for those management actions that are likely to fall due before the next meeting of the Audit and Risk Committee.

Appendix 1 – Staff Involved and Documents Reviewed

Staff Involved

- Treasury Team Leader
- Senior Treasury Assistant
- Cashiering Team Leader
- Cashiers

Documents Reviewed

- Treasury Financial Operating Procedures
- Petty Cash Financial Operating Procedures
- Current bank signatories list
- Documentation supporting changes to the bank signatories list
- Petty cash and bank account reconciliations
- Spreadsheets maintained by the cashier team
- Petty cash expenditure forms
- NHS Lothian Standing Financial Instructions and Scheme of Delegation
- Bank Statements and bank giro credit slips
- Petty cash float register and forms approving the set up and amendments to floats
- Documentation supporting the annual confirmation of petty cash floats

Appendix 2 - Definition of Ratings

Findings and management actions ratings

Finding Ratings	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
High	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Medium	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
Low	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
No assurance	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
Limited assurance	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	<p>This may be used when:</p> <ul style="list-style-type: none"> • There are known material weaknesses in key control areas. • It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
Moderate assurance	The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
Significant assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable.</p> <p>The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>