

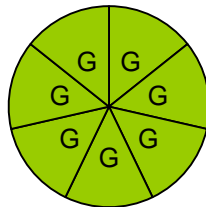
Internal Audit



Treasury and Cash Management

February 2017

Report Assessment



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Introduction

Health boards are required to use Government Banking Services (GBS), part of HM Revenue & Customs for all core banking. 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.

Cashier services are provided at most hospitals, with cashiers receiving income and paying out cash in small amounts to patients, staff and others. In addition, wards and departments can hold petty cash floats, particularly to cover patients' and operational needs. As at September 2016, Finance had 156 floats with balances ranging from £9 to £6,000, with the largest balances held by Cashiers' offices. Floats held are reviewed by Treasury on an annual basis to confirm they are still required.

Excluding wards and service departments, 21 staff are involved in managing cash: 7 Finance staff at Pentland House and 14 cashier staff based at hospitals.

Standing Financial Instructions state that employees may not open bank accounts for the Board's Activities or in the Board's name, unless the Board has given explicit approval. When becoming aware of any such accounts, Finance instructs that accounts are closed and balances transferred to the main bank accounts.

Cash flow and budget forecasts are regularly prepared and presented to the Scottish Government for review.

Scope

The audit reviewed review the key controls over cash management, including the management and operation of bank accounts and petty cash.

Acknowledgements

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

Executive Summary

Conclusion

Overall, effective controls are in place around treasury and cash management. The Standing Financial Instructions and Scheme of Delegation give specific instruction and Finance has developed a number of Financial Operating Procedures. Processes and systems are in place for the receipt, handling and banking of cash, including petty cash. However, control documentation around one petty cash reimbursement had not been updated several days after processing a petty cash expenditure claim.

Summary of Findings

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 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	Finance has ensured that its banking arrangements operate in accordance with the Scottish Government banking contract (GBS).	Green	-	-	-	-
2	Finance has prepared detailed procedures on the operation of bank and GBS accounts that comply with the Board's Standing Financial Instructions.	Green	-	-	-	-
3	All receipts and payments are accounted for properly, promptly and in full.	Green	-	-	-	-
4	Access to bank accounts is restricted and bank accounts are regularly reconciled to NHS Lothian accounting records.	Green	-	-	-	-
5	All petty cash floats are identified and accounted for	Green	-	-	-	-
6	Policies and procedures are established and followed for recording, authorising and processing petty cash claims.	Green	-	-	1	-
7	Stationery and adequate facilities and systems have been provided	Green	-	-	-	-

	to employees whose duties include collecting, holding and depositing cash.					
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Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
Amber	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

Main findings

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 bank account balances at the level required by the Scottish Public Finance Manual (not exceeding £50k of held funds)

Financial Operating Procedures have been prepared in respect of Treasury, Cashiering and Petty Cash functions. The Treasury procedures comply with the Board's Standing Financial Instructions and Scottish Public Finance Manual with regards to the setting up and management of the various bank accounts.

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.

Each year Treasury will review all petty cash floats held and receive confirmation from the float holders that they are still required. Appropriate approvals are in place for new floats and in general the Financial Operating Procedures governing petty cash are being followed. However one instance was noted where the necessary control documentation is not being completed promptly.

Stationery, facilities and systems are in place for all staff with the responsibility for collecting, holding and depositing cash. A record of controlled stationery is maintained by the Cashiers at the RIE, who are responsible for the issue and management of this. Controls around the security, storage and banking of cash are also adequate.

We identified one important issue during this review:

- For one petty cash float of four tested, the float holder is not completing the Petty Cash Expenditure sheet when petty cash reimbursements are made. This prevents a daily count of the petty cash held against the balance recorded on the sheet.

Further details of this point are set out in the Management Action Plan.

Management Action Plan

Control objective 1: The Board has ensured that its banking arrangements operate in accordance with the Scottish Government banking contract (GBS)

We found no significant weaknesses in relation to this control objective.

As with other health boards, NHS Lothian operates bank accounts as part of the UK's Government Banking Service and under arrangements set up by the Scottish Government. The GBS accounts fall under the HM Treasury Terms and Conditions. NHSL holds its core GBS bank account with the Royal Bank of Scotland, under the NatWest brand name.

The tendering of the commercial accounts is now undertaken by the Scottish Government for the whole of the public sector of Scotland. The contract is awarded for a three year period with an optional one year extension. NHS Lothian has two commercial exchequer accounts held with the Royal Bank of Scotland. The principals underlying the operation of commercial bank accounts also apply to the operation of GBS accounts.

NHS Lothian is subject to the banking requirements contained in the Scottish Public Finance Manual, which includes the requirement for bodies to have their core bank accounts with the GBS.

Compliance with the SPFM has been demonstrated in several ways, including:

- Regular reconciliations between the bank accounts and general ledger;
- Bank signatories are updated following changes to establishment structure, and the bank informed of the updates;
- Commercial bank account balances are monitored by Treasury staff to ensure they are at a level consistent with the principles of not providing funding in advance of need and avoiding accounts being overdrawn, and
- Approval and regular review of all direct debit payments.

Control Objective 2: The Board has prepared detailed procedures on the operation of GBS accounts that comply with the Board's Standing Financial Instructions

We found no significant weaknesses in relation to this control objective.

Detailed Financial Operating Procedures are in place and these were approved in October 2015 by the Head of Financial Control. The procedures are due to be reviewed in September 2017 and are available in the Financial Services shared drive.

Section three of the procedures provides an overview of the banking structure and includes detailed information on the types of account used and the purposes they are used for.

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.

Control Objective 3: All receipts and payments are accounted for promptly and in full

We found no significant weaknesses in relation to this control objective.

Each day, Treasury Staff carry out informal reconciliation on all bank 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 eFinancials post this to the ledger and retain all paperwork. The non Finance Cashiers generally from the smaller and community sites will send all documentation to Treasury for entering on to e-Financials.

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

Creditor payments are authorised by the Financial Controller or more senior member of staff depending on value. Batches are posted to eFinancials by a Senior Treasury Assistant and several reports produced, including a payments list with account details. The payments list and authorisation are passed to a BACS authoriser who checks backup documentation before submitting the file for payment. Once done a submission report is generated, printed, and signed and dated by the submitter.

Similar controls are in place for a number of other payment methods, including Internal Book Transfers and cheque payments.

Control Objective 4: Access to bank accounts is restricted and bank accounts are regularly reconciled

We found no significant weakness 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.

The Scheme of Delegation sets out authority levels granted to specific roles for signing cheques, with bank 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.

Also, following our internal audit of Bank & Cash in June 2012, the Scheme of Delegation was updated to make clear what specific levels of authority are considered acceptable for electronic banking, and the electronic banking system configured accordingly.

In addition to informal reconciliations each day, formal monthly reconciliations are prepared, reviewed and recorded as per the Financial Service Operational Procedure "Preparation of Balance Sheet Reconciliations".

Reconciliations are carried out on the two commercial accounts and the GBS Nat West account. Once prepared the reconciliations are passed to a reviewer, who reviews the reconciliation for completeness and grades the reconciliation A, B, C or D as appropriate. Reconciliations graded A are fully completed and all outstanding items have arisen that month. Of the nine reconciliations completed this financial year that were reviewed, all had been graded A.

Control Objective 5: All petty cash floats are identified and accounted for

We found no significant control weaknesses in relation to this control objective.

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

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

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.

Control Objective 6: Policies and procedures are established and followed for recording, authorising and processing petty cash forms	
6.1 Petty cash expenditure sheets are not being completed in line with procedures	Important
<p>Observation and Risk:</p> <p>Petty Cash Financial Operating procedures were approved in October 2015 by the Head of Financial Control. They are due to be reviewed in September 2017. The petty cash float holders met with during this audit were able to demonstrate awareness of the procedures and had access to a copy of them.</p> <p>Procedures require that all transactions are recorded on a Petty Cash Expenditure Sheet, with the balance checked each day against the cash and receipts held.</p> <p>Four petty cash floats were reviewed during the audit and while most had a record of petty cash reimbursements, one float reviewed (float number 495, amount held - £350) had no Expenditure Sheet in place, despite there being record of three reimbursements. Instead the Expenditure Sheet is being completed retrospectively by the float holder. Also, the float holder could not confirm that daily checks of the balance are being carried out.</p> <p>Unless the Petty Cash Expenditure Sheet is updated following each reimbursement and the balance checked each day, there is a risk that any errors made in reimbursing petty cash claims will not be detected promptly.</p>	
<p>Recommendation:</p> <p>Management should remind petty cash float holders of the correct procedure for handling and recording petty cash instructions, emphasising that documentation should not be completed retrospectively.</p>	
<p>Management Response: The recommendation is accepted and the importance of following procedure is recognised. It is noted that the procedures explain in detail the responsibilities of the float holder</p> <p>Management Action: The float holder will be reminded of the correct procedure for handling and recording cash transactions. Petty cash claims will be recorded in the expenditure sheet as soon as they are made and the balance checked daily by a senior member of staff. The Cashier Team Leader will make a site visit to ensure the procedure is being adhered to.</p>	
Responsibility: Head of Financial Control	Target date: 28 February 2017

Control Objective 7: Stationery and adequate facilities and systems have been put in place and systems have been provided to employees whose duties include collecting, holding and depositing cash

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

The Standing Financial Instructions require that procedures for handling cash are created and approved by the Director of Finance. Cashier Financial Operating procedures were produced in October 2015 and are due for review in September 2017. The procedures are clear in stating that they have been prepared as part of the Director of Finance's system of internal controls.

Controls across Cashier's offices are appropriate. All cash offices are secure and the Cashiering team leader maintains a record of all keyholders and alarm codes across the Board's 11 cash offices. Safe contents are checked regularly and in line with procedures

Cashier's balance the cash taken and recorded on the income collection sheets and a bank lodgement prepared. The smaller cash offices banks their lodgements at a local branch of RBS and Group 4 Security collect from the larger cash offices on designated days. In order to safeguard and protect staff from carrying cash to and from banks a cash carrier service is available and organised through Treasury.

All controlled stationery is managed by the cash office at the RIE. All requests for controlled stationery are emailed to the cash office and items requested are issued along with a receipt to sign and return to the cash office. Cashiers record the stationery issued on the stationery register and update the stock of the item(s) issued. Stationery is all sequentially numbered.

Appendix 1 - Definition of Ratings

Management Action Ratings

Action Ratings	Definition
Critical	The issue has a material effect upon the wider organisation – 60 points
Significant	The issue is material for the subject under review – 20 points
Important	The issue is relevant for the subject under review – 10 points
Minor	This issue is a housekeeping point for the subject under review – 5 points

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