

<b>Committee:</b>	<b>Date:</b>
Audit and Risk Management Committee	4 <sup>th</sup> November 2014
<b>Subject:</b> Cash Handling and Banking Audit – Internal Audit Follow Up Report	<b>Public Report</b>
<b>Report of:</b> Head of Internal Audit	<b>For Information</b>

## Summary

As a result of a significant cash loss at Billingsgate Market, an internal audit review was undertaken of cash and banking controls across the City of London Corporation. The final report was presented to members at the December 2013 Audit & Risk Management Committee.

In accordance with Internal Audit policy, a follow up exercise has been undertaken in order to assess the progress made in implementing agreed recommendations and provide an update on the risk posed by cash handling and banking of income. The follow up report is attached at **Appendix 1**.

Of the eight recommendations made (seven amber and one green priority), four have been implemented fully, one superseded and progress is at an advanced stage on a further three. Revised target dates for full implementation have been agreed in one case and are being confirmed in the other two cases at the time of this report.

Income collection, and particularly cash collection, has an inherent risk of fraud and theft. Systems of control can be designed to mitigate this risk but, ultimately, the most effective means of managing such risk is to reduce the extent of cash payments made at the City. A spot check by Internal Audit found that Billingsgate have now almost eliminated cash payments for rent and service charges, there having been only £600 cash taken in a recent six month period (against £771k taken in cheques).

Work has also been undertaken or is ongoing, in three key areas to address the wider concerns highlighted by the Billingsgate cash loss;

- Flowcharting of the key financial systems has been completed with a subsequent round of challenge sessions aimed at identifying any gaps or duplications in processes/controls underway and due to complete on the 28<sup>th</sup> October.
- The Financial Leadership Group has reviewed the potential to further reduce cash handling across the City.
- Internal Audit's planned programme of spot checks and mini assurance reviews with a cash/banking focus has continued with no significant concerns highlighted.

## **Recommendations**

Members are asked to note the report which is contained in **Appendix 1**.

## **Main Report**

### **Background**

1. As a result of a significant Fraud and cash loss assessed as £108,014 at Billingsgate Market, an internal audit review was undertaken of cash and banking controls across the City of London Corporation. The final report was issued on 29<sup>th</sup> November 2013 and presented to members at the December 2013 Audit & Risk Management Committee.
2. In accordance with Internal Audit policy, a follow up exercise has been undertaken in order to assess the progress made in implementing the recommendations contained in the above report.

### **Main Findings**

3. Of the eight recommendations made in the original report (seven amber and one green priority), four have been fully implemented, one superseded and progress is at an advanced stage in a further three (see paras 4, 5 and 6). Revised target dates for these have been agreed in one case and are being discussed in the other two.
4. The amber priority recommendation to consider requiring officers in key positions of financial responsibility to take an appropriate minimum period of annual leave is currently being progressed. Departmental and union consultation has been required, thus the original target date of 31/3/14 was not achievable. The proposal was agreed on the 17<sup>th</sup> October by the Chief Officers Group, and will now be presented to the Establishment Committee for approval. The rationale for this anti-fraud recommendation is that by requiring an individual responsible for a financial process to hand over that process to a colleague whilst they are annual leave, it increases the probability that irregular or fraudulent activities will be detected.
5. The amber priority recommendation to ensure Billingsgate has a satisfactory arrangement in place for security collections has also not been fully implemented, although substantial progress has been made. Market testing was undertaken which identified that the existing G4S 'piggy back' arrangement was the best price by approximately £1k per annum. However, Comptrollers expressed concerns that the City's interests were not fully protected under this arrangement. To address this, G4S have agreed the principle of a direct agreement between the City and themselves. G4S have provided notification via email that they will act in good faith in the interim period until the contract is formally signed off. Whilst the agreed action has

not been fully completed, the risk has been significantly reduced, especially as the amount of cash being collected through these arrangements is much lower.

6. The green priority recommendation that Financial Regulations 1 & 2 be reviewed has not yet been completed. Initial work is currently being undertaken in reviewing cash handling procedures and it is anticipated that the outcomes of this will inform an appropriate update of the Financial Regulations.
7. In its initial response to the fraud and cash loss, Internal Audit cash and banking cyclical coverage was reviewed, and a series of spot checks was undertaken to establish whether a similar risk of loss, and control weaknesses, exist at sites within other Departments. Generally, only minor issues were noted in these reviews. Since the report to the December 2013 Committee, the internal audit section's planned work programme has seen a number of spot checks and mini-assurance reviews carried out with a focus on cash and banking, thereby extending the assurance provided in his area. None of these reviews have yielded findings for significant concern.
8. The inherent fraud risk present in the end-to-end cash and banking process operated at Billingsgate was not fully understood prior to the 2013 investigation carried out by Finance Officers responsible for performing accounting and banking reconciliations. Over the last 6 months, all key financial systems have been flowcharted by Internal Audit. As a final phase of this project, a series of challenge sessions are underway in October 2014 to review the process flows and controls that have been documented. These sessions are chaired by the Financial Services Director, and involve the Head of Audit and Head of Finance or Service for the relevant financial system and are due to complete on the 28<sup>th</sup> October 2014.
9. Ultimately, the most effective mitigation of fraud and banking losses of this nature is to remove cash handling altogether. Billingsgate has made significant progress in eliminating cash takings in respect of rent and service charge income. A spot check by Internal Audit found that for the period 3/4/14 to 18/9/14, only £600 was accepted in cash compared to £771k in cheques for the same period. We understand that the facility to continue with small value cash payments has been extended only to a few tenants in order for them to clear debts.
10. Corporate-wide, the areas of highest cash handling have been subject to review by the Financial Leadership Group, the key findings to note being:-

*Parking*; the move towards non-cash payments is desirable but was rejected on the grounds that the technology would be too costly.

*Revenues* (e.g. council tax, service charges, sundry debts); there is a move towards electronic payment and cash receipts now are at a minimal level.

*Retail (eg at Tower Bridge)*; High cash levels here were considered to be entirely appropriate. Controls are considered to be satisfactory by Internal Audit who will keep such areas under review in their programme of planned activity.

## **Conclusion**

11. Income collection, and particularly cash collection, has an inherent risk of fraud and theft and, therefore, any income collection system, where cash is involved, can never provide absolute protection against fraud and loss, particularly where individuals set out to mislead intentionally. Ultimately, there are limitations to the extent of risk mitigation measures that are possible where significant amounts of cash income are handled through local cash collection arrangements. Reducing significantly the extent of cash payments made at City of London sites continues to present the most effective means of managing this risk.

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