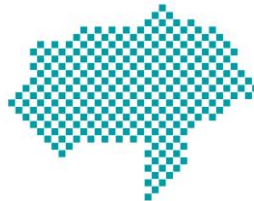


Police and Crime
Commissioner
North Yorkshire



Cash Advances Final Report

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Contact Details	01924 294061
Date of Review	August/ September 2014
Draft Report Issued	29/09/2014
Final Report Issued	23/10/2014

1 Executive Summary

North Yorkshire Police (NYP) in October 2013 re-launched its process for dealing with cash advances from petty cash. The aim was to bring it in line with HMRC guidance so that petty cash is not used as a way to bypass the existing expenses claim form system. In addition it would ensure that all expenses were paid through one system and facilitate their recording centrally.

A new policy was written and added to the Devolved Resource Manual (DRM) that reinforced that all personal disbursements should be reclaimed through the expenses system via payroll. The new policy prohibited the use of petty cash to reimburse expenses.

Any officer or member of staff that needs cash advancing to cover incidental expenses (accrued during business activities) has to now submit a completed and authorised (by their line manager) petty cash advance form to the Operational Support officer in charge of the petty cash float before any cash is released.

The new form outlines the need for the cash advance where as previously petty cash was being used for the reimbursement of expenses already incurred as well as for the purchase of items that should have been ordered through the procurement system. This information was also not being recorded centrally.

VAT receipts for the purchases need to be provided and attached to a subsistence claim form which is then submitted to the Payroll department. Any money which needs to be reclaimed should be deducted from the employee's salary from their Net pay.

Testing was undertaken on the key controls in respect of petty cash and its use for expenses.

Our testing confirmed that the policy and system in place were operating satisfactorily.

A summary of the areas covered is set out below.

Petty Cash Advances

Using data supplied by North Yorkshire Police Finance department, all cash advances that had been paid during October 2013 to July 2014 were reviewed to ensure they complied with the updated DRM.

The entire sample had supporting petty cash advance forms completed and authorised for the transaction. No cash was returned to the petty cash float after the paperwork had been submitted to Payroll.

Petty Cash Reimbursements

All petty cash reimbursement spreadsheets from October 2013 to July 2014 were checked to ensure that the petty cash advance forms had been recorded. All were found to be appropriately recorded.

However, the check of the spreadsheets did find six records which could have been dealt with under the new process. These all occurred towards the start of the new process (October and November 2013) and those recorded as being the claimant have either since retired or adopted the new process as set out in the DRM therefore no recommendation has been made.

Tax Implications

The entire sample of cash advance payments that were checked, having taken place since the introduction of the new process, had all the remaining unused cash returned to the relevant petty cash float as well as having the petty cash advance form updated to reflect this before it was sent to Payroll.

This process was found to be in line with that set out in the DRM and therefore there were no implications on any tax payments to be made by the employees.

The Payroll department reported that were there any cash advance payments to be made and the remaining money needed to be reclaimed, that this would be undertaken from the Net pay, therefore not effecting the individuals taxable earnings.

VAT

The entire sample was found to have provided VAT receipts for the expenses incurred but it was noted that North Yorkshire Police did not reclaim the VAT on these transactions.

It was reported that the current payroll computer system does not have the capacity to separate the NET and VAT on the receipt and reclaim it from HMRC. North Yorkshire Police were aware of this when the process was implemented, but the decision was made that amount of VAT that would be returned would not be significant enough to warrant implementing system changes.

This decision was based upon advice received from HMRC that it was preferable for personal expenses to be paid through the payroll system. It was therefore decided that it was more significant to implement this new system than to reclaim the VAT. Given the small sums involved such an approach seems reasonable.

	Commentary
Effectiveness of Risk Management Approach	The newly introduced cash advance process has stopped the use of petty cash floats within North Yorkshire Police from being used to reimburse expenses to individuals.
Efficiency of Risk Management Approach	The new process relies on the Operational Support Officer both understanding the DRM Chapter 13 as well as acting as a gatekeeper for petty cash floats and its proper use. This approach is working as intended.
Assurance Level	1 – Reasonable Assurance, with best practice
Overall Risk	6:1

2 Scope and Approach of the Audit

The audit considered the arrangements in place within North Yorkshire regarding cash advances. The following risks were considered:

- The misappropriation of cash due to cash advances not being returned, receipted or dealt with in a timely and appropriate manner;
- Expenses are not appropriately subject to PAYE and/ or NI
- Expenses are not appropriately recorded on P11D's
- VAT is not accounted for appropriately in line with HMRC requirements

3 Report Distribution

Name/Role	Draft	Final	Final with Response
Jane Palmer, Chief Constables Chief Finance Officer	✓	✓	✓
Donald Stone, Head of Organisation and Development	x	✓	✓
Michael Porter, Commissioners Chief Finance Officer	x	✓	✓
Risk & Assurance Unit	x	✓	✓

4 Appendix: Assurance Level

Internal Audit assesses the effectiveness of internal control, within the scope of what is audited. This measure is therefore a relative one.

Category	Description
1	Reasonable assurance can be provided that the main risks considered are being effectively managed; action may still enhance the management of risk in a small number of areas. In addition Internal Audit has identified that the approach taken to address risk as representing good practice in this area.
2	Reasonable assurance can be provided that the main risks considered are being effectively managed. Limited management action may be required to address a small number of significant issues.
3	Limited assurance can be provided that the main risks considered are all being effectively managed. Significant management action is required to address some important weaknesses.
4	Inadequate assurance can be provided that the risks identified are being effectively managed. Significant weaknesses have been identified in the risk management action, these are likely to involve major and prolonged intervention by management. These weaknesses are such that the objectives in this area are unlikely to be met.

5 Appendix: Overall Assessment Criteria

Risks in this report have been assessed using the following criteria. It is the same criteria as that used by North Yorkshire Police to assess risk for the Risk Register.

Probability	Highly Probable	Nil	5:7	4:12	2:14	1:16
	Probable	Nil	5:4	5:8	3:13	2:15
	Unlikely	Nil	6:2	5:5	5:10	4:11
	Highly Improbable	Nil	6:1	6:3	5:6	5:9
	Nil	Nil	Nil	Nil	Nil	Nil
		Nil	Negligible	Minor	Significant	Catastrophic
		Impact				

Probability	Nil	< 20% Highly Improbable (HI)	20% – 40% Unlikely (UL)	40% - 60% Probable (P)	> 60% Highly probable (HP)
Impact	Nil	Negligible	Minor	Significant	Catastrophic
Financial (£)	Nil	< 10K Minimal impact upon either devolved budget or the Police fund	10 – 30K Minor impact upon either devolved budget or the Police fund	30 - 75K Significant impact upon either devolved budget or the Police fund	>75K Catastrophic impact upon either devolved budget or the Police fund
Reputation	Nil	Negligible adverse publicity. Minimal impact upon public perception	Localised adverse publicity. Minor/transient impact upon public perception of Force or Authority	Criticism at local Government level. Lasting impact upon public perception of Force or Authority	Intense national media. Criticism at national government level.
Operational	Nil	Negligible impact upon ability to deliver service and meet Force targets	Minor impact upon ability to deliver service and meet Force targets	Significant impact upon ability to deliver service and meet Force targets	Catastrophic impact upon ability to deliver service and meet Force targets
Legal Compliance	Nil	Negligible prospect of legal challenge	Minor/Transient prospect of legal challenge	Serious non compliance. Litigation/challenge	National legal issue