



# CHIEF CONSTABLE OF NORTH YORKSHIRE

## ANNUAL PETTY CASH CHECK

FINAL

Internal Audit Report: 12.16/17

16 February 2017

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# CONTENTS

1 Executive summary .....	2
2 Detailed findings .....	4
APPENDIX A: SCOPE .....	8
APPENDIX B: FURTHER INFORMATION .....	10
For further information contact .....	11

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

Petty cash floats across North Yorkshire Police (thereafter the Force) are only intended for use, where absolutely necessary or unavoidable, in the following circumstances as per the Force's guidelines:

- To provide cash advances to members of staff in anticipation of probable expenditure in the course of their duty;
- To reimburse employees for urgent purchases of minor items costing less than £50, where circumstances prevent the issue of an official purchase order; and
- To enable goods or services to be obtained at very short notice as a result of operational needs to pay for minor items of expenditure without having to complete an official order.

There are six identified petty cash main floats allocated to individual Business Administration Managers (BAMs) totalling £5,960 for the period 2016/17 namely:

- Newby Wiske (Headquarters) - £2,000
- York - £2,000
- Scarborough- £1,200
- Harrogate - £460
- Northallerton - £250
- Selby- £50

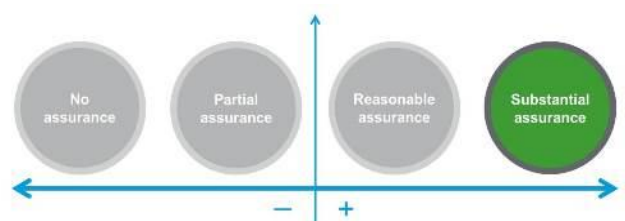
Our audit has focused on petty cash float at York and Newby Wiske; we have also reviewed the existence of cash held for ransom purposes at the Tadcaster station, although this has not been counted.

## 1.2 Conclusion

Our review has concluded that there is overall compliance with the Force's Devolved Resource Management (DRM) Manual to ensure monies are used appropriately; however, we have identified one medium priority management action which related to the Form 32 not being signed by the requestor or authoriser. A further three low priority management actions have been raised and are detailed in section two of this report.

### Internal Audit Opinion:

Taking account of the issues identified, the Chief Constable can take **substantial assurance** that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



### 1.3 Key findings

The key areas of compliance from this review were as follows:

- We confirmed that there was a DRM Manual in place covering the use of petty cash across the Force. The DRM Manual is available to all staff via the Force’s intranet.
- We undertook a reconciliation of the petty cash at York station and Newby Wiske and confirmed the amounts in the petty cash tin reconciled with the amount in the general ledger.
- A visit to the Tadcaster station confirmed that the cash held for ransom purposes was in sealed bags and stored in a key coded safe. Furthermore, review of the year-end reconciliation, as at 31 March 2016, at Tadcaster station confirmed that this had been undertaken and signed by the Business Administration Manager and by a detective constable.
- Testing of eight months, three for Newby Wiske and five for York station, confirmed that VAT and coding checks were undertaken and evidenced by the Finance team.
- Testing of seven and five petty cash transactions at York station and Newby Wiske respectively confirmed that in all cases a receipt or breakdown of the expenditure had been retained to support the transaction.
- We confirmed through testing of two (100%) advance petty cash transactions that these had been signed by the BAM and the requestor. Furthermore, we confirmed that an expenses form had been submitted and salaries had been deducted appropriately.
- Testing of 12 petty cash transactions confirmed that they had been processed in a timely manner.
- Through our testing we confirmed that the petty cash process was subject to adequate segregation of duties.

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Petty Cash	0 (11)	4 (11)	3	1	0
<b>Total</b>			<b>3</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 2 DETAILED FINDINGS

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
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#### Area: Petty Cash

1	<p>The petty cash accounts are only intended for use in the following limited circumstances and where absolutely necessary or unavoidable:</p> <ul style="list-style-type: none"> <li>To provide cash advances to members of staff in anticipation of probable expenditure in the course of their duty, any amount over £500 will require the prior approval of the Chief Constable's Chief Finance Officer.</li> <li>To reimburse employees for</li> </ul>	Yes	No	<p>Sample testing of 12 petty cash transactions, at York and Newby Wiske for the financial year 2016/17 confirmed that they had been processed in line with the DRM Manual. However, we identified in two instances, relating to undercover operations, which acquired advance payments of £500 and £900. These had not been subject to the Chief Finance Officer approval as stated within the DRM Manual.</p> <p>Discussions with the Finance Manager noted that this was due to the nature of operations (both relating to undercover operations) and as such it was not always possible to get approval from the Chief Finance Officer. However, the advance payments had been subject to approval by the command officer and it was identified that the DRM Manual required updating in order to take into account of such payments. The DRM Manual also needs to include whether or not approval from Chief Finance Officer is required.</p>	Low	<p>The Finance Manager will review the process of advance payments to officers for undercover operations and ensure that this is reflected within the DRM Manual and communicated to the relevant personnel.</p> <p>Responsible owner: Sam Craggs, Finance Manager</p> <p>Implementation date:</p>
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management																								
	<p>urgent purchases of minor items costing less than £50, where circumstances prevent the issue of an official purchase order (authorisation of the BAM or Line Manager is required).</p> <ul style="list-style-type: none"> <li>To enable goods or services to be obtained at very short notice as a result of operational needs.</li> </ul>			<table border="1"> <thead> <tr> <th colspan="3">Risk Exposure*</th> <th colspan="3">Root causes</th> </tr> <tr> <td colspan="3">There is currently a risk of deviation from the procedure and a risk of causing confusion resulting in inappropriate petty cash transactions being processed.</td> <td colspan="3">Lack of a clear formally documented process for advance payments.</td> </tr> <tr> <th>Probability</th> <th>Financial</th> <th>Reputational</th> <th>Operational</th> <th>Legal</th> <th>Rating</th> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </thead></table>	Risk Exposure*			Root causes			There is currently a risk of deviation from the procedure and a risk of causing confusion resulting in inappropriate petty cash transactions being processed.			Lack of a clear formally documented process for advance payments.			Probability	Financial	Reputational	Operational	Legal	Rating								31 March 2017
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Probability	Financial	Reputational	Operational	Legal	Rating																									
2	<p>A Form 32 is submitted to the BAM and or Line Manager by the requestor for approval for each claim.</p> <p>The BAMs must complete a replenishment form at the end of the month or when the petty requires top-up.</p> <p>When this is required, a replenishment form is sent to the Finance team general inbox which is then checked for VAT and coding.</p> <p>The form is then saved into the Finance X drive folder for petty cash into the relevant month.</p> <p>The Procure to Pay (P2P) team then pick it up and raise a cheque to be paid which is signed by the Head of Finance.</p>	Yes	No	<p>Review of 12 petty cash transactions found the following:</p> <ul style="list-style-type: none"> <li>In nine cases a Form 32 had been retained. Within the nine cases we found that in two cases the form had not been signed by the requestor and in another two cases the form had not been signed by the authoriser.</li> <li>We identified that there were two petty transactions for a bike safe event which did not fall within the stipulated circumstances in the procedures. In one instance we identified that the expenditure had occurred in the 2015/16 (November 2015) financial year for £69.05 but had not been claimed until June 2016.</li> <li>In three cases a Form 32 had not been completed. We identified that an advance form had been completed instead; however, a Form 32 needed to be completed.</li> </ul> <table border="1"> <thead> <tr> <th colspan="2">Risk Exposure*</th> <th colspan="2">Root causes</th> </tr> <tr> <td colspan="2">There is risk that the Form 32 have not been through the appropriate approval leading to potential loss.</td> <td colspan="2">Lack of challenge of submitted forms.</td> </tr> <tr> <td colspan="2">There is also a risk of confusion</td> <td colspan="2">The absence of a defined</td> </tr> </thead></table>	Risk Exposure*		Root causes		There is risk that the Form 32 have not been through the appropriate approval leading to potential loss.		Lack of challenge of submitted forms.		There is also a risk of confusion		The absence of a defined		Medium	<p>The requirement for forms submitted to be signed, either physically or via email, before they are processed will be reiterated to all Business Administration Managers.</p> <p>Responsible owner: Antoinette Diovisalvi, Accountant</p> <p>Implementation date: 31 January 2017</p> <p>The Accountant will undertake a review of form 32 and the advance form to ensure that they are appropriate and reflect the current petty transactions. This will</p>												
Risk Exposure*		Root causes																												
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications						Priority	Actions for management
				around the advance payments where the advance forms are not used in accordance with the stated procedures.			process regarding petty cash advances.				address the processing of advance payments that relate to covert operations and non-personal use petty cash advances.
				<b>Probability</b>	<b>Financial</b>	<b>Reputational</b>	<b>Operational</b>	<b>Legal</b>	<b>Rating</b>		
											Responsible owner: Antoinette Diovisalvi, Accountant
											Implementation date: 31 March 2017
3	Petty cash is stored within locked tins which are kept inside locked safes within each location.  The tin should not be left opened and or unattended.	Yes	No	<b>York Selby</b>						Low	To ensure business continuity across all stations the Business Administration Managers will be sent a communication with regard to this.
				The Business Administration Manager was found to be the only person that had access to the petty cash tin within the main safe. The petty cash tin key was locked in a key safe requiring a key lock combination that only the BAM had access.							
				<b>Risk Exposure*</b>			<b>Root causes</b>				
				Whilst there was suitable controlled access to the safe, there is a business continuity risk that only one person has access to the safe.			Failure to have a second member of staff with access to the key safe box.				Responsible owner: Antoinette Diovisalvi, Accountant
				<b>Probability</b>	<b>Financial</b>	<b>Reputational</b>	<b>Operational</b>	<b>Legal</b>	<b>Rating</b>		Implementation date: 31 January 2017
4	A monthly reconciliation is undertaken by the Accounting Technician against Oracle details; this is then sent to the Head of Finance for review.	Yes	No	For a sample of three petty reconciliation we identified the following:						Low	Petty cash reconciliations will be reviewed and signed by the Head of Finance. This will ensure that any discrepancies are identified and resolved in a timely manner.
				<ul style="list-style-type: none"> <li>In one instance, in relation to November 2016, this had been signed and dated by both the Accounting Technician and the Head of Finance.</li> <li>In the other two instances relating to June 2016 and September 2016 found that these had been signed by the Accounting</li> </ul>							

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
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Technician but not by the Head of Finance.

Risk Exposure*			Root causes		
There is currently a risk that the petty cash reconciliations have not been subject to management review leading to discrepancies not being investigated.			Lack of a regular review due to staffing resource issues.		
Probability	Financial	Reputational	Operational	Legal	Rating

The Finance team will also introduce a monthly timetable which will be maintained by the Chief Finance Officer's Personal Assistant to ensure that all processes are undertaken accordingly and in a timely manner.

Responsible owner:  
Sam Craggs, Finance Manager

Implementation date:  
31 March 2017



# APPENDIX A: SCOPE

## Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

### Objective of the area under review

There is robust compliance with the Force's procedures in relation to petty cash to ensure monies are used appropriately.

When planning the audit, the following areas for consideration and limitations were agreed:

### Areas for consideration:

As part of this audit, we have visited Newby Wiske, Tadcaster (ransom cash) and York and considered the following areas:

- Procedural guidance is in place, available to staff and being adhered to;
- Setting, reviewing and approval of imprest levels;
- Expenditure is supported by an appropriate claim form that has been signed;
- Reimbursements are supported by relevant vouchers and receipts;
- Cash advances are appropriately authorised;
- Security arrangements including access to safes and handover procedures;
- Petty cash reconciliations;
- Ransom cash arrangements;
- Transactions are posted to the finance system in a timely manner; and
- Appropriate segregation of duties exists.

### The following limitations apply to the scope of our work:

- We have not reviewed or tested any other financial procedure as part of this review.
- We have only visited Tadcaster, Newby Wiske and York Selby stations.
- We have not counted the cash at Tadcaster and therefore can only confirm that the cash was in sealed bags
- Our testing was completed on a sample basis; therefore, we have not provided assurance that all transactions are correctly accounted for.

- We have not tested whether income is correctly coded to the ledger.
- We have only considered how income is banked and accounted for centrally.
- In addition, our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

## APPENDIX B: FURTHER INFORMATION

### **Persons interviewed during the audit:**

- Sam Craggs, Finance Manager
- Nicola Johnson, P2P Manager
- Antoinette Diovisalvi, Accountant
- Ann Lowther, Business Administration Manager
- Jane Rees-Jones, P2P Team - Payables Officer

### **Documentation reviewed during the audit:**

- Devolved Resource Management Manual

# FOR FURTHER INFORMATION CONTACT

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