

Board of Management Audit & Assurance Committee

Date of Meeting	Tuesday 12 September 2023
Paper No.	AAC1-J
Agenda Item	5.4.4
Subject of Paper	Internal Audit Report – Cash and Bank/Treasury Management
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	29 August 2023
Action	For Discussion and Decision

1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

3. Key Insights

This internal audit of Cash and Bank/Treasury Management provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

4. Impact and implications

Refer to internal audit report.

LEVEL OF ASSURANCE

Satisfactory

City of Glasgow College

Cash & Bank / Treasury Management

Internal Audit report No: 2023/05

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Satisfactory

System meets control objectives with some weaknesses present.

Risk Assessment

A review of the City of Glasgow College ('the College') strategic risk register, identified the following specific risks relating to Cash & Bank / Treasury Management:

- SR19 – Failure to achieve operating surplus (net risk score – 25); and
- SR20 – Failure to maximise income via diversification (net risk score – 20).

Background

As part of the Internal Audit programme at the College for 2022/23 we carried out a review of the systems in place in relation to Cash and Bank / Treasury Management. The ANA identified this as an area where risk can arise and where Internal Audit can assist in providing assurances that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

At the time of our audit, strategic oversight of the College's finances was undertaken by the Executive Finance Director who oversaw the College's long term financial projections, budgets and liaised with other College managers and the Board. Operational oversight of the College's finances is undertaken by the Head of Finance, who works closely with the Finance Manager in preparing monthly accounts, managing income and expenditure and ensuring robust controls are in place within the College's cash and banking processes.

The College's finances are governed by a Financial Regulations document, which details the responsibilities of the Finance team and the categories of income which help fund the College's operations. In conjunction with the Financial Regulations, there is also a suite of procedural documents relevant to the Cash & Bank / Treasury Management processes, including an Income Collection Procedure, Treasury Management Policy and a Petty Cash Procedure. The responsibility for updating these for accuracy and validity rests with the Head of Finance.

The College utilises the bluQube finance system, on which it records all income into the College, all expenditure and the relevant digital approvals, and prepares its management and year end accounts. All documentation relating to bank deposits and receipts of income is completed in hard copy and scanned into the College's shared drive folders, for secure retention, to be held as evidence of the amounts recorded and demonstration of the appropriate checks having been undertaken.



Scope, Objectives and Overall Findings

The scope of the audit was to review the key internal controls in place within the College over the recording of cash, cheque, credit / debit card, direct transfer and direct debit payments received from students, commercial customers and staff onto the finance system. The audit covered the systems in place within the Finance department and other areas within the College where a significant volume of payments is received.

We also carried out a high-level review of the College's treasury management arrangements covering:

- overall arrangements including policies and procedures;
- cash flow management; and
- banking arrangements.

The table below notes the objectives for this review and records the results:

Objective	Findings				Actions already planned
	1	2	3	No. of Agreed Actions	
The objective of the audit was to obtain reasonable assurance that:					
1. Monies collected by the College from all sources are fully, accurately and timeously recorded.	Good	-	-	-	✓
2. All monies received are banked intact and in a timely manner.	Good	-	-	-	
3. Regular reconciliations are carried out between actual receipts and amounts recorded in the College's finance system.	Satisfactory	-	-	1	
4. The College's treasury management arrangements are in line with good practice.	Good	-	-	-	
Overall Level of Assurance	Satisfactory	-	-	1	
		System meets control objectives with some weaknesses present.			



Audit Approach

We documented the systems and key controls in place through interviews with the Executive Finance Director, the Head of Finance, the Finance Manager and other relevant managers and staff, and through review of documentation, to consider their adequacy.

We then performed compliance testing as appropriate to establish whether the identified controls are operating effectively in practice.

A comparison of treasury management working practices was made with good practice guidance available from the Chartered Institute of Public Finance and Accountancy, the Scottish Public Finance Manual (SPFM) and the Scottish Funding Council's (SFC) Financial Memorandum.

Summary of Main Findings

Strengths

- A Financial Regulations document is in place to define the College's financial procedures, and this is made available to all staff;
- A formal Income Collection Procedure document is in place to define the types of income which the College generates, and how these should be recorded;
- A process document is in place to detail the till processes at the College's income generating outlets;
- A Treasury Management Policy is in place to define the College's wider treasury management processes;
- Income sources have been clearly identified, documented, and their recording is understood by the Finance Team;
- An Income Officer is in place to oversee the day-to-day recording of income and to ensure ongoing accountability for its accuracy;
- Daily till sessions are set up to record the daily income from all the outlets within the College;
- Controls are in place around the storage of cash income;
- Controls are in place around the accurate recording of deposits;
- From a sample of bank deposits, all income was recorded accurately from the point of receipt through to deposit into the College's bank account;
- Reconciliation processes are in place for all of the College's live bank accounts;
- Documentation is retained as evidence of the system recording of reconciliations against the bank statements;
- Sample testing of monthly bank reconciliations noted that reconciling items had been adequately investigated, resolved, and documented for all items sampled;
- The financials of the College are reported to the Finance & Physical Resources Committee on a quarterly basis with cash flows and income / expenditure data provided for review; and
- Senior management reporting is undertaken through the Executive Finance Director at the regular Executive Leadership Team meetings.

Weaknesses

- From the sample of bank reconciliations inspected, there was no evidence of independent review for five of the nine reconciliations reviewed.



Acknowledgments

We would like to take this opportunity to thank the staff at City of Glasgow College who helped us during the course of our audit.



Main Findings and Action Plan

Objective 1 – Monies collected by the College from all sources are fully, accurately and timeously recorded.

A formal Financial Regulations document is in place and this is made available to all College staff via the College's intranet. From inspection of the contents of the document, it was noted as being due for review in October 2022. We were advised that an informal review had been undertaken by the outgoing Executive Finance Director in 2023. However, due to the College recruiting a new Chief Financial Officer (CFO), a decision was made by the Executive Finance Director not to formalise any update to allow the incoming CFO the opportunity to make their own changes to the Financial Regulations. An Income Collection Procedure document is also in place at the College, which is available to all staff, and documents the procedures to follow for income collection from various sources including government grants, student fees, and other sources of income such as hire of accommodation and the sale of obsolete equipment or materials.

The majority of the College's income is derived through grant funding from the Scottish Funding Council (SFC). The income is receipted into the College's bank accounts at the start of each month, with the College's major outgoings arranged to be paid in the middle of each month, to allow for all income to be receipted in order for the College to sufficiently meet its liabilities.

Control over the receipt of income ultimately sits with the Head of Finance, who monitors for the receipt of expected income, with the Finance team chasing any overdue payments.

Outlet Procedures

The College generates 'cash' income through outlets which are embedded in various departments within the College, including a convenience shop on the seventh floor, and a hair and beauty salon on the second floor of the City Campus. Each of the outlets has its own till, on which transactions are recorded. There is a procedural document in place to define the process to be followed, which requires the person operating the outlet to generate a summary sheet from the till at the end of each day, and to reconcile the amounts held in cash, and the amount per the card readings, and bring this to the Finance team for checking and recording in the cash office system. We obtained a copy of the summary sheet for the salon and inspected this to establish whether the amounts taken for the day were accurately reflected in the cash office and in the College's bank account. From our inspection of records no issues were noted. We were advised that where any issues are identified by the Finance team, then these are raised immediately with both the Operations Manager responsible for the outlet in question and the Finance Manager.

On a daily basis, the Finance team check the amount of cash and the card reader reports from each of the outlets, then record and total this on the cash analysis sheet, which is then signed by the preparer. A senior member of the Finance team also reviews and signs this document as evidence of their review. The Finance team then upload the amounts taken into the 'cash office' till session, for upload into the finance system.

The Faculty Business Manager, and the Operations Manager in which the outlet sits, are ultimately responsible for the appropriate management of the outlet. However, the staff within the outlets work closely with Finance as they engage with them on a daily basis for cash deposits, general income queries and the exchange of notes for any change required etc.



Objective 2 – All monies received are banked intact and in a timely manner.

From discussions with the Finance Manager and the Income Officer, the following process for receipting of cash and secure banking was identified:

The College's finance system, bluQube, has a module called 'cash office', which is utilised to record all banking for the College. On a daily basis, the Finance team opens a till session between 8.30am and 9am for income at each of the outlets to be recorded. The College's outlets allow customers to pay in cash, cheques, credit / debit cards etc. and these payments are made at the respective counter. The Finance team records the cash in a deposit bag and puts this in the College's safe until the College's courier collects the cash and takes it to the bank.

The Assistant Accountants reconcile any amounts taken after hours (which are deposited with the Finance team the following morning) from the relevant outlets, and they have permissions to process transactions to complete the returns for the previous day. The Income Officer then reviews the totals and posts the complete takings for the day to the system, which is then reviewed and signed off by the Head of Finance. When the Income Officer posts the banking, they record the 'pay-in number' which is noted on the physical bag which is taken to the bank, and therefore the amount recorded in the system is reconciled to the amount deposited to ensure that the amount deposited is complete.

The College has two safes, to which only the Finance team have access. One safe is a combination safe and the other is operated by a key which is held in a key cabinet. Floats for the outlets are kept in the key safe and are logged in and out by the Finance Manager. The combination safe can only be accessed by Finance Officers, the Finance Manager, and the Head of Finance as they are the only people who know the combination, and as such the majority of cash (all deposits) are stored in this safe.

A sample of the outlet income for five days was selected for inspection to ensure accuracy of recording, completeness of the amounts deposited, and appropriate review of the amounts recorded in the finance system. From this sample testing, the following was noted:

- The Banking Slips were sufficiently completed and retained as evidence;
- Cash deposited in the bank was accurately recorded;
- The Cash Register sheets for all days were sufficiently completed and reviewed; and
- The Z Reports generated from the system were accurately reflected in the system.

Overall, there were no issues noted from the testing undertaken.



Objective 3 – Regular reconciliations are carried out between actual receipts and amounts recorded in the College’s finance system.

The College has bank accounts with Virgin Money, Bank of Scotland, and the Royal Bank of Scotland (RBS), all of which are required to be reconciled on a monthly basis to ensure that all transactions processed through the bank are accurately recorded in the finance system, and that any transactions recorded in the finance system have been sufficiently receipted / paid into the College’s bank.

Reconciliations are prepared by the Assistant Accountants (Virgin Money and RBS) and the Head of Finance (Bank of Scotland), with review undertaken by the Head of Finance and the Management Accountant (depending on the preparer), to ensure that reconciliations have been sufficiently completed, and that all reconciling items have been suitably investigated and resolved. We selected a sample of months in the financial year (September 2022, January and April 2023), for each of the RBS, Virgin Money and Bank of Scotland accounts, and obtained copies of relevant documentation to establish whether the reconciliations had been suitably completed, reconciled to the finance system and bank account balance, with any reconciling items investigated in a timely manner, and that the reconciliations had been independently reviewed:

From inspection of the above bank reconciliations, we noted the following results:

- Reconciling items were suitably documented investigated and reconciled to the bank and system balances;
- All reconciliations were recorded and dated as being completed by the preparer; and
- Supporting documentation (statements and system evidence) was retained securely.



Objective 3 – Regular reconciliations are carried out between actual receipts and amounts recorded in the College’s finance system (continued).

Observation	Risk	Recommendation	Management Response	
<p>We identified from our inspection of the bank reconciliations completed for the three different accounts, over the three months selected for testing, that five of the nine reconciliations inspected were not evidenced as having been independently reviewed.</p>	<p>There is a risk that the reconciliations may not be sufficiently completed to ensure that all amounts are accurately recorded in the finance system.</p>	<p>R1 It is recommended that the College takes steps to ensure that all bank reconciliations are reviewed independently of the preparer in a timely manner, and that they are signed off as evidence of independent review.</p>	<p>All bank reconciliations are sent to the management accountant who independently reviews the reconciliations. They will be electronically signed as evidence of this review.</p> <p>To be actioned by: Head of Finance</p> <p>No later than: 31 August 2023</p>	
			<p>Grade</p>	<p>3</p>



Objective 4 – The College’s treasury management arrangements are in line with good practice.

The College has a Treasury Management Policy in place, which was obtained and the contents reviewed. From inspection of the document, it was established that the procedures around both cash flow and treasury management were both comprehensive and in line with good practice.

The Policy sets out the responsibilities of both the Principal, Vice Principal Corporate Services and the Head of Finance and details that ‘Cash flow projections will be prepared on a regular and timely basis and the Vice Principal Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with Liquidity Risk Management’. It also details that, ‘The Head of Finance shall:

- Monitor the College’s cashbook on a monthly basis in order to maintain a cash flow history; and
- Will use this information to prepare and update cash flow forecasts / budgets to the end of the financial year and on a quarterly basis (as a minimum).’

Three monthly cashflows (September 2022, January 2023 and April 2023) were obtained from the Head of Finance, and from inspection of the documentation, it was confirmed that each had been completed in line with the agreed procedure. The Head of Finance had monitored the cashbook monthly and had used the information to effectively monitor and prepare cashflow forecasts and budgets.

Cashflow forecasts were sufficiently completed each of the sampled months, with each spreadsheet having a certificate of sign off, which was completed by the Head of Finance, as well as narrative for Financial Year and Academic Year Commentary. These sections detailed the reasons for movements in expenditure. Detail provided in the Commentary sections of the cashflow provide management with sufficient detail on the reasoning and risks the College was facing. Cashflows are also sent to the SFC on a monthly basis.

Treasury Management

The College does not have any investments in place, instead, holding all of its funds in its bank accounts for transactional use in fulfilling its obligations. Previously, the Executive Finance Director reported directly to the Vice Principal Corporate Services. However, at the point of this review, the Executive Finance Director sat on the Executive Leadership Team, and the intention was that the new CFO will do the same, to ensure that there is adequate senior management representation with regard to financial matters. The CFO will also report into the Finance & Physical Resources Committee on a quarterly basis with cash flows and income / expenditure provided, in line with current practice.

The College also provides data through the Glasgow Colleges Regional Board (GCRB) with the Financial Forecast Return (FFR), which is undertaken annually (around Autumn) providing a five-year financial plan for the College. This report was prepared by the Executive Finance Director and signed by the Principal. Interim and mid-year FFRs are also prepared. The College also regularly engages with the SFC regarding the excess cash, which is held on deposit in the bank, to establish whether there are potential uses for these cash reserves outside operational expenditure, and also to ensure that any monies due to be repaid to the SFC are appropriately accounted for, in line with the requirements of the SFC’s Financial Memorandum. The Chair of the Finance & Physical Resources Committee is required to approve any decisions made regarding the use of excess cash balances. Documentation presented to the Committee includes a narrative of the College’s financial activity, and the Executive Finance Director routinely supplements this with a presentation for the members of the Committee.



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