

## Audit Summary – Imprest Account Management

### Background and Context

- 1.1 The Council holds a number of cash imprest accounts, for a variety of purposes including cash distribution as part of statutory payments to those in need. These accounts have the largest distribution of cash, with total expenditure across all the imprest accounts calculated to be £1.8m in 2023/24. The Children and Education Directorate is responsible for some £1.7m of spend with most of the remainder made by the Adults and Communities Directorate.

### Scope and Objectives

- 1.2 The objective of this assignment was to review and assess the adequacy of the processes and controls established Council wide over the operation of imprest accounts and associated expenditure. The scope of the assignment included the following areas:
- Misappropriation or loss of cash
  - Inappropriate spend.

### Audit Opinion

- 1.3 Overall, Internal Audit provided **“No Assurance”** on the effectiveness of the guidance, oversight, processes and controls of Imprest Account Management across the Council.

### Key Messages and Findings:

- 1.4 Internal Audit found a lack of central and directorate control and oversight over Imprest Accounts with the high risk of loss of cash due to error or fraud, inappropriate use of cash and inaccurate balance sheet reporting. A common theme was lack of resource to administer cash payments and that Council systems were being bypassed. There is a wider issue as to whether current levels of cash spend are needed or can be replaced by other means of payment. This was not within the scope of this review
- 1.5 Internal Audit raised seven high priority and two medium priority findings in respect of the following key weaknesses:
- No formal guidance on the use or oversight of imprest accounts
  - No central record of imprest accounts, with conflicting information held on ABW; Internal Audit sample visits found different information again was held by service departments
  - The lack of a central record meant that year-end processes did not ensure that the balance sheet figure for Imprest Accounts was accurate
  - No evidence of oversight by Heads of Service in responsible service departments or Central Finance; Financial Regulations charge the Heads of Service in responsible service departments with this responsibility
  - Inappropriate use of imprest accounts to circumnavigate Council payment systems
  - Individual social workers requesting, authorising and issuing cash payments up to £500 without oversight
  - Insecure cash storage arrangements
  - Inadequate arrangements to ensure clients receive correct cash payments and limited follow up of client complaints of shortfalls in cash received
  - No follow up checks on the validity of emergency payments.

## Management Response

1.6 The findings of the report have been accepted by management who have agreed management actions to address them. These included:

- Corporate Finance, having consulted the Council's senior team are working quickly to review all petty cash/imprest accounts with a view to significantly reducing the number of non-essential accounts as possible. The initial priority will be given to accounts with limited or no recent activity
- Another immediate priority is to deliver on the aspiration that, where practicable purchases will only be processed through the most appropriate non-cash source, for example, the Procurement system, the Accounts Payable system, or by using a purchase card or voucher. The possibility of services issuing pre-loaded debit cards (and only to be topped up if exactly reconciled and receipted) is also being explored
- Corporate Finance is drafting a revised policy with fully detailed associated guidance. The aim of the document is to;
  - provide clear instructions and guidance to staff responsible for operating petty cash accounts and to those claiming petty cash reimbursements. Petty cash holders will be accountable for properly managing the cash they hold in line with the guidance
  - standardise procedures for opening new petty cash accounts across the City Council, so that new accounts are only opened where there are no other more cost-effective means to pay for minor items of expenditure
  - ensure that all petty cash accounts are supported by a valid business case, and closed promptly where they are no longer required.
- The completed document, under delegated arrangements, will be presented for senior leadership approval before the end of August then issued across the Council supported by the appropriate corporate communications to ensure widespread acceptance of the updated petty cash policy and associated controls
- Revised guidance to ensure compliance in opening and closing petty cash (impres) accounts and in-year management will include standardised templates for imprest account management, including new requests, closing accounts, top ups, monthly and year-end reconciliations including receipts
- The renewed guidance will establish procedures to ensure cash controls provide assurance, including process notes for monthly reconciliation between open accounts to ABW. It will identify the reconciliation to be done by the accountable imprest account holder with sign off by relevant Head of Service
- Procedures will be set out for the routine monitoring, reporting and reconciliation of accounts. Accountable service leads to be identified. Clear instructions with timelines and consequences for non-compliance
- The timeline for completing the transaction templates and reconciliation process is also the end of August
- Corporate Finance, working with Business Support Services (BSS), is currently establishing a complete list of petty cash accounts, both held as cash and in existing bank accounts. A systematic process will then investigate and establish the accuracy of the balance and whether the account is still required. Where applicable accounts will be closed, and balances written back
- In tandem with the above, a full reconciliation of petty cash certificates to the balance sheet and discrepancies will be investigated and resolved, and again, where applicable, balances written back. Accountability for balances will be with the appropriate service who will be responsible in the event of there being a deficit imprest account balance. Guidance will set out circumstances for referring on to Internal Audit would be applicable
- Working with BSS there will be on-going monitoring of petty cash reimbursements to ensure all live accounts are recorded on the balance sheet. This, along with additional guidance issued to budget managers at year-end will ensure that there is both a central up to date record for all imprest accounts which will be accurately accounted for and included in the Council's financial statements
- Reconciliations to existing records is expected to be completed by mid-July. BSS with support from Corporate Finance will then ensure any permanent changes to petty cash accounts (as and when these

are made) are recorded on the balance sheet, taking remedial action if not. This work will be carried out throughout July and August

- All roles and responsibilities will be set out in the revised guidance. This will include Heads of Service, Budget Managers, approvers, and the employee claiming petty cash. Central oversight of Imprest Account usage will be led by the Finance Business Partner, Technical and Reporting. Corporate Finance will work with Corporate Communications to ensure the guidance is fully communicated across the Council
- The guidance will clearly set out those categories of expenditure where petty cash can be used and examples of when petty cash cannot be used. It will emphasise petty cash will not be used for goods and services which can be purchased through Procurement the Accounts Payable system or by using a purchase card. Attention will be drawn to the purchase card policy when the petty cash guidance is issued
- The policy will set out how the mechanism by which the scheme will be monitored and enforced, as well as the potential implications of non-compliance. Corporate Finance will retain the right to close petty cash accounts
- Revised guidance will make it plain, in the event that cash is still used as a last resort, that adequate security must be provided for petty cash (cash floats) and, where applicable, cheque books held at establishments. They must be locked away securely and the keys carried by the Petty Cash Account Holder or nominated deputy at all times. Periodic checks by senior officers identified as responsible for imprest accounts, will ensure compliance and segregation of duties. Where cash or cheque books are held appropriate insurance arrangements will be checked and amended as required
- BSS are currently maintaining a list of emergency payments made from their petty cash account. The guidance will highlight the requirement of petty cash holders to ensure evidence and sign off of the validity of emergency payments including provision of receipts for each item purchased. The guidance will also cover the VAT implications of not properly recording purchases and providing, where applicable, a VAT receipt with onward charging of unrecovered VAT to the responsible service
- Children and Education Directorate and Services Council-wide to implement all controls and follow all guidance and advice once issued
- As an interim measure, Children and Education Directorate are recruiting an agency finance officer to provide support and a permanent finance officer post is to be built into the new service operating model currently being consulted on. The finance role will be aligned to the Council's Financial Services establishment structure to ensure line management s.151 accountability across C&E imprest accounts.