Glasgow Kelvin College

Cash & Bank and Treasury Management

Internal Audit Report No: 2021/04

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LEVEL OF ASSURANCE	Good

Now, for tomorrow

mha HENDERSON LOGGIE

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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 Risk 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

Good	System meets control objectives.

Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Kelvin College ('the College') Strategic Risk Register:

- FMA1 – Loss due to failure to detect or prevent fraud resulting in reputational damage, additional management and audit time, financial loss and increased insurance premiums (Risk Rating: Undesirable).

- FMA2 – Failure to have available cash to make payments as they fall due in the short and long term, including ability to pay staff wages. This would result in significant reputational damage and would undermine industrial relations (Risk Rating: Critical).

Background

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 Office 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 College has set its policy around income management within its Financial Regulations (2018). Its Financial Procedures (July 2020) document the processes adopted by the College for the management of banking, cash collection, BACS payments and processing of invoices by the Finance team.

Background (continued)

The College is classified as a public body and therefore is required to conduct all its banking with the Government Banking Service currently operated by the Royal Bank of Scotland. The College is required to minimise the cash balances it holds with excess balances deposited within the Government Banking Service. The cash position is reported to the Scottish Funding Council and Glasgow Colleges' Regional Board monthly.

Finance reports detailing the treasury management arrangements are reported to the quarterly Finance & Resources Committee and Board of Management. The Quarter One cash flow, Forecast, and Year End Cash Flow projections to 2023 were reported to the Finance & Resources Committee in November 2020. The draft budget for 2021/22 was under review at the time of our audit fieldwork, to allow consideration of the published Draft Scottish Government Budget (January 2021).

Scope, Objectives and Overall Findings

The scope of this audit was to undertake a review of the effectiveness of the processes and controls in place within the College to manage cash and bank and treasury management arrangements.

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

Objective	Findings			
The objective of the audit was to ensure that:		**1**	**2**	**3**
1. Monies collected by the College from all sources are fully, accurately, and timeously recorded	**Good**	-	-	1
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	**Good**	-	-	-
4. The College's treasury management arrangements are in line with good practice.	**Good**	-	-	-
Overall Level of Assurance	**Good**	**-**	**-**	**1**
		System meets control objectives.		

Audit Approach

We documented the systems and key controls in place through interviews with the Vice Principal Operations, Head of Finance, Finance Manager and other relevant staff, and review of documentation, to consider their adequacy. Walkthrough of arrangements was completed remotely via Microsoft TEAMS.

We then performed compliance testing as appropriate to establish whether the identified controls are operating effectively in practice. This included sample testing 25 transactions across the five sources of monies identified in the procedures (cash, cheque, credit card, debit card and BACS transfers).

A comparison of treasury management working practices was made with relevant good practice guidance including the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for 'Treasury Management in the Public Services.'

Summary of Main Findings

Strengths

Cash and Bank

- The College has documented its Financial Regulations (2018) which is available publicly on its website. They are due for review in 2021.
- The Financial Regulations are in line with good practice.
- Fee / monies collection procedures remained unchanged during 2020/21.
- Since March 2020, the College has operated a restricted cash handling policy with cash handling in exceptional circumstances only. The preferred method for students and staff transferring monies is BACS reducing risk around human error when handling cash and improving efficacy around banking processes. The G4S contract is no longer in place providing savings to the College.
- Cheques have continued to be collected throughout the pandemic, reconciled against invoices in line with procedures, and banked on a timely basis.
- Banking procedures are documented in the Financial Procedures (2020), which detail the reconciliations completed daily on cash, cheques, BACS, and Credit or Debit Card via WorldPay.
- All 25 transactions tested had an audit trail around reconciliations completed and aligned to bank account transactions. Where payments aligned to student fees, the transactions also aligned to the student's Unit-E account and Unit-E transfer journal.
- The Head of Finance reviews and approves the monthly bank reconciliations and generates the management reports ensuring segregation of duties.

Summary of Main Findings (continued)

Strengths (continued)

Treasury Management

- Treasury management policies are documented within the College's Financial Regulations (2018) and can be aligned to the CIPFA Code 2017.
- The College is working through an unprecedented year with COVID-19 restrictions and income impacted by not having students on campus for much of the year. In mitigation, management has continued to update the College's operating plan and cash flow projections allowing transparency around the current situation to the Board of Management and its Committees.
- Risk reporting clearly identified the factors that will impact liquidity and management was progressing with scenario planning around cash flow projections to July 2021 and 2021/22 budget planning at the time of our audit fieldwork.

Opportunities for improvement

- The Financial Procedures (2020) highlight arrangements around accessing the College's key bank account at the Royal Bank of Scotland. However, accounts remain in use at the Clydesdale Bank, which are used to manage legacy payments. While we acknowledge the sums held are generally immaterial, and work is underway to update payees into the accounts, arrangements for oversight and management of the Clydesdale Bank accounts are not currently reflected in the Financial Procedures.
- The Financial Regulations (2018) and Financial Procedures (2020) should also be updated around the College's move to a "restricted cash handling" policy to enhance staff awareness around the revised arrangements.

Acknowledgements

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

Main Findings and Action Plan

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

The College has set its policy around income management arrangements within its Financial Regulations (2018) and Financial Procedures (July 2020). The procedures detail arrangements around:

- Approved signatures and segregation of duties;
- Banking arrangements;
- Funding sourced and fee collection procedures;
- Processing income;
- Debt collection; and
- Bank reconciliation and journal management.

Monies are obtained from several sources, with income derived from funding agencies, student fees, and works completed on campus such as through hairdressing or the café. Since March 2020, income generated on campus has been impacted by national restrictions around the COVID-19 pandemic and the requirement for students to study remotely.

Fee / monies collection procedures remained unchanged during 2020/21. The following fee payment types / monies are processed through Unit-e Student Records:

- Worldpay credit / debit card – virtual terminal;
- Streamline credit / debit card – fixed terminal (these are used, for example, within the College's hairdressers and was not in use over 2020/21);
- Cheques and cash – since March 2020, there also has been a no cash policy in place; and
- BACS payment to College Bank Account.

Student records are held in Unit-e, which contains a record of the course attended and payment schedule of course fees. When a student enrols, an invoice is created on Unit-e and a transaction upload from Unit-e to SUN, the College's finance system, creates a Debtors Account in SUN for each student. An invoice is then posted to SUN by way of the daily transfer upload from Unit-e to SUN. The transfer upload allocates payments to SUN Student Debtor Account (Credit entry) and to SUN Bank Account (Debit entry). Daily reconciliations are completed from monies received. The Sales Team work with the Account Management Assistant to reconcile payments against student account invoices to ensure student payment records remain up to date.

Cash & Bank and Treasury Management

Objective 1: Monies collected by the College from all sources are fully, accurately, and timeously recorded (continued)

Cash Handling procedures: Inspection of the Financial Procedures (2020) noted a description of steps for handling cash. The College's 'restricted cash handling' policy was implemented from March 2020 and the G4S contract is no longer in place.

An Excel workbook titled 'Bankings' remained in use. Held on the Finance shared drive / Cashier folder, it is used to record any cash and cheque deposits made by staff or students in the interim of the policy being embedded, and detailed the amount banked and the Bank Giro Credit sequential number.

While no cash transactions were identified with students during 2020/21, inspection of the banking sheets noted instances of cash payments made by academic staff. Cash was banked by the Management Accountant Assistant. All cash transactions reviewed from the Banking's workbook during our testing aligned to bank statements.

The Head of Finance noted that management will continue to communicate the restricted cash handling policy with academic staff and the preferred option is to transfer monies via BACS.

Cheque Collection and Banking procedures: The Financial Procedures (2020) also detail arrangements around banking of cheques. Over the period of national lockdown during 2020/21, the campus mail was collected, and any mail noted to contain cheques were communicated to the Management Accountant Assistant. Cheques were stored in the on campus safe at Springburn Campus until collection, where the Management Accountant Assistant collected the cheques, completed receipts, and banked the cheques. Our testing of cheque deposits noted this process was efficient and cheques banked on a timely basis.

While in some instances a delay between the invoice being generated and final payment was noted, this was due to aged debt being managed through the aged debt process managed by the Sales Team.

At the time of our testing, national restrictions due to the COVID-19 pandemic impacted our review of receipts for the cash and cheques transactions tested as they were in hard copy on campus. However, Banking sheets detailing the dates the College received the cash / cheques, banked the items, and related reference codes were reviewed against online bank statements with no issues noted.

Credit and Debit Cards: The College's Financial Procedures clearly document the procedures around Credit Card and Debit Card collections. Our testing of Worldpay transactions against bank account transactions and the College's finance system, SUN, noted payments were accurate and timely. Staff complete daily reconciliations of Worldpay transactions against invoices before bank transfer. No issues were noted through our testing of arrangements.

Direct Debits/ BACS transfers: The College's Financial Procedures clearly document the procedures around BACS collections. Similar to Worldpay transactions, daily reconciliations are completed. Our sampling of BACS transactions noted they were timely.

Banking Arrangements: The Head of Finance is responsible for the prompt collection, security, and banking of all income received. As documented in the College's Financial Regulations, the College has its core bank accounts with the Government Banking Service with its main bank account at the Royal Bank of Scotland. The College's Financial Procedures document the approved signatories for the account.

Objective 1: Monies collected by the college from all sources are fully, accurately, and timeously recorded (continued)

Observation	Risks	Recommendation	Management Response	
Our enquiry noted legacy accounts remain open and in use at the Clydesdale Bank. However, on inspection of the Financial Procedures (2020), arrangements around the Clydesdale Bank account and its approved signatory list were not documented. In practice, the Finance Manager can access transaction information as part of the daily / monthly reconciliation process. While the total sums banked at the Clydesdale Bank are generally immaterial over the five months tested (April, July, September, and November 2020 held between £5,000 to £9,000), in December 2020 an HMRC rebate was paid into the account (£583,000). This was due to HMRC failing to update its own records. Management is aware of the payment and is working with other legacy debt payees to ensure future payments are made to the main bank account and risk around inappropriate use of the accounts is mitigated through monthly reconciliation reviews by the Management Accountant Assistant and Head of Finance. We also noted the Management Accountant Assistant can access the Royal Bank of Scotland accounts online, however, access details have not been updated in the Financial Procedures (2020). The procedures also still documented arrangements around cash handling and banking with G4S which is no longer in place.	Management awareness around access of legacy bank accounts and policies not being adhered to by staff.	**R1** The Financial Procedures (2020) should be updated for all bank accounts such as the Clydesdale Bank account, authorising signatures, and staff who have access to the online bank accounts. The College's Financial Regulations (2018) and Procedures (2020) should also be updated for the College's 'restricted cash handling' policy which was implemented in March 2020.	Recommendation agreed. The Financial Procedures (2020) will be updated for all bank accounts such as the Clydesdale Bank account, authorising signatures, and staff who have access to the online bank accounts. Recommendation agreed. The College's Financial Regulations (2018) and Procedures (2020) should also be updated for the College's 'restricted cash handling' policy which was implemented in March 2020. **To be actioned by:** Finance Manager **No later than:** 31 December 2021	
			Grade	**3**

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

The College's Financial Procedures set the standards around timing of banking monies. Our review of 25 transactions tested over 2020/21 noted no issues in the timing and accuracy of the management of income and monies were banked in line with the College's policies and procedures. Controls were effective and there was a full audit trail from invoice to payment to bank transactions and journal / management accounting.

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

The College's Financial Procedures set the standards around the daily and monthly reconciliations. There is a process for reviewing invoices to income received which are reviewed daily by the Management Accountant Assistant, with support from the Sales Team who align payments to invoices. Daily reconciliations are recorded on a Daily Counter Reconciliation Sheet. We were able to review reconciliation reviews completed for the transactions tested. All transactions linked to invoices and to the finance system. Where payments aligned to student fees, the transactions also aligned to the student's Unit-E account and Unit-E transfer journal.

As part of the monthly reconciliation process, the Head of Finance reviews work performed and approves prior to journals being committed. Our testing of five months over 2020 noted documentation of this approval and accuracy of the reconciliation process.

Objective 4: The College's treasury management arrangements are in line with good practice.

It was noted there was good governance arrangements around the reporting of the College's cash flow projections to the Board of Management and its Committee as noted by the following:

Treasury Management Policy Arrangements
The College removed its Treasury Management Policy from its suite of governance documents in October 2017, as approved by the Board in September 2017. The Scottish Public Finance Manual (SPFM) specifies the requirement that public bodies must use the Government Banking Service, which is embedded in College Financial Procedures and Regulations. The review of Financial Procedures (2018) noted they also aligned to the requirements relevant to the College as set out in the CIPFA Code of Practice for 'Treasury Management in the Public Services' 2017.

Cash Flow Management and Reporting Arrangements
The College's cash flow projections are completed by the Head of Finance and detail information on all income streams, the College's opening bank balance, Scottish Funding Council (SFC) drawdown, and closing bank balance per month from August 2020 to July 2021.

In accordance with its Financial Regulations, the College submitted a budget and yearly projected cash flow to the SFC and Glasgow Colleges' Regional Board on 1 August 2020. Cash flow assurances were obtained from the SFC during September 2020 and a revised long-term budget, financial plan was presented to the Management Board in October 2020. It detailed that c£1 Million staff costs savings had been secured over 2020/21 which was on track at the time of audit. Funding from the Glasgow Kelvin Learning Foundation was also noted.

Cash Flow Projection to July 2021 was reported to the Finance & Resources Committee in November 2020, with further reporting due in February 2021. The Board of Management was supplied with Quarter One, Forecast, Year End Cash Flow Projections to 2023 and Management Accounts to September 2020 in December 2020.

Risk Management Reporting Arrangements
Review of reports to the Finance & Resources Committee and Board of Management over 2020/21 noted transparency over the cash flow position and risks around the College's liquidity, such as:

- Unable to secure funding for staff severance costs;
- Unable to meet demand for student devices;
- Reduction in HE and FE fees – impacted by students unable to complete courses within the academic year; and
- Reduction in Foundation Apprenticeship candidates - impacted by employers' appetite to employ new apprentices and ability for students to complete practical aspects of their courses.

Objective 4: The College's treasury management arrangements are in line with good practice (continued).

Cash Flow Review

Where possible, income savings have been identified. Management was progressing to transform the workforce, which is providing positive variances, and as campuses remain closed, facility management costs have reduced.

The review of the January 2021 forecast noted the College's net cash availability will be negative from April 2021 (minus £788,000 to minus £1.02 Million by July 2021). Management report that this should be balanced by SFC drawdown.

Several factors are affecting income. Among the key issues impacted by COVID-19 as follows:

- No on campus income since October 2020 due to national restrictions and College campuses being closed to students. On campus income, such as from the hairdressing and restaurant facilities, can be between £100,000 to £300,000 per month (as noted in income from August and September 2020); and
- An increase in bad debt, particularly from Commercial sources impacted by COVID-19. In December 2020, the College's bad debt provision of approximately £788,000 was split as follows:
  - £254,000 student debt;
  - £404,000 commercial debt; and
  - £130,000 employer's debt.

The bad debt process was not in the scope of this audit to test, however, management reported arrangements are in place to secure debt from students.

Senior management reporting also ensures that variances are reviewed in line with the College's Regulations. The method for which management was applying judgement when forecasting while uncertainty continues was evidenced to the Finance & Resources Committee (November 2020). There is also scenario planning underway as part of the 2021/22 budget planning process, a repeat of the process completed in May 2020 as part of the 2020/21 budgeting process.

It is acknowledged that the College is working through an unprecedented year with income impacted by not having students onsite. At the time of audit reporting, the Scottish Government decision had changed to allow 5% of students to attend classes on campus albeit with social distancing restrictions.

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