



CROYDON

Final Internal Audit Report

Libraries Income Collection

September 2018

Distribution: Executive Director of Place (Final only)
Director of District Centres and Regeneration
Head of Partnerships and Engagement
Operations Manager
Deputy Operations Manager

| Assurance Level | Recommendations Made | |
|-------------------|----------------------|---|
| Limited Assurance | Priority 1 | 2 |
| | Priority 2 | 2 |
| | Priority 3 | 1 |

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This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Executive Summary

1. Introduction

- 1.1 Following the collapse of the contractor operating Croydon's libraries in January 2018, the Council brought the libraries back in-house, securing the long-term future of the service.
- 1.2 Croydon has 14 libraries and seven were selected at random to carry out testing, namely: Norbury, Thornton Heath, Broad Green, Central, Couldson, Purley and Selsdon.
- 1.3 This audit was undertaken as part of the agreed Internal Audit Plan for 2018/19 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

| Priority 1 Issues |
|---|
| Based on sample testing completed for each library, we were unable to confirm waivers/refunds were being processed with appropriate approval and for appropriate reasons. (Issue 3) |
| Reconciliations between income collected and income banked and coded to Oracle ledger codes were not completed. (Issue 4) |
| Priority 2 Issues |
| Up to date procedure and guidance notes to reflect new practices had not been documented and made available to staff. (Issue 1) |
| Based on sample testing completed for each library, we were unable to confirm if variances identified in the daily income collections were being investigated and, if required, escalated. (Issue 2) |

The priority 3 item is included under area 4 below

3. Actions and Key Findings/Rationale

| Control Area 1: Legislative, Organisational and Management Requirements | | Detailed Finding/Rational – Issue 1 |
|--|--|--|
| Priority | Action Proposed by Management | |
| 2 | Review of Finance Procedures/policies to be carried out, approved and implemented. | <p>Procedure manuals and guidance for Income Collection should be regularly reviewed, to help staff undertake their roles in line with the most up to date legislations and requirements in addition to acting consistently, fairly and transparently.</p> <p>Discussions with the Operations Manager and Deputy Operations Manager provided an overview of the process that was undertaken for cash collection and banking arrangements. However, it was identified that procedure notes in place were not up to date and did not reflect the changes in processes since the Council has taken over. For example, whilst there are procedure notes in place for the new banking arrangements (dated February 2018), there was no documented guidance for staff on income recording and cash handling practices. The 'Central Library financial procedures' were not dated and the 'Counting the cash' procedures were dated June 2010.</p> <p>Where up to date and complete procedural guidance is not available, there is a risk that staff carry out their duties inconsistently or not in accordance with Council or legislative requirements.</p> |
| Responsible officer | Deadline | |
| Operations Manager | 30 September 2018 | |

| Control Area 3: Daily Income Collection and Recording | |
|--|--|
| Priority | Action Proposed by Management |
| 2 | <ul style="list-style-type: none"> • Discrepancy investigation form introduced (accessible for senior managers to check) – introduced to staff by email on 01/08/2018 where senior staff must record and note down result of investigation into all discrepancies between V-Smart readings and Z-readings as well as discrepancies between till takings and Z-reading • Senior staff to remind all staff that they must make sure they are logged into the correct library location on V-Smart so as not to cause any income discrepancies on V-smart when the cash reconciliation is done for that day • Staff carrying out the daily income procedures/cashing up must reconcile the daily V-smart print-out (AFO 491) with the daily income (Z reading & RFID reading); then sign the print-out and have it countersigned. Any discrepancies to be recorded on the discrepancy investigation form • Reminder sent to all senior staff and other staff dealing with daily cashing up procedures that all discrepancies in takings must be recorded (as overs/unders) on the Income Analysis sheet on a daily basis • Inform staff that all discrepancies in takings (as compared to Z-readings) must be |
| Detailed Finding/Rational – Issue 2 | |
| <p>There should be a clear audit trail when recording the daily income to confirm that all income received has been accounted for accurately and documented correctly, including the reasons for any discrepancies that were found.</p> <p>The libraries use the VSmart library management system for managing customer accounts. This is part integrated with the cash till, which allows staff to run end of day reports. At present, the process of recording daily income includes matching the Z reports run from the till, against actual cash takings. The VSmart end of day report is also used in conjunction with the Z reports to match cash takings, however the end of day report only shows income totals for select items such as book overdue fines, audio visuals and replacement items.</p> <p>Sample testing of the daily income recording process for 10 random days at each library identified that where variances existed, there was no explanation for these or any evidence of these being investigated.</p> <ul style="list-style-type: none"> - Couldson, Purley and Norbury Libraries: No variances; - Thornton Health Library: 1 variance on 4 April 2018 of £2.40; - Central Library: 4 variances on 25 April 2018 of £0.04, on 14 April 2018 of £4.30, on 4 April 2018 or £0.85 and on 14 April 2018 of £14.85; - Broad Green Library: 3 variances on 18 May 2018 or £1.20, on 3 April 2018 of £2.40 and on 8 May 2018 of £5.40; and - Selsdon Library: 1 variance on 7 April 2018 of £2.90. <p>While the value of the variances appears low, as a proportion of the daily takings these are relatively high. It is also evident that some libraries have proportionally more variances than others.</p> | |

investigated by senior staff and recorded on an investigation sheet together with their findings.

- Inform senior staff and other staff dealing with daily cashing up procedures that any discrepancies of £2 and above, or regular discrepancies (2 or more per week) must be reported to Operations Managers by email within 3 working days
- Email sent to senior staff on all sites 01/08/2018 stating the above, plus asking them to inform key staff dealing with daily cashing up procedures on some sites without senior staff.
- Email sent to Library Supervisors on 23/08/2018 to ensure all staff know about and understand above procedures. Library Supervisors to obtain staff signatures and upload attendance sheets onto Libraries SharePoint. Operations Manager to check whether all attendance sheets uploaded and whether all staff signed these.

Where daily income is not accounted for and recorded accurately, there is an increased risk that errors and omissions may not be identified and rectified in a timely manner. Furthermore, there is an increased risk of misappropriation of cash.

| Responsible officer | Deadline |
|---------------------|----------------|
| Operations Manager | 31 August 2018 |

Control Area 3: Daily Income Collection and Recording

| Priority | Action Proposed by Management | Detailed Finding/Rational – Issue 3 |
|-----------------|--|--|
| 1 | <p>Waiving fines: There are a range of reasons why fines may be waived including:</p> <ul style="list-style-type: none"> • Hospital stay • Death • Inability to pay • System error (eg fine on children's books). <p>In some cases these should be cancellations of fines as opposed to waivers of fines and should be recorded as such.</p> <p>There is also a need in the library service to have appropriate levels of authorisation in place as befitting the service.</p> <p>Action plan:</p> <ol style="list-style-type: none"> 1. Work with colleagues in the council's Governance service to Review Scheme of Financial Delegation in order to introduce a tiered authorisation structure for libraries, whilst ensuring there are appropriate safeguards and levels of decision-making in place 2. Rationale: the Executive Director cannot be expected to waive every single fine (e.g. a 20p fine where a book is one day | <p>The Council's Scheme of Financial Delegation allows Executive Directors to write-off debts up to £1k, with debts above this being approved by the Executive Director of Resources & Section 151 Officer up to £500k.</p> <p>Sample testing of the daily cash ups for 10 random days at each library identified that waivers of fines were being processed. The waiver of a debt is the same as a write-off and requires the same approval.</p> <p>The VSmart end of day report shows the total amount of fines written off, however we were unable to confirm if larger amounts (over £10) equated to one transaction or a number of transactions, as staff do not keep records of the waivers processed. The total value of the waivers at the respective libraries for the 10 days sampled, was as follows:</p> <ul style="list-style-type: none"> - Thornton Heath Library: £47.10 - Central Library: £277.33 - Broad Green Library: £5.70 - Coulsdon Library: £82.40 - Purley Library: £45.30 - Selsdon Library: £73.60 - Norbury Library: Nil <p>Discussions established that an authorisation code is required to waive fines on the VSmart system, but it was identified that access to the code is not restricted and is known to most staff.</p> <p>It was also identified that not all staff are retaining refund receipts from the till and stating the reasons for the refund.</p> |

overdue and the person can prove they were in hospital, or a fine where someone has died, or where someone was unable to renew a library item online due to a system fault).

3. Review the guidance on refunds and waivers to ensure there is clear guidance for staff as to the reasons why a refund or waiver may be applied and the evidence that would need to be seen to take that decision as well as the difference between a waiver (i.e. the fine is valid but there is a business decision to waive the fine – e.g. due to hospital stay) and a cancellation (i.e. fine should not have been applied in the first place e.g. due to system error).

Access to the authorisation code: the code was changed since the audit was carried out and will be changed on a regular basis (quarterly); codes only known to senior staff and specific Customer Service Assistants (as there aren't senior staff on site at all times)

Refunds receipts: reminder email sent 01/08/2018 to senior staff to remind staff that they must retain refund receipts, sign it and have it countersigned by another member of staff and put in the till. Refund receipt to be stapled to the Z-reading for that day. Reason for refund to be stated on waiver/refund authorisation sheet which was recently re-introduced to all staff.

Where appropriate approval for fine waivers and refunds has not been obtained, the Council's Scheme of Financial Delegation is being breached and there is a risk that inappropriate or fraudulent transactions may be made.

| | | |
|-----------------------------------|--|----------|
| | <p>Email sent to Library Supervisors on 23/08/2018 to ensure all staff know about and understand above procedures. Library Supervisors to obtain staff signatures and upload attendance sheets onto Libraries Sharepoint. Operations Manager to check whether all attendance sheets uploaded and whether all staff signed these.</p> | |
| <p>Responsible officer</p> | <p>Deadline</p> | |
| <p>Operations Manager</p> | <p>30 September 2018</p> | <p>—</p> |

| <u>Control Area 6:Banking Arrangements</u> | |
|---|---|
| Priority | Action Proposed by Management |
| 1 | <p>Libraries management team is working together with colleagues in Central Finance to find a solution to this issue.</p> <p>Library Supervisors to log weekly/monthly amounts handed over to cash collection company into income spreadsheet on Libraries' SharePoint. Operations manager to spot check these monthly against figures received from Cash and Control manager.</p> |
| | <p>Detailed Finding/Rational – Issue 4</p> <p>Reconciliations between the general ledger and library cash up records are a key control and should be undertaken on a regular basis to help ensure that income received is complete and accurate. Reconciliations are considered a key control by the Council's external auditors.</p> <p>During the audit, it was confirmed that reconciliations between the general ledger and library cash up records, to ensure that all income has been banked and coded to the correct oracle ledger code, do not take place.</p> <p>Where regular reconciliations do not take place, there is a risk that errors or omissions are not identified and remedial action is not taken.</p> |
| Responsible officer | Deadline |
| Operations Manager | 30 September 2018 |

4. Priority 3 Issue

| Action Proposed by Management | Findings |
|---|--|
| <p>Email sent on 1st August 2018 to senior staff on all library sites reiterating that cash should be held securely—at all times and that the transfer of cash (transfer of cash register drawers/RFID hoppers to safe and vv) should only occur whilst the library is closed with no members of the public on site; also that the daily cash reconciliation is to be done the following day.</p> <p>Email sent to Library Supervisors on 23/08/2018 to ensure all staff know about and understand above procedures. Library Supervisors to obtain staff signatures and upload attendance sheets onto Libraries SharePoint. Operations Manager to check whether all attendance sheets uploaded and whether all staff signed these.</p> <p>Supervisors in first example site tasked with finding solution using Level 1 office instead of open area on Ground floor.</p> | <p>Cash should be held securely at all times and the transfer of cash should occur once all members of the public have left the site.</p> <p>We identified at one site that the float (although in sealed bags) is taken out of the safe each morning and placed on trolleys, ready for staff working at different levels to collect this for their tills. Whilst the trolleys are kept in the back office, this is an open area where all staff members and public are easily able to access.</p> <p>Additionally, at another library, we found through discussion that cash is removed from the tills and transferred to the office, which is located in the basement, whilst customers are still present.</p> <p>It is acknowledged that most till floats are £30 and that daily takings rarely exceed £100, so the values of cash exposed are relatively low.</p> <p>Where cash is not handled securely, there is a risk of theft/misappropriation. Furthermore, safety of staff is compromised due to insecure arrangements around cash collection.</p> |

INTERNAL AUDIT TERMS OF REFERENCE

Libraries Income Collection

1. INTRODUCTION AND BACKGROUND

- 1.1 Following the collapse of the contractor operating Croydon's libraries in January 2018, the Council brought the libraries back in-house, securing the long-term future of the service and guaranteeing the jobs of the library staff.
- 1.2 Internal Audit attended the 'Libraries Finance Group', which oversaw the financial aspects, (including payroll, pensions, insurance, general ledger set up, supplier payments and income collection) of the transition of the libraries back into the Council. With the transition successfully managed and the financial aspects now business as usual, the Group stopped meeting in March 2018.
- 1.3 This audit is to now to assess the processes in place at each library over the collection and banking income.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to income collection at each of the Council's libraries.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent issues arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. This prior to agreement and issue of the final audit report.

3. SCOPE





- 3.1 This audit examined the Council's arrangements for the following areas relating to Libraries Income Collection (and number of recommendations made):

| Control Areas/Risks | Recommendations Made | | |
|---|----------------------|------------------------|---------------------|
| | Priority 1 (High) | Priority 2 (Medium) | Priority 3 (Low) |
| Legislative, Organisational and Management Requirements | 0 | 1 | 0 |
| Agreed charges | 0 | 0 | 0 |
| Daily income collection and recording | 1 | 1 | 0 |
| Cash collections | 0 | 0 | 0 |
| Safes and other cash storage arrangements | 0 | 0 | 1 |
| Banking arrangements | 1 | 0 | 0 |

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

| | | |
|---|-----------------------|---|
|  | Full Assurance | There is a sound system of control designed to achieve the system objectives and the controls are consistently applied. |
|  | Substantial Assurance | While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk. |
|  | Limited Assurance | There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk. |
|  | No Assurance | Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage. |

Priorities assigned to recommendations are based on the following criteria:

| | |
|--------------------------------|---|
| Priority 1 (High) | Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk. |
| Priority 2 (Medium) | Control weakness that represent an exposure to risk and require timely action. |
| Priority 3 (Low) | Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice. |

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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