

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Cultural Services
C.C. Chief Executive
Head of Finance
Arts Manager
Programming & Marketing
Manager
Customer Services Manager
Technical & Facilities Manager
Portfolio Holder (Cllr MC)

SUBJECT: Royal Spa Centre
DATE: 29 September 2017

1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in September 2014.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 The Royal Spa Centre (RSC), the Council's main entertainment venue, opened in 1972. It comprises a main concert / exhibition hall and a cinema / small theatre. Other parts of the building are also available for hire.
- 2.2 The RSC provides a wide range of events covering the whole entertainment spectrum including concerts, pantomime and productions by local amateur musical organisations. The RSC has been particularly successful in recent years in attracting comedians of the highest calibre with an annual comedy festival being held.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 The review was undertaken in accordance with the standard audit programme for outlying establishments, covering the following areas:
- Ordering and payments
 - Petty cash and procurement cards
 - Stocks and stores

- Salaries and wages
- Income and cash security
- Facilities and risk management
- Budget planning and management.

3.3 The audit programme identifies the expected controls. The control objectives examined were:

- All purchases are valid, bona fide and transacted only with the consent of authorised budget holders
- Goods and services procured are competitively priced, with the procurement processes complying with relevant legislation
- Petty cash and procurement cards are securely held
- Disbursements from petty cash are appropriate
- Procurement cards are being used appropriately
- Stock held is properly recorded and can be accounted for
- Stock wastage is minimised
- Staff are properly appointed and only paid for time worked
- Customers are aware of the amount they are expected to pay for using the Council's services
- All income due can be independently verified thus minimising the risk of misappropriation
- Income received and held on site is secure, with bankings being securely undertaken
- The Council is able to continue to take card payments
- Sundry debts are appropriately raised and received
- The site is secure and safe
- Management are aware of valuable items held on site
- Management are aware of the risks associated with the provision of services
- Budgets are effectively managed.

4 Findings

4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendations from the audit reported in March 2014 is as follows:

Recommendation	Management Response	Current Status
1 The petty cash imprest should be reduced to £100 with the balance of £350 being repaid.	The Deputy Manager will arrange for the £350 to be banked and liaise with Finance.	Petty cash is no longer held with purchasing cards being in place.
2 Merchant copies of debit and credit receipts displaying the full 16 digit account number should have the first 12 digits obliterated.	The Customer Services Manager will enquire of HSBC whether it is possible for the terminals to blank out the 12 digits. If not – will implement procedure to obliterate the numbers manually.	The new machines only display the last four digits of the card number.

Recommendation	Management Response	Current Status
3 Appropriate measures should be taken to remedy the present difficulties with the monitoring and allocation of Royal Spa Centre income.	Meeting with Assistant Accountant, Business Support staff and Theatre & Town Hall Manager to address.	The Assistant Accountant advised that the issue had been resolved although recent staffing issues had meant that there was a current backlog in uploading the figures.
4 Invoices for hirings of the Royal Spa Centre should be raised regularly and no more than a month after the event has taken place.	The Theatre & Town Hall Manager and Deputy Manager to implement in weekly procedures.	Invoices reviewed were all raised after the event and, whilst most of these were within a month of the event, they should be raised in advance, in accordance with the Code of Financial Practice wherever possible.
5 Consideration should be given to demanding payment in advance for hirings unless there are good reasons why this may be inappropriate.	The Theatre & Town Hall Manager and Deputy Manager to implement in weekly procedures – where appropriate.	

4.2 **Ordering & Payments**

- 4.2.1 The majority of the orders placed directly by RSC staff relate to either settlement figures for acts that have performed at the venue or annual orders that are placed by the Customer Services Manager (CSM) with contracted suppliers.
- 4.2.2 The settlement orders for the acts are based on the agreed split in ticket income less any costs detailed on Artifax. A settlement statement will be produced from Artifax with the order being raised to reflect this figure.
- 4.2.3 A sample of orders placed against RSC budgets was reviewed to ensure that they were being properly raised and authorised and that the resulting payments were only made against appropriate invoices once the receipt of goods had been confirmed. This test proved satisfactory.
- 4.2.4 An extract was taken from the TOTAL system in order to analyse the orders placed against the RSC budgets. This extract was interrogated to identify significant expenditure (£10,000 or more since April 2016) with individual suppliers and the procurement processes that had been followed for these suppliers was then discussed with relevant staff. It was confirmed that appropriate procurement processes had been followed in each case, with a number of formal contracts being in place.

4.3 **Petty Cash & Procurement Cards**

- 4.3.1 Prior to the commencement of the audit, the RSC had repaid their petty cash float as four members of staff have procurement cards so it was not being

used. In fact, the petty cash facility has now been withdrawn across the Council.

- 4.3.2 All relevant staff confirmed that they hold their procurement cards in the purses / wallets.
- 4.3.3 Upon review of a sample of available procurement card transaction logs, it was confirmed that purchases were reasonable, although there were a few higher value purchases (£500 or more).
- 4.3.4 These items of expenditure were queried with the relevant staff members and satisfactory explanations were provided as to the need for using the procurement cards in these cases.

4.4 **Stocks & Stores**

- 4.4.1 The CSM advised that, upon receipt, stock deliveries are checked against the delivery notes with the stock system being updated once the invoices are received (if separate) to ensure that the prices match the agreed amounts.
- 4.4.2 Stock checks are performed as and when possible (roughly every three to four months), but there will be a full stock take at year end. The CSM highlighted that stock checks are normally out by some degree as it is hard to record wastage when staff are busy dealing with lots of customers during intervals and they also sometimes hit the wrong items on the tills (e.g. put different flavour drinks through as the same). Estimates also have to be used for opened bottles of spirits and barrels of beer.
- 4.4.3 A stock check was performed on a number of different items as part of the audit and this proved generally satisfactory, taking the abovementioned issues into account.
- 4.4.4 The stocks are mainly perishable items (food and drink with 'use by' dates). The CSM advised that new stocks are put to the back of the shelves and ad-hoc checks are performed of the fridges. Some stock will, however, be written off for various reasons (e.g. opened beer barrels may need to be written off over the summer closedown period) and these details are recorded in the wastage book.

4.5 **Salaries & Wages**

- 4.5.1 The RSC employs a number of casual staff in both the technical and 'front of house' teams. These staff are appointed locally. A sample of recent appointments was checked to ensure that relevant paperwork had been forwarded to HR and it was confirmed, via a review of HR new starter checklists, that this had been undertaken in each sampled case.
- 4.5.2 An extract was obtained from the payroll system which showed all staff that had been paid against the relevant cost centres during the current financial year. Following visits to the RSC and upon discussion with management staff, it was confirmed that all staff who had been paid were employees.

- 4.5.3 Any casual staff hours, overtime and expenses claims are now input directly onto the payroll system using self-serve with managers authorising the payments directly on the system.
- 4.5.4 The CSM advised that she checks the claims input by her staff by reference to the rota details held on Artifax. If any variances are noted, the claims are rejected and queries will be raised with the duty managers.
- 4.5.5 A sample payment was reviewed on the system and it was confirmed that the hours claimed agreed to the rota.
- 4.5.6 The Technical & Facilities Manager (TFM) confirmed that he will also check the claims against the rota before authorising the claims. If any variances are noted he will check the show reports to see what time staff left and whether there were any missed breaks.
- 4.5.7 If variances are still unresolved he will check with the Duty Technician to see if there are any errors before finally passing them back to the staff member to alter their claim accordingly.

4.6 Income & Cash Security

- 4.6.1 The RSC has a number of different sources of income. There is income from ticket sales for performances, bar takings, and hire fees. Linked with the performances there may be income from sales of programmes and other merchandise.
- 4.6.2 Box office and bar takings are placed through the tills and some of the monies from programme / merchandise sales will be placed into the tills if RSC staff have taken the income. Specific documents are completed where this money is taken and will be provided to the Programming & Marketing Manager (PMM) for recharges to be processed as appropriate.
- 4.6.3 Monies in the till are counted blind, with a till count record being completed and the takings being declared on the system. A till read will then be performed which will highlight the amount of money that should have been in the till. A summary cashing-up sheet will then be completed, detailing the takings for each sheet along with explanations for any significant variances and this will be (electronically) signed by the duty manager.
- 4.6.4 A small number of reconciliations were reviewed as part of the review of the monies awaiting banking (see below) with relevant documentation being seen in each case.
- 4.6.5 The CSM advised that the safe is in the 'cellar' and all monies are held securely in it.
- 4.6.6 The Principal Accountant (Revenue) sends round an annual petty cash / float spreadsheet as part of the final accounts processes asking that the amounts are confirmed to still be in place. This showed that the RSC held floats of £3,300. This has since been reduced to £3,250, however, with £50 having been repaid as per TOTAL.

- 4.6.7 The CSM advised that the float is regularly reconciled (most days when it has been used), with the details being recorded in a specific book. A spot check of the float was performed during a site visit and this proved satisfactory.
- 4.6.8 The monies held in the safe awaiting banking were also checked. There were five banking bags that had been made up (two for 10 August and one each for 11, 12, and 13 August), with two lots of takings in each bag and these were checked against the supporting paperwork held (till reconciliation sheets).
- 4.6.9 It was noted that one of the bags contained less than stated. Upon inspection, it was noted that the card receipts for the day had been included in the cash total in error. This was resolved at the time of the audit.
- 4.6.10 The CSM advised that card payment receipts produced by the new machines received only detail the final four digits of the card number. These are retained with the till banking sheets. A review of receipts held with the takings confirmed this to be the case.
- 4.6.11 The raising of debtor invoices for the hiring of the RSC is similar to that of the Town Hall for which an audit has recently been completed.
- 4.6.12 However, the main difference is that there are very few 'conventional hires' with the majority being performances for which tickets are sold. Consequently, debtor invoices are not required as the relevant hire costs are taken from the takings (as per any agreed deals) before the settlement figure is arrived. If the ticket sales are low, however, there may still be a need for an invoice to be raised but this will not become apparent until all of the box office takings etc. are known.
- 4.6.13 Due to the Town Hall hires testing, it was felt that only a small sample of 'conventional hires' needed to be looked at and this concentrated on the timeliness of the invoices, as this had been raised as an issue at the time of the previous audit, with payment in advance being a requirement of the Code of Financial Practice.
- 4.6.14 Eleven events were chosen from the Artifax system and the associated invoices were examined where available. In each case, the invoice had been raised after the booking.

Risk

The Council may not receive income due.

Recommendation

Invoices for the hiring of the Royal Spa Centre should be raised in advance of the booking wherever possible. Where this cannot be achieved, a deposit should be requested.

4.7 Facilities & Risk Management

- 4.7.1 The TFM advised that perimeter checks should be undertaken at least twice a day (ideally three times) and the details filled in on a check sheet. This procedure was introduced following the Manchester concert attack.

- 4.7.2 He advised that he would review the folder containing the check sheets every couple of weeks to ensure that the checks were being undertaken. He highlighted that things had become lax for a while (which was confirmed following a brief review on site of the folder containing the sheets) and reminders had been issued at team meetings. Minutes of the relevant team meetings were provided which confirmed that these reminders had been issued.
- 4.7.3 Some staff ('permanent members') use a board next to one of the entrances to show whether they are in or out of the building. Other (casual) staff and visitors are required to sign sheets in a folder held next to the entrance.
- 4.7.4 On a number of site visits, Internal Audit had been able to access the building without signing in, sometimes because the doors were open but at other times when the bell had to be rung to gain access.
- 4.7.5 The TFM suggested that the sign in sheets were mainly for casual staff, visiting companies, and contractors and that staff would challenge people if they were in the building when it wasn't open to the public.

Risk

Unauthorised access to the building may be obtained.

Recommendation

Staff should be reminded to ensure that visitors are asked to sign in on all occasions.

- 4.7.6 Inventories are in place for relevant items of equipment at the RSC. The TFM advised that these were last updated in June 2016 and were due for renewal which he suggested would be completed in the near future.
- 4.7.7 The current Cultural Services risk register includes a number of relevant risks under the Arts section heading as well as those under the generic risks heading, with appropriate risk mitigations and controls recorded alongside the actions required to further help reduce the risks.
- 4.7.8 There are also a number of relevant risk assessments recorded on the AssessNet system. Searches were performed on the system for Spa Centre and RSC which revealed that there is some inconsistency in the manner in which they are recorded and also that there were some duplicate entries. Whilst there is not considered to be a need for a formal recommendation, it is suggested that the records are 'cleansed' when the next reviews are performed.

4.8 Budget Planning & Management

- 4.8.1 The Arts Manager (AM) advised that monthly meetings are held with the relevant Assistant Accountant to monitor the budget position. He also highlighted that the budgets are discussed 'internally' at the monthly management KPI meetings.

- 4.8.2 An extract was undertaken from TOTAL to ascertain whether there were any significant budget variances and, where identified, the individual budget line variances were discussed with the AM. The responses provided were considered to be appropriate.
- 4.8.3 In general terms, the AM advised that a lot of figures are dependent on the success (or otherwise) of the pantomime and that, as with all performance venues, the RSC is at the mercy of the market, so income figures have not been overly increased, despite good (budget) performance in 2016/17.

5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the Royal Spa Centre are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

- 5.3 A number of issues were, however, identified:
- Invoices relating to the hire of the premises are not being raised in a timely manner.
 - Internal Audit not being asked to sign in when visiting the RSC.

6 **Management Action**

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Royal Spa Centre – September 2017

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.6.14	Invoices for the hiring of the Royal Spa Centre should be raised in advance of the booking wherever possible. Where this cannot be achieved, a deposit should be requested.	The Council may not receive income due.	Low	Programming & Marketing Manager	The recommendation is already the existing policy, which requires enforcement. Tasks will be added to the system so that the invoicing / deposit deadlines are adhered to.	Review in January 2018.
4.7.5	Staff should be reminded to ensure that visitors are asked to sign in on all occasions.	Unauthorised access to the building may be obtained.	Medium	Technical & Facilities Manager	All staff will immediately be reminded of the procedure regarding building security and visitors.	Review January 2018.

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.