



**INTERNAL AUDIT
FINAL REPORT**

Title: Bank Accounts

Report Distribution

For Action: Sue Healey Principal Accountant

For Information: Mark Kimberley Head of Corporate Services
David Kenworthy Audit Commission

Prepared By: Suresh Mistry

Draft Issued: 29th January 2008

Final Issued: 27th February 2008

Contents	Page
Executive Summary	2
Introduction	3
Detailed Findings	4-7
Annex A – Audit Definitions / Responsibilities	8-9

EXECUTIVE SUMMARY

Introduction

Contracts for the Authority's banking arrangements and service provision are renewed by the Head of Corporate Services and are subject to approval by the Members. The current contract has been extended to 31st March 2010.

There are five accounts in operation with HSBC Bank, one general account and four subsidiary accounts, which provide segregation of income types. In addition there are a further ten giro accounts maintained with the Alliance & Leicester, which were set up to provide an alternative method of payment to customers.

The Authority's day to day banking is undertaken electronically via the web server. This arrangement enables the authority's Treasury function to monitor the accounts and transfer payments to external bodies and between its own bank accounts with HSBC electronically.

The Financial Services section, within the Finance Department, is responsible for the operational function of banking activities. Transactions within the main bank accounts are monitored on a daily basis by the Treasury function.

Any unidentified transactions and outstanding cheques are identified and recorded and subject to investigation.

Principal Findings

	High	Medium	Low
Number of recommendations	0	1	3

The detailed findings and associated recommendations are provided in the second part of the report. The medium risk recommendation relates to:

- Bank account reconciliations should be subject to timely review and authorisation.

Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

INTRODUCTION

Objective & Scope

The purpose of the review was to confirm that all receipt / payment banking transactions are accurate and valid and that banking services provide value for money for the Authority.

The key risks associated with the system objectives are:

- Failure to comply with legislation and organisational regulations and policies,
- Loss, damage or unauthorised disclosure data /information,
- Loss, theft or misappropriation of income / cash,
- Failure to undertake timely and effective reconciliations,
- Lost, stolen or cancelled cheques not identified,
- Inadequate insurance cover on the authority's policy.

The control areas included within the scope of the review are:

- Bank accounts are controlled centrally by the Head of Finance,
- All transactions in the bank accounts are accurate and valid and subject to timely reconciliation,
- The banking service is operated effectively and efficiently.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authorities objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 1 - Bank Account Reconciliation's Level of Risk - Medium</p>			
<p>A review of the bank account reconciliations between April and November 2007 was undertaken. Whilst the reconciliations were relatively up to date (Novembers was being completed at the time of the review), and no errors were found in the reconciliations, these had not been subject to authorised review since May 2007. This was predominantly due to staff absence.</p>	<p>Failure to identify and resolve errors or variances on a timely basis.</p>	<p>It should be ensured that the bank account reconciliations are produced on a monthly basis, signed and dated by both the preparer and reviewer and, in the event of absence, an alternative senior officer should be responsible for reviewing.</p> <p>Action: Sue Healey - Principal Accountant</p>	<p>Management Comment: The point is accepted but attention is drawn to the exceptional circumstances experienced during 07-08. Cover was being provided for the FSM and the Principal Accountant (Capital), and resources were then further stretched upon the extended illness of the Principal Accountant (Treasury).</p> <p>Planned Corrective Action: The reconciliations for 07-08 will be reviewed as soon as possible, and a rolling review undertaken in 08-09. The FSM returns from maternity leave in March 2008, therefore, the resource problems experienced are unlikely to reoccur.</p> <p>Timescale: 31st March 2008</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - GIRO Accounts Level of Risk - Low</p>			
<p>Giro Accounts held with the Alliance and Leicester, offer the Authority a wider range of payment facilities.</p> <p>However, out of the 10 accounts in operation, 3 accounts had no transactions posted against them during the current and previous financial year, whilst the 2 adjustment accounts had very few transactions.</p>	<p>Unnecessary bank accounts, and subsequent risks.</p>	<p>All the Giro accounts should be reviewed with the aim of closing any accounts that are not deemed necessary.</p> <p>Action: Sue Healey – Principal Accountant, in conjunction with Steve Yallop – Customer Services Manager</p>	<p>Management Comment: This matter has been raised with the Customer Services Manager.</p> <p>Planned Corrective Action: The implications of closing certain accounts will be investigated and if practical, action will be taken. If, however, additional problems for subsequent payments will be caused, the status quo will be maintained.</p> <p>Timescale: 30th June 2008</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Unidentified Income Level of Risk - Low</p>			
<p>Unidentified income should be checked on a daily basis and posted to the appropriate account.</p> <p>At the time of the review, unidentified income checks had not been completed for approximately 4 weeks. The amount of un-reconciled income totalled £7,317.21 (from 19 items).</p>	<p>Failure to undertake timely and effective investigation of unidentified income.</p>	<p>Unidentified income checks should be undertaken on a timely (daily) basis.</p> <p>Action: Sue Healey – Principal Accountant</p>	<p>Management Comment: This relates to recording comments as to the investigations made. A field for notes has been added to the income system, however technical difficulties have been experienced using this field.</p> <p>Planned Corrective Action: The Assistant Accountant will liase with IT regarding additional functionality.</p> <p>Timescale: Implemented</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Un-presented Cheques Level of Risk - Low</p>			
<p>Reports are generated from both the Creditor (AGGRESSO) and Housing Benefit [IBS] systems detailing all un-presented cheques. Reconciliations are undertaken between the two system outputs.</p> <p>Whilst all un-presented cheques are recorded, some 1,990 cheques with a value of £477,268.51 remained outstanding as at 13/12/07, of which 448 cheques with a value of £47,512.33 (9.96%) were over 6 months old.</p> <p>The oldest cheques were dated 07/03/2005 (with values of £45.61 and £370.00 respectively) and 10/04/2006 (with values of £83.07 and £7.63).</p> <p>There are currently no policy or management guidelines for resolving issues relating to un-represented cheques. Therefore, the originating Department maybe unaware of un-represented cheques and fail to identify reasons and initiate further investigation.</p>	<p>Lost, stolen or cancelled cheques are not identified.</p>	<p>A policy and supporting management guidelines should be developed, outlining responsibilities and reporting arrangements for investigating and resolving issues relating to un-presented cheques.</p> <p>Action: Sue Healey – Principal Accountant</p>	<p>Management Comment: Agresso does not automatically produce reports to highlight cheques over six months old and the process for cancelling cheques is somewhat onerous. The need to gradually clear out very old items is however accepted.</p> <p>Planned Corrective Action: It has been agreed with the Assistant Accountant and the Creditors section to cancel the largest items first, then clear by age. On an ongoing basis, the Assistant Accountant will initiate cancellation of all items over 6 months on a monthly basis.</p> <p>Timescale: Implemented.</p>

ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Resource Services Manager on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk