



INTERNAL AUDIT
FINAL REPORT

Title: Bank Accounts

Report Distribution

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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.

Four recommendations were made in the previous audit report (IAR0708-18), issued in February 2008. Progress against these was reviewed as part of this review, and it was confirmed that one of the recommendations had been implemented. With respect to the remaining three, two had been partially implemented and one had not been implemented. These recommendations are reiterated in the current report.

Principal Findings

	High	Medium	Low
Number of recommendations	0	1	2

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 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 October 2008 was undertaken.</p> <p>Whilst the reconciliations were relatively up to date and no errors were found in the reconciliations, these had not been subject to authorised review since April 2008. In addition the preparer had not signed July 2008's reconciliation.</p> <p>This recommendation was also made in the previous report (IAR0708-18), issued in February 2008.</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.</p> <p>Action: Sue Healey - Principal Accountant</p>	<p>Management Comment: Despite delays with bank statement allocation, Bank Rec preparation has been maintained, and informal monthly management enquiries are made to ensure that the reconciliation has no variances, however, formal sign off has fallen rather behind.</p> <p>Planned Corrective Action: As no discrepancies have arisen for some considerable time, formal sign off will in future involve a short monthly check and signature, with a more vigorous review quarterly. This approach has been agreed with Audit as reasonable.</p> <p>Timescale: Full sign off will be completed for 0809 by 30 April and as above from 0910.</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, 5 accounts had no transactions posted against them during the current and previous financial year.</p> <p>The previous audit report (IAR0708-18), issued in February 2008 recommended that a review be undertaken with the aim of closing unnecessary bank accounts. Whilst the review has been completed, the bank unused accounts still require closure. This aspect of the original recommendation is reiterated in this report.</p>	<p>Unnecessary bank accounts, and subsequent risks.</p>	<p>The identified unused Giro accounts should be closed.</p> <p>Action: Sue Healey – Principal Accountant, in conjunction with Steve Yallop – Customer Services Manager</p>	<p>Management Comment: A previous Audit Report recommended a review of the old Giro accounts and this has now been completed, with the conclusion that the oldest unused accounts should indeed now be closed.</p> <p>Planned Corrective Action: A request has been made to the Customer Services Manager to write to Alliance & Leicester requesting closure of accounts that have not been used in over a year.</p> <p>Timescale: Request already made to Customer Services Manager. Aim to close by 31 March.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - 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 1,123 cheques with a value of £157,968.11 remained outstanding as at 04/12/08, of which 695 cheques with a value of £65,703.28 (41.6%) 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 07/08/2006 (with values of £18.14, £77.06, £3.98 and £84.00).</p> <p>Two returned cheques for housing benefit were cancelled on the IBS system but remain un-presented on the list and this has been notified for action.</p> <p>Management guidelines relating to creditors' un-represented cheques have been formulated. These require the cancellation of un-presented cheques from the system on an ongoing basis and that all un-presented cheques over 6 months are cancelled each month.</p>	<p>Lost, stolen or cancelled cheques are not identified.</p>	<p>The policy and supporting management guidelines, outlining responsibilities and reporting arrangements for investigating and resolving issues relating to un-presented cheques, should be further developed to incorporate Housing benefits.</p> <p>The backlog of un-presented cheques should be cleared, and procedures developed to clear these in the future on a regular basis.</p> <p>Action: Sue Healey – Principal Accountant</p>	<p>Management Comment: This matter was recommended in a previous audit. Considerable progress has been made with regard to Creditors. A methodology for HB has now been agreed, and progress is being made.</p> <p>Planned Corrective Action: A commitment to clearing the backlog as soon as possible has been forthcoming from both Creditors and HB sections. Once the backlog is clear, items will be cleared on a monthly basis.</p> <p>Timescale: The process of cancelling cheques is time consuming, especially in Creditors. It is intended to achieve as much as practical by 31 March 09, and have the monthly system in place by 31 March 2010.</p>

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<p>However, the guidelines do not currently cover Housing Benefit cheques. Therefore, the originating Department maybe unaware of un-represented cheques and fail to identify reasons and initiate further investigation.</p> <p>This issue was raised in the previous report (IAR0708-18), issued in February 2008, and the outstanding issues reiterated in this report.</p>			
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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, Manager Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk