

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	8 October 2020
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2101 – Bank Reconciliations
<b>REPORT NUMBER</b>	IA/AC2101
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Colin Harvey
<b>TERMS OF REFERENCE</b>	2.2

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Bank Reconciliations.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of Bank Reconciliations.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required

## 9. APPENDICES

- 9.1 Internal Audit report AC2101 – Bank Reconciliations.

## 10. REPORT AUTHOR DETAILS

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## **Internal Audit Report**

### **Finance**

## **Bank Reconciliations**

**Issued to:**

Steven Whyte, Director of Resources  
Jonathan Belford, Chief Officer – Finance  
Fraser Bell, Chief Officer – Governance  
Carol Smith, Accounting Manager  
Angela Crawford, Finance Controls Manager  
Richard Burnett, Finance Controls Accountant  
External Audit

## **EXECUTIVE SUMMARY**

Bank Reconciliations explain the differences at a particular point in time between the balances shown in the Council's bank statements, as supplied by the bank, and the bank balances as shown in the financial ledger. The objective of this audit was to provide assurance that the Council's main bank accounts are reconciled on a regular and timely basis and that the methodology is robust. In general, this was found to be the case.

Written procedures were clear and comprehensive and bank reconciliations were prepared and reviewed by appropriate officers timeously. Whilst there was evidence reconciling differences had been investigated, it was noted that some differences lacked supporting detail; this has subsequently been rectified.

# **1. INTRODUCTION**

- 1.1 Bank Reconciliations explain the differences at a particular point in time between the balances shown in the Council's bank statements, as supplied by the bank, and the bank balances as shown in the financial ledger.
- 1.2 The Bank Reconciliations team within Finance, consists of the Finance Controls Accountant and three Senior Finance Assistants, who are responsible for the timely and accurate reconciliation of all of the Council's grouped bank accounts, with the exception of one interest bearing account managed by the Council's Treasury Officer.
- 1.3 The objective of this audit was to provide assurance that the Council's main bank accounts are reconciled on a regular and timely basis and that the methodology is robust.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jonathan Belford, Chief Officer – Finance, Carol Smith, Accounting Manager, Angela Crawford, Finance Controls Manager and Richard Burnett, Finance Controls Accountant.

## **2. FINDINGS AND RECOMMENDATIONS**

### **2.1 Written Procedures**

2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.

2.1.2 Written procedures are in place covering the Bank Reconciliation's team use of the cash receipting system and the preparation of the daily bank reconciliation spreadsheet for the fourteen accounts reconciled by the team; these procedures were available to relevant staff via a shared drive, and were comprehensive and clear.

### **2.1.3 Reconciliations**

2.1.4 The bank accounts reconciled by the Bank Reconciliations Team include: Housing Benefits Overpayments; Sundry Debtors Direct Debits; Payroll; Rent Standing Orders; Rent Direct Debits; Sundry Debtors Standing Orders; NDR Standing Orders; NDR Direct Debits; Council Tax Standing Orders; Council Tax Direct Debits; Accord Card; Creditors; Council Tax Refunds; and the General Bank Account.

2.1.5 Finance has used the Bank Reconciliation module, within the Cash Receipting System, since 2008. The module has a "system" side and a "statement" side. The Council's bank statements are emailed to the Council by the Council's banking provider and uploaded to the cash receipting system by the Bank Reconciliation team daily; this updates the statement side of the cash receipting system. Updates to the system side depend on the specific bank account being reconciled e.g. payments reflected in the Creditors bank account ledger code are uploaded directly to the cash receipting system from the related bank ledger code by the Bank Reconciliation team whereas cash received by schools and deposited in the general bank account will be recorded in the cash receipting system via e-returns, with no input required from the Bank Reconciliations team.

2.1.6 A matching process is undertaken daily by the Bank Reconciliation team, using the bank reconciliation module functionality, which compares the "system" to the "statement" side of the system. Unmatched items present in the uploaded bank statement side but not the system (ledger) side and vice versa are identified as a result; these differences generally exist due to banking / ledger posting timing differences. The Bank Reconciliation team applies the total of these listed differences to the respective bank account statement balances, resulting in adjusted bank balance figures. The adjusted bank balance figures are matched to the cash receipting system "cashbook" balances (system side balances); any differences are flagged on the daily reconciliation summary by error messages for investigation. Bank account cashbook balances, unmatched system transactions and unmatched bank statement transactions listed on the daily reconciliation summary, are supported by detailed reports from the cash receipting system held in the daily reconciliation spreadsheet.

2.1.7 With the bank statements reconciled to the cash receipting system (cashbook) the cashbook is reconciled to the ledger bank balances. Ledger balances are supported by a report from the financial ledger system, also held in the daily reconciliation spreadsheet. However, differences between the cashbook and the ledger are not clearly supported in the reconciliation spreadsheet. Some differences link to other spreadsheets and other differences listed simply subtract the ledger balance from the respective cashbook balance (Council Tax / NDR refunds; Payroll; Housing Benefits). As at 31 March 2020, these differences classed as "yet to be processed in ledger", totalled £2.25 million, largely

made up of £15.524 million of “general” differences and –£13.275 million of “payroll” differences. In the absence of supporting cash receipting system or ledger reports to explain the differences there is an increased risk of misstatement.

**Recommendation**

Cashbook to ledger reconciling differences should be supported as part of the daily reconciliation process.

**Service Response / Action**

Agreed.

**Implementation Date**

Implemented.

**Responsible Officer**

Finance Controls  
Accountant

**Grading**

Significant within audited  
area

- 2.1.8 As with the reconciliation of adjusted bank statement balances to cashbook figures, cashbook to adjusted ledger balance differences are flagged by error messages for investigation.
- 2.1.9 A sample of 30 daily reconciliations was reviewed to ensure bank statement balances were being reconciled regularly to the ledger, accurately, in a timely manner, with reconciling differences explained (with the exception of cashbook to ledger differences, covered in paragraph 2.1.7 above). This was largely found to be the case however some minor exceptions were noted.
- 2.1.10 There was one instance where the adjusted ledger balance did not match the adjusted bank balance however, this was a timing issue relating to a returned direct debit payment, which was rectified the next day.
- 2.1.11 All reconciliations were prepared by an appropriate member of staff from the Bank Reconciliation team, i.e. one of the three Senior Finance Assistants in a timely manner, either on the day a bank statement was received, or the following day. All reconciliations had been updated to indicate they had been reviewed by either the Finance Controls Accountant or the Finance Controls Manager, as required.
- 2.1.12 The cash receipting system to bank statement reconciling differences within the sample had been cleared timeously. On 31 March 2020, eight transactions were present in the system side of the cash receipting but not the bank which all related to 31 March 2020 whilst thirty three transactions were present in the bank but not the system side of the cash receipting system, the majority of which related to March 2020, with four transactions related to February 2020, one related to December 2019, and two related to October 2019. These 2019 differences were highlighted to Customer by the Bank Reconciliation team for investigation in a timely manner and were resolved as part of the year end process (related to creditor faster payments).

**AUDITORS:** D Hughes  
A Johnston  
C Jamieson

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the organisation.
<b>Major at a Service Level</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.