



ABERDEEN

CITY COUNCIL

Internal Audit Report

Finance

Bank Reconciliations

Issued to:

Richard Ellis, Interim Director of Corporate Governance
Steven Whyte, Head of Finance
Carol Smith, Accounting Manager

EXECUTIVE SUMMARY

Bank Reconciliations explain 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 ensure that the Council's main bank accounts are reconciled on a regular and timely basis and that the methodology used is robust. The results of testing, supplemented by discussions with appropriate officers involved in the process confirmed that this was the case.

1 INTRODUCTION

- 1.1 Bank Reconciliations explain 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, comprising the Income Support Officer and three Income Assistants, is responsible for the timeous and accurate reconciliation of all the Council's bank accounts and the ledger control accounts for payroll, creditors and debtors.
- 1.3 The objective of this audit was to ensure that all bank accounts are reconciled on a regular and timely basis and that the methodology used is robust. The scope of the audit covered the Council's main bank accounts.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made has been agreed with Carol Smith, Accounting Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 General

- 2.1.1 The Bank Reconciliations team is responsible for the timeous and accurate reconciliation of 13 of the Council's 15 grouped bank accounts. The other 2 are reconciled by Treasury Management. Production of the consolidated bank reconciliation rests primarily with the Income Support Officer who reports to the Finance Controls Manager.
- 2.1.2 The Service has used the Civica Icon Bank Reconciliation module, which is attached to the Cash Receipting System, since 2008. The system was reconfigured to be fully automated in 2013 and the current process is based on that configuration. The reconciliation module allows for the automatic posting of payments made directly to the Council's bank accounts to the financial ledger, using electronic files received from the bank.
- 2.1.3 Currently files received from the bank have to be edited into a useable format by the reconciliations team before being uploaded to Civica. The Service advised this is a process that takes around 5 minutes per day. There is a minimal risk of error with one or two occurring per year. In this situation such errors would prevent the file from being uploaded to Civica or be identified later in the reconciliation process.

Recommendation

The Service should investigate the possibility of the bank providing the bank statement information in an uploadable format.

Service Response / Action

The Service will investigate the provision of information in an uploadable format in consultation with IT colleagues. New impex reports will be required to be developed by the IT team.

Implementation Date

April 2017

Responsible Officer

Income Support Officer

Grading

Important within audited area.

- 2.1.4 The bank reconciliation module has been configured to automatically process transactions in different ways depending on the fund to which they relate and the method of payment (MOP). The fund type determines whether a transaction is posted to the ledger while the MOP type determines whether a transaction is posted to the cashbook. The Management module within Civica shows whether the transactions by fund will be exported to the ledger or the transactions by MOP will be posted to the cashbook. However the rationale behind the system configuration for fund and MOP types is not currently documented which would be beneficial for staff unfamiliar with the system.

Recommendation

The Service should document the way in which the fund types and MOPs are configured detailing how each impacts on the Bank Reconciliation module and reconciliation process.

Service Response / Action

Agreed. The Service will document an explanation of how the MOP and fund types apply.

<u>Implementation Date</u> February 2017	<u>Responsible Officer</u> Income Support Officer	<u>Grading</u> Important within audited area.
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2.1.5 During the audit the Service demonstrated how to create new fund types with reference to the system help manuals. The Income Support Team has advised that the IT team are also familiar with setting up MOPs and these have been set up for new payment methods on a regular basis.

2.2 **Written Procedures**

2.2.1 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 of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.2.2 Detailed written procedures have been established which describe the processes for uploading each bank statement to the bank reconciliation module, generating the required reports and the matching process that has to be completed to allow for the identification of unmatched items. These are entries that are either in the bank account but not reflected in the financial ledger or vice-versa, which require investigation by a member of the reconciliation team. The treatment of mis-matches is dealt with by reference to a file that records all previous actions. Since there are a variety of actions, it is not thought effective to record the different potential situations in the procedures.

2.2.3 A walkthrough of the process was undertaken and compared to that detailed in the procedures. Current practise reflects that set out in the written procedures. The Income Support Officer is currently trialling improvements to streamline the process and has advised the procedures will be updated as required.

2.3 **Format of Reconciliations**

2.3.1 The bank reconciliation statements were reviewed to ensure they were in a format that would provide meaningful information to allow for the detection of discrepancies between the accounting entries and the bank transactions as well as supporting the accuracy of the bank account figures reflected in the annual accounts.

2.3.2 The daily bank reconciliation is a two stage process. The first stage involves the use of the Civica Icon Bank Reconciliation module to reconcile the bank statement to the Civica Icon cashbook. Reconciling differences are shown which include the balance of transactions included in the bank statement but not included in the ledger as well as the balance of cashbook transactions not included in the bank statements. Further detail is available of the transactions making up each reconciling difference.

2.3.3 The second stage involves the reconciliation of the Civica Icon cashbook to the ledger using the combined analysis by fund daily bank reconciliation. This has been established with advice from the system supplier and is used widely in other organisations. The reconciliation has been configured to take account of the complex timing system for the various types of automated transaction that enter the system at different times in the day. This daily bank reconciliation is the main control for the system.

2.3.4 The combined analysis by fund daily bank reconciliation lists the imported bank

statement transactions for the day and then, through the use of an Excel spreadsheet with VLOOKUP formulae, allocates transactions to those expected to be posted to the ledger based on fund and those expected to be posted to the cashbook based on MOP. The spreadsheet is difficult to follow and could benefit from being simplified with a summary reconciliation position that shows the actual ledger movement compared to the actual cashbook movement, with a list of the transactions making up the reconciling difference including reasons.

- 2.3.5 The ledger to cashbook reconciliation is summarised at a higher level in the main reconciliation. This includes a 'GL Export' column of differences between the ledger and cashbook however a breakdown of the transactions making up these reconciling differences was absent.

Recommendation

The Service should simplify the combined analysis by fund daily bank reconciliation and provide reasons for reconciling differences between the cashbook and ledger.

Service Response / Action

The Service recognises the value of continuing to improve the format of the reconciliations, bearing in mind that with the significant number of bank accounts and payment methods involved and due to timing differences it is a complex and multiple stage process.

Implementation Date

April 2017

Responsible Officer

Income Support Officer

Grading

Important within audited area.

- 2.3.6 In addition to the daily reconciliation, a monthly reconciliation is undertaken using cumulative data. There are specific timing differences between this reconciliation and the daily reconciliation due to the way the reports operate that mean that certain fund types have to be identified and balanced between the two reconciliations. Both reconciliations are used for ensuring that year-end adjustments are correct.
- 2.3.7 During the course of the audit the Service visited another local authority which uses the same bank reconciliation module to share best practice. The service recognised that there were some format improvements that could be made that are being considered for implementation.

2.4 Transactions posted to Suspense

- 2.4.1 The Bank Reconciliations team identify unmatched transactions per the bank statement or conversely identify instances whereby there is a general ledger entry for which there is no income received into the bank (this can arise as a result of income returns processed and reflected within the ledger before the income has been lodged within the bank account) and aims to ensure that a matching entry is identified or processed as soon as possible and at least within 2 months. A high proportion of unmatched transactions are identified in the first day with it being rare for any transaction to remain outstanding for 2 months.
- 2.4.2 Many tasks are undertaken to identify income, such as talking to bank, sending out letters to the bank to pass to customers, speaking with accountancy, phoning companies, checking for past payments with same references/amounts.
- 2.4.3 The Income Support Officer monitors unmatched items every day. Typically there would be about 100 unmatched items at any one time. If, after 2 months, an income entry on the bank statement cannot be matched to an outstanding ledger entry the

team will process an entry to recognise the income in the appropriate Service's revenue account.

2.4.4 The income is recognised as revenue and, as it cannot be allocated to a specific outstanding debt, will be posted to a Service system suspense account. This eliminates the outstanding entry from the bank reconciliation statement. It is then incumbent on the Service to investigate the income source. Should it be found that the income relates to another Service a transfer within the cash receipting system as well as a general ledger journal entry will be processed. Finance has stated that such items are exceptional and that this is felt to be the most appropriate way to deal with the timely resolution of issues. Services regularly review their Service system suspense accounts in order to ensure balances are cleared to the appropriate account. Any remaining outstanding items are reviewed as part of the year end process.

2.5 **Contingency Planning - Staffing**

2.5.1 Relevant training has been provided to the Income Support Officer involved in producing the bank reconciliations by way of the handover arrangements from the previous Head of the Bank Reconciliations team, written procedures and previous Finance experience. Tasks relating to the reconciliation of transactions impacting the various bank accounts are rotated amongst the Income Assistants to vary the workload and provide contingency in the event of staff absence.

2.5.2 In the event of the Income Support Officer being unavailable to complete the consolidated reconciliation, the task would fall to the Finance Controls Manager or an Income Assistant to complete. The Income Assistants have been trained in undertaking the consolidated reconciliation. The Finance Controls Manager has a good knowledge of the process and the support of the system supplier.

2.6 **Evidence of Production and Review**

2.6.1 To confirm that bank reconciliations were being routinely produced two, 2 week periods were reviewed. Testing confirmed that reconciliations as laid down in the procedures (Appendix 1 and Appendix 2) were successfully produced. Consolidated bank reconciliations (Combined Analysis by Fund) for the same periods, were also produced.

2.6.2 On a weekly basis the Income Support Officer who has prepared the Combined Analysis by Fund reconciliations sends an email to the Finance Controls Manager attaching a link to the previous weeks saved files. The Finance Controls Manager reviews these files and emails back to the Income Support Officer confirming the accuracy. The separate reconciliations produced by the Income Support Officer defined in Appendix 1 and Appendix 2 of the Procedure governing Bank Reconciliations are not reviewed. The details of the check undertaken by the Finance Controls Manager are included within the bank reconciliation procedures.

2.6.3 From discussions with the Income Support Officer and the Finance Controls Manager, Accountancy review the bank reconciliation that is completed at the year end. The Finance Controls Manager reports to the Accounting Manager and any issues relating to the reconciliation would be escalated as soon as they are identified. The Accounting Manager has been involved in developing the controls process around the bank reconciliation over the previous 4 years.

AUDITORS: D Hughes, M Beattie, A Johnston and D Lawson

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	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 Council.
Major at a Service Level	<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>
Significant within audited area	<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>
Important within audited area	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.