

FROM: Audit and Risk Manager **SUBJECT:** Banking Arrangements
TO: Head of Finance **DATE:** 2 March 2020
C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Principal Accountant (Capital &
Treasury)
Portfolio Holder (Cllr Hales)

1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has recently been completed by Ian Davy, Principal Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 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 Banking arrangements are managed by the Capital and Treasury Management team in Finance.
- 2.2 Warwick District Council has always banked with HSBC and its predecessor, The Midland Bank, and a recent extension to the contract will see this relationship continue for another five years.

3 **Scope and Objectives of the Audit**

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Delegation
 - Agreement with the bank
 - Procedure documentation
 - Cheque payments and security
 - Reconciliations
 - Bank charges
 - IT systems – HSBC.net.

3.3 The control objectives examined were:

- Only appropriately-authorized individuals are able to perform transactions on behalf of the Council
- The Council has appropriate banking facilities available to enable its day-to-day financial operations
- Staff are aware of the processes to follow for the varied tasks associated with the banking arrangements in place
- Cheque stationery is appropriately controlled
- The Council is aware of its current financial position with regard to cheque payments made or outstanding
- The Council is aware of any banking anomalies in a timely manner
- Income and payments are correctly recorded on the ledger and supporting financial systems
- The Council receives all interest income due and only pays for charges owed
- The Council is not overcharged for the number of transactions processed
- Only appropriately authorized individuals are able to perform on-line transactions on behalf of the Council
- All payments made are appropriate
- The Council is aware of all transactions through its accounts.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in February 2018 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
<p>1 A full set of documented procedures for the Council's banking arrangements should be drawn up to provide step-by-step instructions and guidelines for the relevant processes. This is particularly important in developing succession planning arrangements, including knowledge retention.</p>	<p>Bank, AllPay and Capita Download procedure notes are available. At the time of the last audit the 2014 User Guide was available. Due to the retirement of the Principal Accountant, these weren't found when the audit was undertaken. PARIS is being upgraded and testing will take place during February/March. During and after the testing, procedures will be documented. Due to the recent changes in staffing, the Principal Accountant (Systems) has deleted the previous Principal Accountant (Treasury & Capital) as a user and set</p>	<p>As the financial systems are due to be replaced, the new procedure notes have not yet been drawn up. Various notes are still held for the systems that are currently in use and the 'general' processes, with staff also maintaining their own notes. (see 4.4.1 & 2)</p>

Recommendation	Management Response	Current Status
	<p>up an interim replacement user. Interactive notes are available on the HSBC website. The link is now being included in the banking procedure notes. Different staff do different tasks on HSBC, the individual notes made on their procedure copy are meaningful to them.</p>	
<p>2 The reconciliation process should include a monthly summary reconciliation position that shows the actual monthly bank statement movements, compared to the ledger and actual cashbook movements, with a list of the transactions making up the reconciling difference including reasons.</p>	<p>With a monthly reconciliation in isolation there is a risk that just looking at the movement in month would hide previous discrepancies. There are often timing issues between the months, where a discrepancy one month is addressed at the beginning of the next one. Consequently, the decision was taken several years ago to rely on year-to-date reconciliations. The comments are noted, but current practice will continue.</p>	<p>Attempts were made to move to a monthly reconciliation. However, when staff tried to recreate the work of the Interim Principal Accountant (Capital and Treasury Management), they could not work out what had been done. As a result, the previous process has now been reverted to (with some minor tweaks as requested by External Audit). (see 4.6.1 - 3)</p>
<p>3 All bank reconciliations should be subject to independent review and sign-off to ensure timeliness and that any errors, discrepancies and unexplained differences are highlighted and investigated.</p>	<p>The long-standing Principal Accountant (Capital and Treasury Management) was doing this. His successor did not pick this up. However, she was made aware of the status of the reconciliations. The Interim Principal Accountant is now aware and reconciliations will be signed in future.</p>	<p>The (current) Principal Accountant – Capital & Treasury is reviewing and signing off the reconciliations performed. (see 4.6.3)</p>

Recommendation	Management Response	Current Status
<p>4 An investigation should be undertaken of the use of the OLR2 system at the Royal Spa Centre to establish why income received is not posted to the ledger.</p> <p>Where a 'work-around' solution is used, the process should be documented and retained for continuity purposes. This should only be used on a temporary basis, however, until a permanent solution is introduced.</p>	<p>Whilst this was the status when this audit was undertaken, this has now been addressed. The problems arose due to this needing to be rectified by our external supplier and, despite daily phone calls and emails from several people, there was no response. A decision was made to temporarily suspend the On Line Returns Module early in December 2017. The income is now allocated through suspense with appropriate journals being done in the ledger. The service area was consulted prior to this happening.</p>	<p>OLR2 is no longer being used.</p>
<p>5 An annual review of transaction volumes should be undertaken to ensure they are still within the agreed volumes included within in the Schedule of Rates and the rates are, therefore, still appropriate.</p>	<p>The sums of money are insignificant. Transactions will be reviewed during 2018/19 as part of the re-tendering process.</p>	<p>The transaction volumes were reviewed as part of the bank re-tendering process as agreed. (see 4.7.3)</p>
<p>6 Interest received and charged should be reviewed to ensure it is in line with the agreed rates.</p>	<p>The Business Deposit Account is already monitored as part of the Treasury Management function. No credit interest is received on the Council's current accounts and debit interest is minimal. There were two overcharges identified earlier and HSBC were duly notified to refund these.</p>	<p>The interest received on the Business Deposit Account was found to be being monitored as suggested and the Principal Accountant – Capital & Treasury advised that bank charges are investigated if they are 'odd' (i.e. outside of expected budget figures). (see 4.7.1 & 2)</p>

4.2 **Delegation**

- 4.2.1 The Scheme of Delegation (Part Three, Section Four of the Council's Constitution) sets out appropriate delegation to the Head of Finance for operating any bank accounts required, with delegation F13(ii) stating that the Head of Finance & Chief Finance (S151) Officer shall have authority to 'make such banking arrangements, including opening of banking accounts, as appear necessary for the proper management of the Council's finances.'
- 4.2.2 Part Four of the Constitution includes the Code of Financial Practice, with section seven of the Code setting out the processes required for banking arrangements and treasury management. The Treasury Management Practices (TMPs) in place make various references to banking, with the most appropriate being:
- TMP2 (paragraph 1.3) – tendering
 - TMP5 (paragraphs 1.2 & 1.8) – delegation to the Head of Finance and his delegation of day-to-day matters to the Principal Accountant (Capital & Treasury)
 - TMP11 (section 3) - Bankers
- 4.2.3 A copy of the bank mandate from April 2019 was provided. This contained a member of staff that has subsequently left the authority. However, an email was also provided which confirmed that another member of staff had been added and that another change would be required in the near future as a member of the Accountancy section was due to leave the Council.

4.3 **Agreement with the Bank**

- 4.3.1 As suggested above, the Council's bank accounts are held with HSBC. The original contract was let in October 2014, with the contract commencing in March 2015.
- 4.3.2 The contract allowed for a five-year extension and this option was exercised in November 2019, with a signed letter received from the bank accepting the extension.

4.4 **Procedure Documentation**

- 4.4.1 The Principal Accountant – Capital & Treasury (PACT) advised that there is a PARIS user manual in place along with various other (informal) 'procedure' documents covering PARIS, HSBC.net and 'general' banking processes undertaken by the team. HSBC.net also has an on-line help facility which can be accessed directly through the system.
- 4.4.2 In response to the recommendations from the previous audit, it was proposed to document procedure notes during testing of the system upgrade that was to be performed. Although this was not undertaken, the recommendation is now not felt worth pursuing as the system is due to be replaced as part of the Financial Systems replacement project that has recently been approved by Executive.

Advisory

Ensure that new procedure notes are documented once the new financial systems are in place.

4.5 Cheque Payments & Security

- 4.5.1 The Finance Admin Manager advised that cheques are held securely in locked safes / cupboards at different stages of the process. Upon review, the 'working stock' (cheques held by the Corporate Support Team (CST)) were found to be held in the safe in a secure office, although the safe was in use at the time of the visit, so was not locked. The main stock is held in a locked room (to which only certain staff have keys), with the cheques held in a locked cabinet within the room. The key to the cabinet was held in a safe by the FS Team (FST).
- 4.5.2 When stock is transferred to the CST from the FST, the next box in the sequence is issued. Sequence checks are also undertaken when payment runs are performed with further reconciliations also being undertaken on a monthly basis. Both the cheque reconciliation sheet (for cheques issued to CST for working stock) and the cheque issue book (used when cheques are issued as part of a payment run) confirmed that cheque stocks were being used in sequential order.
- 4.5.3 The working stock held by CST was reviewed and it was confirmed that the next number held followed on sequentially from the last one issued. Similarly, the main stock was checked and it was confirmed that the stock held agreed to the reconciliation sheet.
- 4.5.4 When new stock is issued to the CST, the reconciliation sheet is signed by both parties and the issue book is also signed for as part of the payment runs and before posting. Again, both records confirmed that cheques were being signed for as appropriate.
- 4.5.5 The Accountancy Assistant (AA) advised that presented cheques, as per the information received from bank statements, will be matched up against the un-presented cheque list and, if variances are identified, any errors would be noted and dealt with accordingly. The presented cheques (once matched) are then removed from the list, with the (total) amounts included on the Un-presented Cheques List reconciliation.
- 4.5.6 As suggested above, an un-presented cheque list and an un-presented cheque reconciliation are maintained. The AA advised that cheques are generally left open on the list, as the bank will now accept them whenever presented; thus, the previous time limit, which generally led to the cancellation of the cheques, is no longer valid.
- 4.5.7 A 'cancelled and non-cancelled' cheques list is maintained which includes details as to whether the cheques have been cancelled or have been paid into a relevant account (e.g. council tax / NNDR). This also covers returned cheques, with those shown as 'pay into xxxxx as per letter' generally being returned (e.g. moved out, deceased etc.)

- 4.5.8 However, the AA advised that not all cheques would be returned directly to him, with those received and receipted by 'reception' being passed back to the relevant issuing section. In these cases, the cheques are generally made payable to the Council and are paid back into the account. However, supporting evidence is still held on file to support the action taken.
- 4.5.9 Sample testing undertaken confirmed that some supporting documentation was held in 19 of the 20 cases sampled. However, in three of these cases, the only documentation held on file was a copy of the remittance advice note, with nothing to explain why the cheque was being cancelled / amended.

Advisory

Explanatory notes could be recorded on the cancelled / non-cancelled cheque list when there is only a copy of the remittance advice on file.

- 4.5.10 Only two of the sampled cases had the cheque on file and these were found to have been appropriately dealt with, with the signature area being removed. Upon a cursory review of the files held, it was confirmed that all other cheques held on file had also been dealt with in the same manner.

4.6 Reconciliations

- 4.6.1 At the time of the previous audit, it was agreed that reconciliations would be changed so that monthly reconciliations would be performed. However, whilst the reconciliations are performed on a monthly basis, the reconciliation still takes the form of a rolling reconciliation.
- 4.6.2 The PACT advised that the previous (interim) post holder had adopted the new process. However, when he left, it was not possible for others to understand what he had done so, with the agreement of the external auditors, the old way of working was reinstated, albeit with a few minor changes.
- 4.6.3 The PACT advised that he signs off hard copies of the reconciliations and this was confirmed upon inspection of the files held. He also advised that the accounts normally reconcile by the time he signs them off but there was a minor anomaly last month. This has not yet been resolved and a review will be performed next month to see if this has been resolved (e.g. it may be a month-end issue).

Advisory

The anomaly should be investigated further if not resolved during the next monthly reconciliation.

- 4.6.4 The AA advised that suspense listings are reviewed every day and are cleared down where possible. A daily listing was provided at the start of the audit (18 December 2019) and this was followed up with another (complete) listing in January (imports on 16 January 2020). This confirmed that all items from the initial listing provided had been cleared. Sample testing was undertaken on

these cleared items to ensure that they had been allocated and this proved satisfactory.

4.6.5 Whilst all of the items from the initial daily listing had been cleared, the complete listing provided showed items dating back to January 2019. The AA advised that attempts to clear these had not been successful and that the PACT was considering clearing down all pre-December 2019 amounts.

4.6.6 The PACT confirmed that a meeting has now been scheduled for this to be undertaken and advised that any amounts that cannot be resolved would be coded to the Treasury Management / Other Income code on TOTAL. He also provided a screenshot from TOTAL showing a similar reconciliation that had been performed for the 2018/19 year end.

4.7 **Bank Charges**

4.7.1 The PACT advised that, for most of the Council's accounts, there is no interest received. However, a small amount of interest is received on the Business Deposit Account and this is checked as part of the review of investment interest. The Assistant Accountant advised that the last reconciliation of interest on this account was performed for the quarter one period end, although the 'expected' interest figures were up to date on the spreadsheet.

4.7.2 The PACT suggested that bank charges are investigated if they are 'odd' (i.e. outside of expected budget figures). He highlighted that details could be checked on the (HSBC.net) system, although statements received provide a summary figure.

4.7.3 He also advised that transaction volumes were reviewed as part of the contract extension process. Due to the transfer of the leisure centres to Everyone Active, transaction volumes had decreased and were, therefore, well within tolerance levels. If the transaction volume fell outside of tolerance, the 'per transaction' charge would increase, although this was not an issue at present.

4.8 **IT Systems – HSBC.net**

4.8.1 The PACT provided an extract from the HSBC.net system showing the user accounts, including those that had been suspended. There are two (appropriate) system administrators, with all other current users being given 'end user' access. In terms of further 'permissions', the only staff who can authorise the payments are those that have PIN card machines.

4.8.2 Payments made through the system require one user to prepare the payment and then two authorisers (one to check and another to authorise). The PACT advised that the Assistant Accountant will send an email to the relevant authorising members of staff advising that a payment is ready to be authorised.

4.8.3 The first authoriser will then authorise the payment and will email a screenshot of the payment screen to the others to let them know that they have completed their stage. The second authoriser will then save a copy of

the screenshot showing the completion of the process, with a folder being maintained on the network to hold this information.

- 4.8.4 A query was raised as to whether there was a retention policy in place for these documents as the screenshots include personal information (i.e. account name and account number). The PACT advised that these had only been retained for the last year (since he came into post) and they were not, therefore, included in a retention policy. However, he suggested that these would be kept for, at least, the current financial year in case of external audit queries.

Risk

Personal data may not be held in line with data protection regulations.

Recommendation

The payment information screenshots should be included in the retention policy for Finance to ensure that their retention is justified and that they are only held for the appropriate length of time.

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 Banking Arrangements 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 Just one issue requiring a formal recommendation was identified:
- Payment screenshots which include some personal data are not covered by a data retention policy.
- 5.4 Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted as there is no risk if the actions are not taken. If the following changes are made, however, the existing control framework will be enhanced:
- Ensure that new procedure notes are documented once the new financial systems are in place.

- Explanatory notes could be recorded on the cancelled / non-cancelled cheque list when there is only a copy of the remittance advice on file.
- The anomaly should be investigated further if not resolved during the next monthly reconciliation.

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 Banking Arrangements – March 2020

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.8.4	The payment information screenshots should be included in the retention policy for Finance to ensure that their retention is justified and that they are only held for the appropriate length of time.	Personal data may not be held in line with data protection regulations.	Medium	Strategic Finance Manager	The need to retain these will be reviewed and a decision will be subsequently made as to whether there is a need to include these in the retention policy. This will also be considered as part of the implementation of the new Financial Management System.	June 2020

* 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.