

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Banking Arrangements
TO: Head of Finance **DATE:** 1 February 2018
C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Principal Accountant (Capital)
Portfolio Holder (Cllr Whiting)

1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in June 2014.
- 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.
- 1.3 It is acknowledged that the Principal Accountant responsible for the day-to-day operation and administration of bank accounts was relatively new to the post at the time of the audit and has subsequently left the Council. Therefore, the opportunity to review processes and initiate and implement improvement has been significantly limited.

2 Background

- 2.1 The Council's banking arrangements help ensure that money is held in safe and profitable organisations. This has a direct impact on the Council achieving the Money theme of the Fit for the Future (FFF) strategy, specifically around the internal intended outcomes of achieving better returns and better use of our (financial) assets.
- 2.2 The current contract came into effect on 1 March 2015 for a period of five years at a cost of approximately £25,000 per year.

3 Scope and Objectives of the Audit

- 3.1 The objective of the audit was to test the key controls relevant to the current banking arrangements, including controls over the posting of transactions and the security of on-line transactions.
- 3.2 The audit covered the following control objectives:

- A control framework has been established for banking arrangements and bank reconciliations, including tendering arrangements, statement of responsibilities, written statement of bank terms and fidelity guarantee policy.
- Documented procedures for all banking related processes are in place and available to all relevant staff.
- All payments/debits from the bank accounts are properly authorised and processed accurately and completely to the ledger.
- Bank statements are regularly reconciled to the ledger (both income and expenditure) and interest and charges are accurate and in line with the agreed terms.
- Transaction volumes (which give rise to the charges) are reviewed.
- An appropriate bank mandate is in place for all bank accounts.
- Cheque stationery is appropriately controlled.
- Presented cheques are verified to the payments system.
- Computer systems are appropriately secured and business continuity arrangements are in place to ensure that business critical interactions with the bank can continue independently of Council systems as far as possible.
- On line payments require appropriate authorisation.
- Suspense accounts are regularly reviewed and reconciled by an independent officer.

4 Findings

4.1 Recommendations from Previous Report

- 4.1.1 The current position in respect of the recommendations from the audit reported in June 2014 is as follows:

Recommendation	Management Response	Current Status
1 The Code of Financial Practice should be updated on the Council's website, as per the amendment approved by Executive.	The website version of the Code of Financial Practice will be updated to include the amendment.	Reviewed, updated and approved by Council in April 2015. Not reviewed since as no changes. See 4.2 (Control Framework).
2 Interest received on the Business Deposit Account should be checked to the Council's own calculations on a quarterly basis to ensure that any discrepancies noted can be queried in a timely manner.	The actual interest credited to the BDA will be checked against our spreadsheet and any significant discrepancy reported to the bank.	All accounts are subject to quarterly review, including interest received and charged. See 4.13 (Bank Charges).

Recommendation	Management Response	Current Status
3 The old cheque stock should either be used (if they are still valid cheques) or be securely destroyed.	The old cheque stock does not contain valid cheques and can no longer be used; each box has been clearly marked with an "X" to ensure that they are not issued and they are stored on the top shelf of the cabinet separate to the current valid stock. However, arrangements will be made to ensure that the old stock is securely disposed of / destroyed to remove all risk.	Completed.

4.2 Control Framework

- 4.2.1 The Constitution, approved by Council on 25 January 2017, includes at Section 4, the Scheme of Delegation. Section 6 F(13) ii, states that the Head of Finance and 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 The Code of Financial Practice, includes at Section 7, Banking Arrangements and Treasury Management. Section 7.1 states that, "the Head of Finance is responsible for all arrangements with the Council's bankers.
- 4.2.3 Further to this, the Treasury Management procedures detail the operation of bank accounts. However, a review of these found that they deal exclusively with investments.

4.3 Procedure Documentation

- 4.3.1 Internal Audit was informed that there are no documented procedures for the operation of the PARIS system.
- 4.3.2 In addition, there is no single procedure manual that would cover all aspects of the banking functions performed within Finance. Instead, individual staff members have drawn up their own guidance notes for their parts of the processes, which would be available to others if required.
- 4.3.3 Furthermore, it was confirmed that there are no documented step by step process notes or guidelines for the reconciliation process (see 4.5 below), the maintenance of the bank mandate (see 4.7 below), or for managing access to HSBC.net (see 4.9 below).

Risks

Without documented procedures and guidelines, inadequate, inefficient or out of date processes may develop.

Knowledge of processes may be lost should current staff leave the Council.

Recommendation:

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.

- 4.3.4 Procedures for HSBC.net are available online but these can also be downloaded.

4.4 Payments and Debits

- 4.4.1 All payments/debits from the account are properly authorised and processed accurately and completely to the financial ledger.

- 4.4.2 A sample of payments was selected from the bank statements and testing confirmed that all payments had been:

- requested by staff from the relevant department;
- accompanied by a Priority Payment form that was completed by a member of staff from the Accounts team;
- checked and authorised on HSBC.net by the Principal Accountant or another senior member of Finance staff; and
- reconciled to the ledger.

- 4.4.3 The bank reconciliation process ensures income received is accurately processed to the ledger.

- 4.4.4 Expenditure items are authorised prior to being incurred and again, the bank reconciliation process ensures the expenditure on the ledger matches that at the bank.

4.5 Reconciliation

- 4.5.1 The Accountancy Assistant (Bank Reconciliation) undertakes the monthly bank reconciliations. There are some old process notes but these are not used and do not cover the entire process (see 4.3.3 above).

- 4.5.2 Bank statements are downloaded from HSBC.net on a daily basis, by logging in to the online facility. Although these are reviewed daily, the actual formal reconciliations are undertaken each month.

- 4.5.3 Spreadsheets have been created to facilitate the reconciliation and entries are manually input from the statements and then from the cashbooks on the Council's general ledger.
- 4.5.4 Testing was undertaken to check the frequency and accuracy of the reconciliations for both income and expenditure.
- 4.5.5 It was established that these are undertaken each month, but on a year to date basis rather than a full reconciliation of the monthly bank transactions to the monthly ledger movements. Therefore, it was not possible to reconcile the bank statements to the income or expenditure as the opening balances on the statements were for the actual month and the ledger totals were year to date.

Risk

Monthly movements may not be tracked and reconciled to the Council's ledger.

Recommendation:

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.

- 4.5.6 It was also identified that the bank reconciliations are not subject to independent review and sign off.

Risk

Errors and discrepancies may go unnoticed.

Recommendation:

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.

- 4.5.7 Income received at the Royal Spa Centre is processed using a system called OLR2, which is part of the PARIS income system. However, there have been issues with this system and a lack of understanding resulting in income being banked but not being input to the ledger.
- 4.5.8 It was established that the previous Principal Accountant was aware of this issue and undertook a separate monthly reconciliation to identify and correctly post the income received via OLR2. This was a 'work around' solution rather than a system fix. However, the current Principal Accountant and the existing team are not aware of the process for this or why the income is not automatically posted.

Risk

Income may be incorrectly processed.

Recommendation:

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.

Where a 'work around' solution is used, the process should be documented and retained for continuity purposes. However, this should only be used on a temporary basis until a permanent solution is introduced.

4.6 Transaction Volumes

- 4.6.1 It was identified that a Schedule of Rates was detailed at the tender evaluation stage (for the current contract) and these were subsequently agreed.
- 4.6.2 Schedule 6 of the agreed contract (see 4.12 below) detailed the final schedule of rates along with the agreed annual transaction volumes, including:
 - Direct Debits paid – 385; charge £15
 - BACS items – 556,035; charge £5,560
- 4.6.3 These figures were based on the volume of transactions during the year ended 31 December 2013. However, the rates have not been reviewed since the start of the contract and no one at the Council undertakes an annual review of transaction volumes.

Risk

The Council may be overcharged.

Recommendation:

An annual review of transaction volumes should be undertaken to ensure they are still within the agreed volumes included within the Schedule of Rates and the rates are, therefore, still appropriate.

4.7 Bank Mandate

- 4.7.1 The bank mandate was reviewed and it was confirmed that the listed staff were appropriate and current.
- 4.7.2 The Principal Accountant is responsible for maintaining the mandate but was not aware of the process to add to or remove a member or staff from it, as there was no documented procedure or guidelines. It is recommended that this is included in the new procedure documentation (see 4.3.3 above)
- 4.7.3 It was identified that when the previous Principal Accountant retired, the Assistant Accountant (Capital and Treasury) prepared a letter for the bank to

remove him from the mandate and include the replacement, with the letter being signed by the retiring member of staff.

4.8 Cheque Payments & Security

- 4.8.1 There are twice weekly cheque runs, for which the Corporate Support team (CST) is responsible for. All cheques are batch printed and the stock of cheques is retained in a locked safe in the CST office, to which only CST staff have access.
- 4.8.2 A log of cheques is retained and when a payment run is undertaken, the number of cheques and the first and last cheque numbers are recorded. Testing established that there are no gaps in the log.
- 4.8.3 Cheques are ordered from HSBC by the Media team, who retain a log of all cheques. These are collected by CST staff who are required to sign for the cheques.
- 4.8.4 Un-presented cheques listings are regularly reviewed by the Accountancy Assistant (Bank Reconciliation) as part of the monthly expenditure reconciliation. These are then monitored on a daily basis, when the bank statements are downloaded.
- 4.8.5 If the cheques are not presented in time they are cancelled.

4.9 IT Systems – HSBC.net

- 4.9.1 Access to HSBC.net is assigned according to job role and need to use.
- 4.9.2 A list of current active users was obtained and it was confirmed that all users were current.
- 4.9.3 Responsibility for the administration of the process was found to lie with the Principal Accountant, who will shortly be leaving the Council. However, there is no documented process.
- 4.9.4 A sample of payments was selected for testing and it was confirmed that authorisation via HSBC.net was appropriate and in line with that of cheque payments.
- 4.9.5 The review of the reconciliation process (see 4.5 above), confirmed that bank statement information is downloaded from HSBC.net on a daily basis by the Accountancy Assistant (Bank Reconciliation).

4.10 Online Payments

- 4.10.1 A sample of online payments was selected for testing to ensure that the system requires (at least) the same levels of authorisation as cheques.
- 4.10.2 It was established that payments require one user to prepare the paperwork and then two authorisers to check and authorise the payment on the system. The authorisers check that the sort-code, account number, payee and amounts are correct and that the payment request is above-board.

4.10.3 The testing confirmed that, in all cases, payments had been independently requested by staff from the relevant department, or was included on a payment schedule or remittance, sent to the Accounts team.

4.10.4 In addition, a Priority Payment form had been completed by a member of staff from the Accounts team and checked and agreed by the Principal Accountant.

4.11 Suspense Account Reconciliation

4.11.1 There is a suspense account, where unidentified credit transactions are processed to. The account details are downloaded on a daily basis by the Accountancy Assistant (Bank Reconciliation) and the amounts are cleared where possible.

4.11.2 Details (including those of the transfer) are printed and retained on hard copy files. The files and the suspense account were reviewed which confirmed that the transactions are being reviewed and cleared and that there were no long-standing items.

4.12 Agreement with the Bank

4.12.1 A formal tender process was undertaken during 2014 and HSBC was awarded the contract to provide banking services to the Council.

4.12.2 The contract, which is for an initial five-year period with an option to extend for a further five years, was signed by all parties in February 2015 and commenced on 1 March 2015. This was confirmed by review of the hard copy signed contract.

4.12.3 The original signed contract (which was reviewed) is stored securely in the document store.

4.13 Bank Charges

4.13.1 We established that interest received and bank charges for all bank accounts are reviewed on a quarterly basis by the Assistant Accountant (Capital & Treasury).

4.13.2 However, the interest and charges are not specifically checked and agreed to those agreed, only that if the amount appears to be higher than normal on the bank statement, then it would be reviewed and investigated.

Risk

The Council may be incorrectly charged and may not receive the correct interest.

Recommendation:

Interest received and charged should be reviewed to ensure it is in line with the agreed rates.

5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a MODERATE 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 overleaf:

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 Issues were identified relating to:

- The lack of procedure documentation.
- The bank reconciliation processes and reviews of completed reconciliations.
- Income not being recorded on the financial ledger.
- The lack of an annual review of transaction volumes.
- The checking of interest received and charged against the expected rates and amounts.

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 – February 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.3	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.	Without documented procedures and guidelines, inadequate, inefficient or out of date processes may develop. Knowledge of processes may be lost should current staff leave the Council.	Medium	Principal Accountant (Capital and Treasury Management)	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 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.	July 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.5.5	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.	Monthly movements may not be tracked and reconciled to the Council's ledger.	Medium	N/A	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 rely on year-to-date reconciliations. The comments are noted, but current practice will continue.	N/A
4.5.6	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.	Errors and discrepancies may go unnoticed.	Medium	Principal Accountant (Capital and Treasury Management)	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.	February 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.5.8	<p>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. However, this should only be used on a temporary basis until a permanent solution is introduced.</p>	Income may be incorrectly processed.	Medium	Principal Accountant (Capital and Treasury Management)	<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>	Actioned December 2017
4.6.3	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.	The Council may be overcharged.	Low	Principal Accountant (Capital and Treasury Management)	The sums of money are insignificant. Transactions will be reviewed during 2018/19 as part of the re-tendering process.	March 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.13.2	Interest received and charged should be reviewed to ensure it is in line with the agreed rates.	The Council may be incorrectly charged and may not receive the correct interest.	Low	Principal Accountant (Capital and Treasury Management)	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.	N/A

* 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.