

FROM: Audit and Risk Manager **SUBJECT:** Banking Arrangements
TO: Head of Finance **DATE:** 24 June 2014
C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Principal Accountant (Capital
& Treasury Management)

1. Introduction

- 1.1 In accordance with the Audit Plan for 2014/15, 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 March 2011.
- 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 Warwick District Council has always banked with HSBC and its predecessor, The Midland Bank. A banking services tender is, however, currently underway, so this may change in the near future.
- 2.2 Banking arrangements are managed by the Capital and Treasury Management team in Finance. The team has many years experience in the Council's banking systems and procedures.

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
 - Procedure documentation
 - Interest
 - Bank charges
 - Cheque payments and security
 - IT systems – HSBC.net.

3.3 The audit programme identified the expected controls. The control objectives examined were:

- Operation of bank accounts is appropriately delegated
- Clear documentation is in place, setting out the procedures for using the IT systems in place and the day to day operations
- Interest and charges are in line with those agreed with the bank
- Transaction volumes (which give rise to the charges) are reviewed
- An appropriate bank mandate is in place
- Cheque stationery is appropriately controlled
- Presented cheques are verified to the payments system
- Computer systems are appropriately secured
- On-line payments require appropriate authorisation
- Transactions are reviewed and cleared regularly.

3.4 Application controls in place for the Paris income management system were not specifically reviewed, as they are the subject of separate audits.

4. Findings

4.1 Delegation

4.1.1 Included within the council's Constitution is an agreed Scheme of Delegation. Part six of the Scheme of Delegation sets out that the Chief Finance (S151) Officer (i.e. the Head of Finance) shall have the authority to "make such banking arrangements, including opening of banking accounts, as appear necessary for the proper management of the council's finances."

4.1.2 The Scheme of Delegation was approved by Council in June 2013 following amendments to other powers within the document (not affecting this section).

4.1.3 The responsibilities of the Head of Finance, with regard to banking arrangements and cheques, are detailed within section 7 of the Code of Financial Practice. The last update to the code was approved by Executive in March 2013.

4.1.4 Upon review of the Executive minutes, it was noted that a slight change to the wording within the banking arrangements section had been recommended. However, the version of the code available on the council's website is the original appendix to the report that was approved by Executive, which does not contain the approved amendment.

Risk

Lack of clarity.

Recommendation

The Code of Financial Practice should be updated on the council's website, as per the amendment approved by Executive.

4.1.5 Treasury Management Practice 5 (Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements) indicates that the Head of Finance has delegated powers in this area (1.2), with part 1.8 setting out how the day to day responsibility for the management of the bank accounts has been delegated to the Principal Accountant (Capital & Treasury Management)

(PACTM). The one area that remains the responsibility of the Head of Finance is the acceptance of banking tenders, for which TMP2 (Best Value & Performance Management) goes into further detail.

4.2 Procedure Documentation

- 4.2.1 Comprehensive user guides are in place for the IT systems used in the banking process, with on-line guidance available for the HSBC.net system.
- 4.2.2 The copy of the PARIS user guide held is dated October 2004. However, the supplier of the software confirmed that this was still relevant to the version used at the council.
- 4.2.3 Further, basic user guidance had also recently been sent to all users of the system following the release of the new browser version of the system that had been implemented.
- 4.2.4 The PACTM advised that there is no central manual that would cover all aspects of the banking functions performed within Finance. Instead, individual staff members will have drawn up their own guidance notes for their parts of the processes, which would be available to others if required.

4.3 Interest

- 4.3.1 The main bank accounts (income, payments and consolidated accounts) operated do not attract any interest, as the bank pays 1% below bank rate and currently the bank base rate is only 0.5%.
- 4.3.2 However, since the last audit, a Business Deposit Account (BDA) has been opened which attracts either 0.3% interest on cleared balances below £2,000,000 or 0.4% on balances above this amount.
- 4.3.3 The PACTM advised that a spreadsheet is maintained that calculates the expected daily interest on the BDA and highlighted that a reconciliation had been undertaken which showed that the actual amounts received were a few pounds out due to differing methods of calculation.
- 4.3.4 However, audit testing comparing the amounts received per the bank statements to the figures on the spreadsheets maintained highlighted a discrepancy of over £2,400. It also highlighted a couple of errors on the spreadsheet which had led to the assumption that the discrepancy was only a few pounds. A further test was also undertaken to ascertain if the bank had only paid interest at 0.3% on all balances, as opposed to the variable rate and, whilst this was closer to the amounts received, it was still out by over £400.
- 4.3.5 Following discussion of the issue with the PACTM, the Assistant Accountant for the team contacted the bank to ascertain if the amounts were being paid net of any tax or any other deductions as the statements suggested that a net amount was being paid.
- 4.3.6 They initially advised that the payments were gross, so a copy of the spreadsheet was sent to the bank to ask them to check the calculations. However, upon further checking at their end, it was confirmed that the

interest paid was net of tax and they had agreed to recalculate the amounts and pay the difference.

- 4.3.7 The PACTM agreed that, in future, checks would be undertaken quarterly when the daily checks of the balance highlighted that interest had been paid, rather than on receipt of the annual statement, to ensure that any future discrepancies could be identified sooner. Whilst this has already been agreed, it is considered that a formal recommendation is warranted to ensure that this can be followed up as appropriate.

Risk

The council does not receive all interest that is due.

Recommendation

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.

4.4 Bank Charges

- 4.4.1 The charges made by HSBC are based on agreed prices and the volume of transactions. It would be very time consuming and of questionable value for the Council to calculate the volume of transactions so the figures supplied by the bank are accepted. However, the PACTM does check the rates applied to each type of transaction and audit testing confirmed that these were being applied appropriately.
- 4.4.2 In theory, the volume of transactions should be monitored, as either side can challenge the amounts being charged if transaction volumes increase or decrease by 10%. However, this has never been triggered.
- 4.4.3 The PACTM advised that these same types of clauses will be included in the new tender, with the estimated transaction volumes (based on current figures) being built into the new contract documentation. The Invitation to Tender document for the contract was subsequently reviewed and it was confirmed that the transaction volumes and the annual review clause were found to be included.
- 4.4.4 The PACTM also advised that ad-hoc charges are applied on the giro accounts operated in relation to the one stop shops. However, these were infrequent and were not material.

4.5 Cheque Payments & Security

- 4.5.1 As at the time of the last audit, formal mandate forms are no longer required for every change of signatory. Instead, letters on headed paper to the bank advising of changes are acceptable.
- 4.5.2 Since the last audit, two signatories have left the council and the Principal Accountant (Housing) and The Exchequer Manager have been added to replace them. Evidence was provided by PACTM which confirmed that the bank had been appropriately informed of these changes.

- 4.5.3 Cheques are now held by the FS Team as opposed to Accountancy. Prior to issue, the stocks of cheques are securely retained in a locked cabinet, with access to the keys being securely held in a safe on the Finance Admin Manager's (FAM) desk.
- 4.5.4 Cheques issued to the Media Room for use in the payment runs are signed for on a reconciliation form that is maintained by the FAM and signatures are also received in a separate book throughout when they are passed to different people during the payment run process.
- 4.5.5 Monthly reconciliations are performed, with the cheques held in the Media Room being checked against the latest number in the cheque run record and the last number issued to them.
- 4.5.6 The cheque stock reconciliation record was reviewed. It was confirmed that there are no gaps in the record and those that had not been signed out for use were found to be in the locked cupboard.
- 4.5.7 However, it was also highlighted by the FAM that five boxes of old cheque stock are held in the locked cupboard, but no decision has been made as to what to do with them. These are not included on the record sheets.

Risk

Invalid cheques are issued.

Recommendation

The old cheque stock should either be used (if they are still valid cheques) or be securely destroyed.

- 4.5.8 A spreadsheet of returned cheques is maintained by the Accountancy Assistant. The action taken with each cheque is recorded (either cancelled or made payable to WDC and is paid back into the account).
- 4.5.9 A folder is maintained which contains documentation supporting the cancellation of the cheques, along with the cheques themselves where applicable. The file covering June 2013 to April 2014 was reviewed and cheques cancelled in March and April 2014 were checked to the spreadsheet to ensure that appropriate supporting evidence was on file and that the signature area had been removed from the cheques.
- 4.5.10 This proved generally satisfactory although one cheque in the file was found to have not had the signature area removed. This was subsequently undertaken by the Accountancy Assistant.
- 4.5.11 When the bank statements are downloaded from HSBC.net, the details of the presented cheques will be imported into TOTAL. If the details (i.e. cheque number and amount) agree, TOTAL will accept the details and update the creditor details as appropriate. If the details do not agree, the details will be rejected by TOTAL.
- 4.5.12 A spreadsheet is maintained of these discrepancies, although there are not many of them (only two during the previous financial year). A reconciliation of un-presented cheques is also undertaken as part of the main bank reconciliation process on a monthly basis.

4.6 IT Systems – HSBC.net

- 4.6.1 Details of user access privileges were obtained for HSBC.net and Paris. These were reviewed and were considered to be appropriate for the authority levels of staff and the needs of the service.
- 4.6.2 In order for a payment to be made on-line using HSBC.net, three separate users have to log onto the system; one person to set up the payment, and two people to authorise it. Staff who are able to authorise the payments will have the Authorising Transactions service available to them (as per their user profile). They will have also been issued with a card reader, a card and an associated pin number. The users capable of authorising transactions are the same people as the authorised signatories on the bank mandate, with any two of the users being able to make the payment.
- 4.6.3 When items are imported into Paris (from various sources including 'Bank' i.e. HSBC.net), it will try and validate the entries using a set of rules for items such as names and reference numbers. If it cannot validate the entry, it will post it to the suspense account. The Accountancy Assistant advised that attempts are made to clear the items each day, although some will obviously take longer whilst further information is sought. A review of the items on the suspense listing showed that all of the items at that point in time were from the current calendar year, with the vast majority of these being from the current financial year.

5. Summary & Conclusion

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the management of the council's Banking Arrangements are appropriate and are working effectively.
- 5.2 Minor issues were, however, identified relating to the version of the Code of Financial Practice available on the council's website, the amount of interest received in the Business Deposit Account and the holding of old cheque stocks.

6. Management Action

- 6.1 The recommendations to address these areas are reproduced in the Action Plan with management responses incorporated.

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