



**NORTHAMPTON**  
**BOROUGH COUNCIL**

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**Bank Reconciliation Project Review**  
**May 2009**

**E R P**  
**SYSTEMS**  
**ACCOUNTANTS**

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## 1.0 Distribution List

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## 2.0 Introduction

### 2.1 Overview

Following an internal and external audit review of Northampton Borough Council's (NBC) Bank Reconciliations, we were advised as consultants, with a dedicated internal team to:

- a) Undertake a further detailed analysis of processes and procedures
- b) Setup and Implement the use of the Agresso Bank Reconciliation Module – The Council's Financial Management System. With the ability to :
  - Load Bank Statements
  - Automated Cash Book Items from General Ledger ( GL), to the Bank Reconciliation Module
  - Setup of Manual Matching Statement to Cash Book
  - Develop Reports detailing :
    - Statement Balance
    - Unreconciled Statement Items
    - Unreconciled Cash Book Items

Verification of Reconciliation Balance Agreeing to General Ledger Balance
- c) Ensure that the General Ledger balance per bank can be reconciled to the Bank Reconciliation Module
- d) Devise new processes, procedures to ensure :
  - Reconciliation can take place for each bank account
  - Clear visibility from Cash Received, identifying source, to banking - 'visibility cradle to grave'
- e) Provide relevant training and support to Project team member to ensure new process and procedures are clearly understood
- f) Assist with the development of new procedure documentation
- g) Review Risks and Recommendations outlined on the Internal Audit Review by PricewaterhouseCoopers LLP

## 3.0 Initial Findings

During our initial review the following key issues were highlighted :

### 3.1 *Bank Accounts*

- a) The Agresso Payments Bank Account was the only bank account setup on the Agresso Bank Reconciliation Module.
- b) The other 6 bank accounts and their GL balances were not easily identifiable. To produce a report on a bank account balance required a combination of account code and cost centre combination.
- c) Differences existed between the Bank Reconciliation Balance and the General Ledger Balance
- d) Given that ‘some reconciliations’ did occur and were documented, we were not 100% confident that all transactions were identified and in the correct area. Hence making current reconciliations much more difficult.
- e) The concern at the outset was that there may be some spurious balances left on certain accounts or cost centres. This was primarily down to the necessity for a piecemeal approach to controls.

### 3.2 *Bank Statements*

- a) Statements were loaded on Agresso for the Payments Bank Account. No other bank account statements had been loaded. Hence there was no audit trail of how the other bank accounts were reconciled to GL
- b) No formal process was in place to extract and load bank statements, and verify load in Agresso

### ***3.3 Income Analysis and Control to Banking – ICON Postings***

- a) As part of Bank Reconciliation Project, it was important to ensure that the processes from income to bankings were reviewed to ensure effective bank reconciliation.
- b) The income recorded was satisfactory, however the resulting control postings in Agresso for bank and cash reconciliation could not be guaranteed to be complete.
- c) The icon cash receipting system load was based on funds prior to this project. For effective control for reconciliations the icon load needed to be on method of payment.

## 4.0 Our Approach

Having carried out a review of the current processes and procedures the approach we took, with the Project Team, was to :

- a) Correct Income Posting 'ICON' into Agresso to include Method Of Payment
- b) Create Control Accounts to Facilitate Method Of Payment Reconciliation like
  - i. Cash
  - ii. Cheques
  - iii. Dr/Cr Cards
  - iv. Payzone
  - v. BailiffsAnd Others
- c) Facilitate Manual or automated journals to reflect bankings from Method of Payments Control Accounts to Agresso Bank Accounts
- d) Create Bank Accounts with New Account Codes, with connection to Agresso Bank Reconciliation
- e) Use Agresso Bank Reconciliation to
  - i. Load Statements
  - ii. Auto Post Cash Book Items
  - iii. Reconcile Statement and Cashbook Items
  - iv. Produce Timely Reconciliation Reports
- f) For the Process to be successful, complete and auditable a decision was made to Regenerate Transactions and Reconcile from April 2008 i.e. for 2008-9.

This meant the extraction of all income and bank transactions for 2008-9 and reposting using the above methodology to facilitate bank reconciliation.

- g) Our involvement started in November 2008 after agreement with Management and the Internal Project Team. The Internal Project Team was already in place for some time, and had been working on preparatory investigative work to ascertain current processes and potential weaknesses. This was key to ensuring that these weaknesses could be addressed in the reengineering.
- h) Appendix 1 Outlines an overview of the key process of the proposed new procedure

## 5.0 Findings and Review on Completion

Having now completed the key tasks, below we outline our key findings :

- a) Some 150,000 + rows have been posted to correct and implement new Income and Bank Transactions
- b) It was found that the reconciliation of bankings slips to bankings was inadequate. Processes have now been put in place to resolve this issue.
- c) New Control Accounts have been created and procedures being put in place to ensure they are reconciled and matched on a regular basis
- d) New Bank Accounts have been created on Agresso and all 2008-9 transactions have been reconciled where possible. Bank Reconciliation reports reconciling to General Ledger have been produced for each bank account to 31.3.2009.

The process for reconciliations 2009/10 will start after the reconciliations for 2008/09 have been satisfactorily signed off by officers.  
(estimated WC 10/5/09)

- e) The format, process and reporting of reconciliation has been kept consistent for each bank account. Once the reports are produced on a timely basis, a full audit trail will be available. Reconciliation reports will need to be produced and authorised on a timely basis
- f) It is imperative that when a new bank account is opened or a new source of income is identified i.e. control account, then the correct setup is done to ensure consistency with the current setup.
- g) By implementing these new processes and procedures confidence can be given to the bank balances in Agresso for accuracy and completeness
- h) Appendix 2 Is a current overview of all of the bank accounts for year ended 31.3.2009



## 6.0 PricewaterhouseCoopers Risks Review

The external audit review from PricewaterhouseCoopers is addressed here, based on the proposed new processes and procedures. All High and selected Medium Risk items have been selected for review.

Appendix 3 outlines the key of the Risk Ratings

### 6.1 High Risk – PWC Original Reconciliation Process

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
4. Bank accounts do not reconcile to the general ledger.	With the exception of the Housing Rents, Benefits and Agresso Payments account, no other accounts are being reconciled back to the general ledger. Instead bank balances are being agreed back to the various feeder systems.	High	Bank balances should be agreed to the ledger system as part of the new reconciliation process. This will ensure that correct financial data has been recorded on the general ledger.	In hand, all bank accounts will be agreed to the ledger and feeder system as part of the new reconciliation process Phil Morrison 31 October	All the Bank accounts now reconcile between the Agresso Bank Rec. Module and Agresso GL.
7. The General Rate account reconciliation is not being performed in a timely and effective manner.	During our walkthrough of the General Rate account reconciliation we noted the following: <input type="checkbox"/> The format of the reconciliation appears to be unnecessarily complicated and confusing. <input type="checkbox"/> Staff were not able to explain the type of transactions that are recorded in the cash book and couldn't account for the difference between the ledger and bank balance. <input type="checkbox"/> Working papers for the preparation of the reconciliation are often not retained. <input type="checkbox"/> The process itself appears to be intrinsically risky as it involves a great deal of manual matching.	High	The Authority should ensure that the format of this reconciliation is reviewed and simplified through the ongoing Bank Reconciliation review. Staff should be able to demonstrate an understanding of how this reconciliation works and all supporting documentation should be retained in order to ensure a clear audit trail.	Agreed. Currently under review. Phil Morrison 31st October	The format, and process of the new reconciliation methodology will ensure that this does not happen  It is important that the reports are run and unreconciled items are dealt with on a timely basis.
10. Unauthorised access resulting in inappropriate transactions being made.	During testing of 25 internal transfers we identified 3 instances where the individual who actioned the transfer was not included on the access list. It was established that this is a new member of staff who had been given a managers password to undertake transactions on Financial Director. The value of transactions made ranged from £45k to over £1m.	High	Only officers with approved access should action transfers on Financial Director. Under no circumstances should passwords be shared.	Agreed. To be actioned immediately. Bev Dixon Implemented	We can confirm that relevant security changes have been made to ensure access is restricted

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
11. Reconciling items are not being followed up effectively.	<p>The Authority is unable to provide confirmation that reconciling items have been investigated and rectified.</p> <p>It was noted during testing that:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> For the OAP reconciliation: 10/30 sampled items remained un-reconciled after a month. An additional sample of larger reconciling items found 2 out of 9 transactions over £1m were not cleared within the following month.</li> <li><input type="checkbox"/> For the Agresso reconciliation: 19/30 sampled items remained un-reconciled after a month. An additional sample of larger reconciling items found 8 out of 42 transactions over £1m were not cleared within the following month.</li> <li><input type="checkbox"/> For the Special Interest Reconciliation: In 1 out of 5 reconciliations tested, reconciling items had not been cleared by the following month.</li> </ul>	High	<p>All reconciling items should be investigated and cleared ideally within a month.</p> <p>A clear audit trail should be retained to demonstrate what efforts have been made to identify the un-reconciling items and the outcome of this process (i.e. cheque cancelled, transaction written back to the ledger).</p>	<p>Review of reconciling items to be carried out by the Divisional Accountant as part of the monthly reconciliation process.</p> <p>Procedure notes covering reconciling items to be documented as part of the review.</p> <p>Phil Morrison Implemented</p>	<p>The new reports will highlight all unreconciled items.</p> <p>Good Practice on the resolution of unreconciled items has been highlighted</p> <p>Continuous Monitoring and Management is required in the area</p>

## 6.2 High Risk – PWC New Reconciliation Process

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
14 Without retaining or reviewing copies of the reconciliations, the Authority can have limited comfort that the reconciliations have been performed. The use of manual matching in the reconciliation process increases the risk of data manipulation.	<p>No reconciliations were produced for the Benefits Account until 13/03/2008. The following issues have been noted with the design of the new reconciliation process:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The reconciliation is produced on an Excel spreadsheet and is overwritten every day. It is therefore not possible to validate whether the process has been carried out daily.</li> <li><input type="checkbox"/> There is no independent review of the reconciliation performed.</li> <li><input type="checkbox"/> The reconciliation process involves a large degree of manual matching.</li> </ul>	High	<p>A clear audit trail should be retained for all reconciliations performed that shows who performed and reviewed the reconciliation along with the dated completed.</p> <p>In addition the Authority should investigate whether the introduction of automated matching is feasible.</p>	<p>Where appropriate, electronic reconciliation files will be secured on a weekly or monthly basis, with a summary reconciliation form signed by author and reviewer on a daily/weekly/monthly basis where appropriate. The intention is to move this manual method to Agresso to maximise the use of the Agresso Bank reconciliation system. There will continue to be some manual matching required.</p>	<p>New Agresso Excelerator Reports have been developed and must be run on a timely basis.</p> <p>It is imperative these are stored for audit purposes</p>

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
15 By not completing the review, the Authority has little comfort over the accuracy and completeness of their bank balances. This could lead to misstatement of the financial statements and increases the risk of fraudulent activity. Where reconciliations have not been performed for the entire year, no comfort can be gained.	As at the 31 March 2008 (year end), the following work was still outstanding: <input type="checkbox"/> The Authority had commenced but not completed their review of the Credit Suspense and Housing Rent accounts. No reconciliations have been performed on these accounts during 2007/08. <input type="checkbox"/> The Authority had not begun their review of the Special Interest or General Fund Account. As such, no cumulative reconciliation has been completed for all of the above accounts.	High	The Authority should ensure that the Bank Reconciliations review is completed as a matter of urgency. For each account: <input type="checkbox"/> a cumulative reconciliation should be performed for 06/07 and 07/08, and <input type="checkbox"/> a new process for reconciliations should be designed and implemented for 2008/09. The process for the new reconciliations should be clearly documented in procedure notes and all officers given training to understand both the process and purpose of the reconciliation.	The Authority is ensuring that Bank Reconciliation review is completed as a matter of urgency. Phil Morrison 31st October	The review is complete and New Process and Procedures have been implemented.  Support and training is being given to Key Resources.

### 6.3 Medium Risk - PWC Original & New Reconciliation Process

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
1 Officers may be unaware of their roles and responsibilities leading to an increased risk of error.	There are no procedure notes in place for the Special Interest, OAP or General Rate Account Reconciliations. In addition the procedure notes for the Agresso reconciliation process are not up-to-date. The notes contain no information on the new system for cheques over 6 months old.	Medium	Procedures notes should be updated and drawn up for all reconciliations prior to being distributed to all responsible officers.	Review of all bank reconciliations is underway. Procedure notes to be drawn up and tested as part of this review. Phil Morrison 31st October for completion of bank reconciliations 30th November for Procedure notes	Detail Documentation of the new process had started.  Training and Support is being provided to Key Resources  Key Resources have been identified for each Bank Account.
3 Reconciling items are not resolved on a timely basis. There are no formal procedures for following up reconciling items.	Lists are sent to responsible departments on a sporadic basis but there are no defined procedures for how reconciling items should be followed up and to what timescale.	Medium	Formal procedures should be put in place for following up all reconciling items. Reconciling items should be investigated promptly and rectified by the following month	Review of reconciling items to be carried out by the Divisional Accountant as part of the monthly reconciliation process. Procedure notes covering reconciling items documented as part of the review. Phil Morrison Implemented	The new reports trigger the follow-up of unreconciled items

PWC Ref & Risk	Control Weakness found	PWC Risk Rating	PWC Recommendations	NBC Response	ERP Review May 2009
9 Reconciliations are not performed on a timely basis or by appropriately qualified staff.	Only limited assurance can be obtained that reconciliations are performed on a timely basis and by appropriately qualified staff. During the review we noted that: <input type="checkbox"/> All General Rate and OAP reconciliations have been produced electronically and therefore were not explicitly dated or initialled by the preparer; and <input type="checkbox"/> 16 out of 30 Agresso Payment reconciliations tested were not performed on a timely basis (i.e. not during the following working day).	Medium	Regardless of whether the reconciliation is completed in hard copy or electronic format, all reconciliations should be signed off and dated by the preparer and undertaken on a timely basis. If the reconciliation is performed in an electronic format, the date and initials of the preparer should be input electronically.	Agreed Standard reconciliation summary front sheet to be completed and signed and date by the responsible officer and reviewer. Phil Morrison / Jenny Coombs / Steve Marks Implemented	New Agresso Excelerator Reports ensure reconciliations are checked and authorised on a regular basis
13 The Agresso balance may be inaccurate.	For 28 out of 30 Agresso Payment Account reconciliations tested, cash book balances stated did not agree to the actual cash book. In the remaining 2 cases, cash book reports had been mislaid. In all of these cases reconciliations were signed off by the preparer as accurate.	Medium	For each reconciliation, the balance as per the cash book should agree to the Agresso system. Any differences should be investigated and rectified on a timely basis. In addition reconciliations should not be signed off unless accurately completed.	The cash book does not agree to Agresso by a known amount; most of this discrepancy has been corrected but a small difference remains. This is not a risk providing the amount does not change, however rectification is currently being investigated. All reconciliations will be reviewed in order to identify any issues. Phil Morrison Implemented	All GL and Bank reconciliation errors relating to previous years have been resolved.  New Reports check the GL balance compared to the Bank Rec. Balance
17 The Authority is accounting for cash flows that might not occur.	The number of un-presented aged cheques (over 6 months old) has increased during the year. At the year end there were 42 cheques over 6 months old which amounted to £98,951.30 an increase of £94,343.46 from Jan 2008.	Medium	The Authority should ensure that all cheques over 6 months old are cancelled.	Agreed. Process for cancelling those over 6 months old to be revisited Phil Morrison / Bev Dixon 31 October 2008	Old cheques are in the process of being cancelled . The new reports highlight outstanding cheques in date order
18 The bank balance is not reconciled and therefore may be inaccurate.	A number of un-reconciled items exist on the new Benefits reconciliation. At the time of the review the preparer was still unsure as to what these relate. These ranged in value from £1k to £7k.	Medium	Efforts should be made to identify what the un-reconciled items relate to and all should be cleared promptly.	Un-reconciled items will be identified during the year end closedown and cleared in the new financial year. Phil Morrison 31 October 2008	Unreconciled items are under review, and highlighted on the new Excelerator Report

## 7.0 Key Processes and Procedures Going Forward and Improvements in Internal Controls

Below we have highlighted the key steps and processes to ensure a successful continuation of the processes and procedures implemented . It is imperative that :

- a) An 'Owner' is identified for Daily Income Reconciliation. Their responsibility will be to :
  - Check Daily interface between Icon to Agresso
  - Ensure Systems Reconcile Daily
  - Ensure interface is at correct 'Method of Payment Level'
- b) An 'Owner' is identified for each control account. Their responsibility will be to:
  - Check Income on Daily / Weekly Basis
  - Process Banking Journals to bank accounts (may be automated)
  - Identify and chase items that have not been banked on a timely basisJustify to management on a timely basis unreconciled items and balances on the account
- c) An 'Owner' is identified for each bank account. Their responsibility will be to:
  - Load Statements
  - Reconcile Items
  - Identify, question and document unreconciled items
  - Have authority to post correcting journals
  - Run and submit to management the Bank Reconciliation Report, monthly or weekly depending on bank account
- d) Bank Statements are loaded Daily / Monthly depending on bank account
- e) Unreconciled Bank Items are dealt with weekly and at month end reporting. Unreconciled Bank items are documented with reasons at month end.
- f) Unreconciled Cash Book items reviewed monthly and any items over 6 months reversed, once authorised.
- g) **Bank Reconciliation Reports have to be produced, printed, reviewed, approved and authorised monthly. Some accounts may require weekly approval**
- h) **It is imperative that resources are put in place, and maintained, for the above tasks otherwise you may lose control of the reconciliation processes and procedures**

## 8.0 Conclusion

The process of reposting and correcting income and bank transactions to facilitate the use of the Agresso Bank Reconciliation Module for reconciliation purposes has been a success. It is therefore imperative that the momentum is not lost and all key resources involved are motivated to continue.

Whilst the original processes and controls were not clear or transparent the review has identified anomalies amounting to only £11,500

With the new procedures and processes it should be easier to identify discrepancies and anomalies.

The documentation of key process to support the resources on the tasks involved has started. It is imperative that these documents are complete and maintained.

Our proposals going forward for effective internal controls and reconciliations are resource intensive.

During the project NBC re-directed additional resources to the Project Team when required from the original process. The original process emphasis was predominantly manual, leaving resources little time for resolving Unreconciled items.

The new automated process and interfaces will enable resource to be directed to identifying issues early and resolving Unreconciled items.

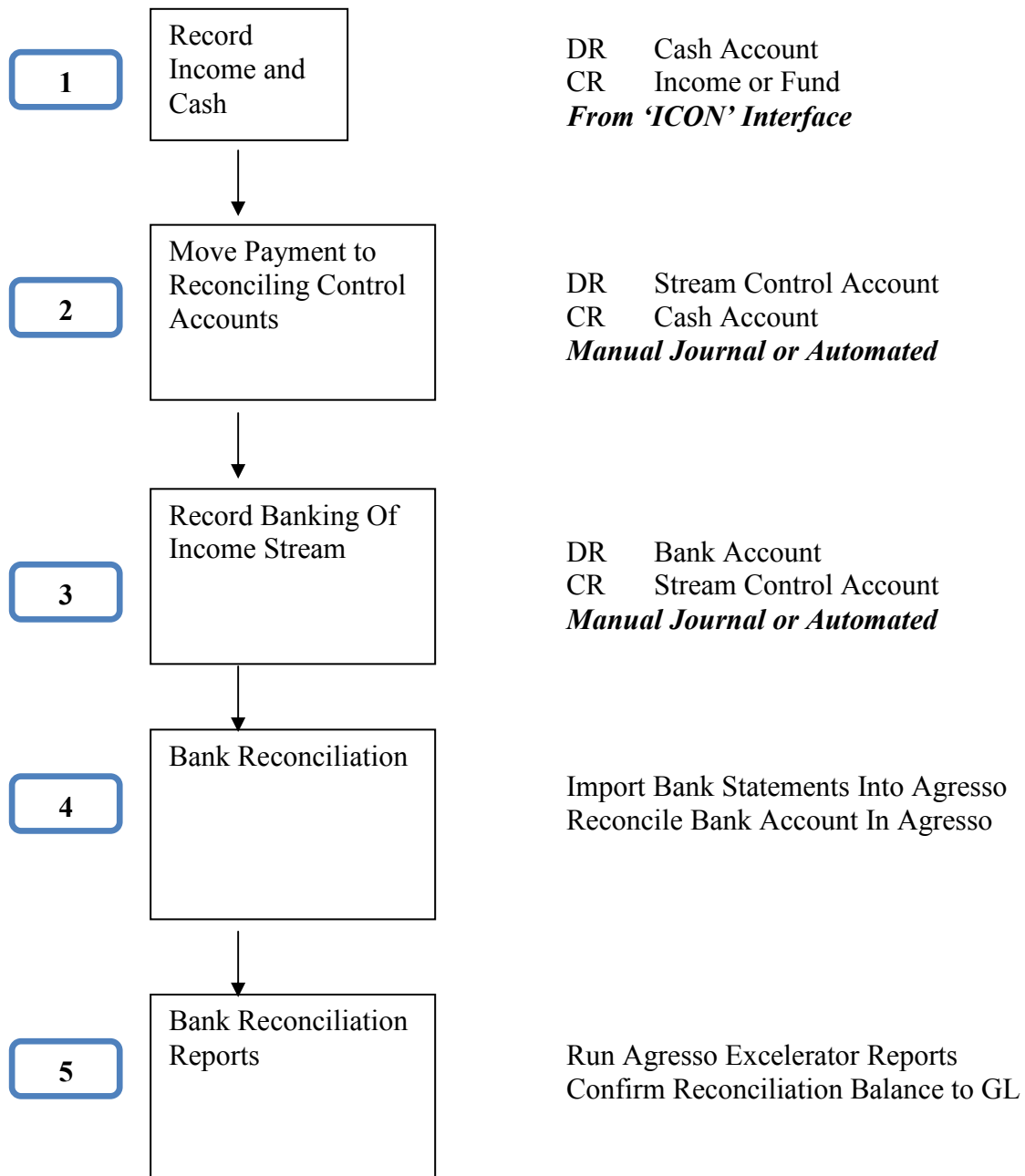
At the time of this report, ERP Systems Accountants are proving continued support to the Project Team. We are also assisting in the development of the procedure documentation and daily tasks lists. Our aim is to ensure the resources in the organisations outlined to maintain and implement these new processes have adequate training and support from management and systems.

It is imperative that Key process and procedures outlined in this document are maintained to mitigate any potential risk of irregularities and /or fraud.

## Appendix 1 -

### *Income to Bank Reconciliation Overview*

Below is a brief overview of the methodology



## Appendix 2 -

### *Bank Reconciliations Status for Year Ended 31.3.2009*

(as at 11/05/09)

Bank Account	Year End Reconciliation Produced	Reconciliation Balance Agrees to General Ledger	Unreconciled Cash Book Entries	Unreconciled Bank Statement Entries
Payments GL AC – B100	Yes	Yes	823 Cheques 10 Other	11
Housing Benefit GL AC – B051	Yes	Yes	1155 Cheques 2 Other	8
General Rate GL AC – B054	Yes	Yes	Nil	Nil
Housing Rent GL AC – B050	Yes	Yes	Nil	68
Special Interest GL AC – B055	Yes	Yes	Nil	Nil
Credit Suspense GL AC – B052	Yes	Yes	Nil	190





*We are aware that tasks are in place to investigate and accrue for unreconciled bank statement entries, for the purposes of year end.*



## Appendix 3 -

### *PWC Risk Assessment Key*

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the <i>Authority's objectives</i> in relation to: <ul style="list-style-type: none"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations.</li> </ul>
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key <i>system, function or process</i> objectives.  This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall Authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> <li>• has a low impact on the achievement of the key system, function or process objectives; and/or</li> <li>• has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</li> </ul>
 Low	Control weakness that does not impact upon the achievement of key <i>system, function or process</i> objectives; however implementation of the recommendation would improve overall control.