

Audit Sub-Committee – Specific Report**Detailed report requested by the Audit Sub-Committee****February 2007**

Annexe 4

Type: System

SUBJECT: Bank Reconciliation

Date: August 2006

Introduction

The main accounting system, Agresso FMS, was introduced for the 2004/05 financial year and has now been in use for two years. Last year a number of difficulties arose in agreeing the cash book to the Agresso ledger and verifying the reconciliations. A number of recommendations were made to improve the process and integrate the reconciliation with the ledger.

Background

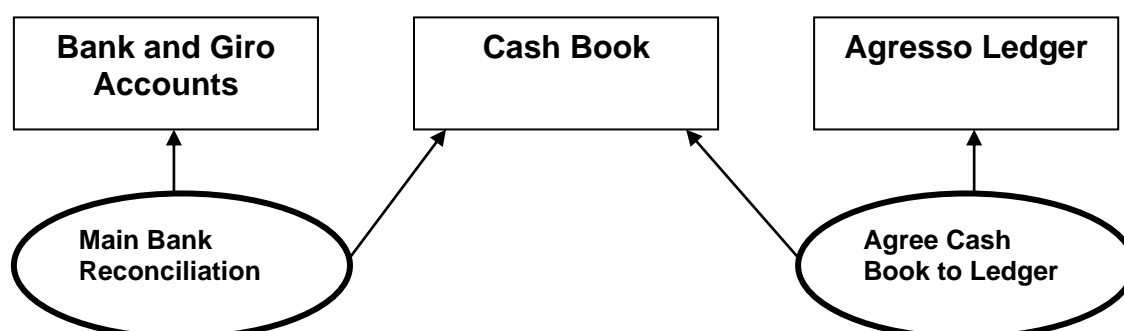
Bank reconciliation includes a main reconciliation and a cheque reconciliation process. The main bank reconciliation primarily involves the CO-OP Bank general and collection accounts and the Alliance and Leicester Girobank accounts. The Authority has continued to use the cash book and bank reconciliation processes that were utilised by the previous system.

Payment account reconciliation is a cheque reconciliation process involving cheque matching and BACS verification. This is a completely separate reconciliation and does not affect the main bank reconciliation providing all transfers are made. However in itself it is necessary to reconcile the outstanding cheques and BACS transfers.

The cash book is a prime book of account and as such should always agree to the relevant cash account in the general ledger. The cash book represents the balances in cash and at bank in the Authority's books. These will always be different to the actual balances at the bank due to time delays, cut off points, under/over receipting, transfers, errors etc. These are reconciled as part of the bank reconciliation process.

The main bank reconciliation process has two prime functions:

- a. Reconcile the bank balances to the Authority's cash book.
- b. Ensure the Cash Book agrees to the Agresso Ledger.



Reconciliation of the Bank Balances.

There were two weaknesses identified, namely delays in completing the monthly reconciliations and an insufficient separation of duties between the reconciliation process, banking duties and cash book maintenance.

Agreeing the Cash Book to the Ledger.

The cash book, presently in use, is not integrated with the Agresso Main Accounting system, it is integrated with the income cash posting system. Therefore it is vital that the ledger cash account always agrees with the cash book. This process confirms the accuracy and completeness of the Authority's ledger.

The weakness identified here was that the process had not been undertaken on a monthly basis since the introduction of the Agresso product. At year end the process was undertaken as part of the audit.

Progress on the implementation of the relevant recommendations.**Introduce more separation of duties into the bank reconciliation process. Category – high**

Accountancy staff have been trained in the process of agreeing the cash book to the ledger each month. The exercise is being carried out for 2006/07 and is completed up to the end of January 2007. The process identifies what entries are missing from each set of books and these are being corrected as appropriate.

The cash book should be independently maintained from the bank reconciliation process. Category – high

The purpose of this recommendation is twofold, firstly it separates the completion of the cash book from the banking processes and secondly it reduces the dependence on one person undertaking these duties and speeds up the process.

Progress has been made in this area but staff shortages are limiting transfers of duties at this time. However the ledger/cash book agreement process above identifies any inaccuracies and acts as an independent control on the completion of the cash book.

Ensure bank reconciliation is up to date. Category – high

The purpose of bank reconciliation is to agree the bank balances to the cash book each month. The Authority uses a number of bank and giro accounts and these are agreed to the cash book. Difficulties were experienced during 2005/06 in agreeing the monthly process and delays occurred.

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The reconciliations have been completed up to the end of December 2006 and corrective work is being undertaken.

Payments account or cheque reconciliation (as it is known) is independent of the main bank reconciliation. However it is interdependent in that transfers from the main bank account are needed to meet all payments. In previous years some transfers had not been made and this was one of the causes of the problems. This year transfers are being made, although the payment account reconciliation is behind that of the main bank reconciliation.

Conclusion

Over recent years the Authority has had considerable problems with the bank reconciliation process, however progress is being made. This year has seen considerable improvements in the ledger/cash book reconciliation process and the bank to cash book reconciliation is up to date.

Bank reconciliation is a complex process in this Authority, but South Derbyshire is not on its own, as three Derbyshire Councils and many others across the country have encountered problems. Their external auditors commenting about delays and the need to simplify the process.

The audit report recommended bringing the process under control but also suggested that improvements should be sought to simplify the process. Management's action plan is to progress the existing approach to the end of the financial year (March 2007) and then examine ways to streamline the process.