

Report Title:	Bank Reconciliation Report
Contains Confidential or Exempt Information?	No - Part I
Lead Member:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Full Council – 23 June 2020
Responsible Officer(s):	Adele Taylor, Director of Resources/S151 Officer
Wards affected:	All

REPORT SUMMARY

- 1 This is the final report on the historic unreconciled bank reconciliation entries as described in the prior two year's external audit reports. This summaries the investigation that has taken place since it was first reported in 2017 and gives background to the corrective financial adjustments that are required to resolve this historic outstanding issue in the current year's statement of accounts. This adjustment does not result in any impact on the council's general reserves as it is self-balancing.
- 2 The unreconciled balance on the bank reconciliation is £1,136,953, and this is now located on the Council's balance sheet. The investigation included review of the housing benefit subsidy accounts due to the number of bank transactions in these accounts. Subsequently, a credit of £1,152,758 was identified in the housing benefit revenue accounts which we believe to be the source of the bank reconciliation balance, further details on the allocation of the housing benefit credits is given in paragraph 4.15.
- 3 The unreconciled entries have been identified as 'unadjusted misstatements' on our external audit ISA260 report since 2018-19. If these entries are not written off and the Housing benefit credits remain unallocated then the Council's external audit report for 2019-20 will contain the unreconciled amounts and unallocated credits as an on-going 'unadjusted misstatement' in the Councils 2019-20 statement of accounts until the matter is resolved.
- 4 The report also gives details of the investigations, actions and discussions that have taken place regarding these transactions and allocations between finance, and both internal and external audit.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Council notes the report and:

- i) Approves the write off of £1,136,953 for the unreconciled bank reconciliation entries.
- ii) Approves use of £1,136,953 of the £1,152,758 credit balance in the Housing Benefit Subsidy Revenue Account to offset these entries.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
Approve the write off of the unreconciled bank reconciliation entries of £1,136,953 and allocation of credit balances of the same value in the Housing benefit subsidy accounts. This is the recommended option	Approval will allow for the bank reconciliation entries to be cleared from the balance sheet and the credits in the housing benefit accounts to be allocated. Resulting in the item being removed from the 2019-20 external audit report as an outstanding unadjusted misstatement.
Do not approve the write off of the unreconciled bank reconciliation entries and allocation of the credit balances in the Housing benefit subsidy accounts.	This will not allow for the write off or allocation of credits as described and the item remains as an unadjusted misstatement in the 2019-20 statement of accounts.

- 2.1 The Council is required to produce a reconciled bank reconciliation as part of its financial management arrangements.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
The bank reconciliation entries on the balance sheet are cleared and the credits on the housing benefit accounts are allocated	Write off/allocation not approved	Write off/allocation approved	n/a	n/a	23 June 2020

- 3.1 If approved then the bank reconciliation balance sheet entries will be written off and the credits on the housing benefit accounts allocated resulting in this 'unadjusted misstatement' on our external audit report (ISA260) being resolved and not featuring in the 2019-20 external audit report.

4. FINANCIAL DETAILS / VALUE FOR MONEY

Table 3: Financial Impact of report's recommendations

REVENUE COSTS	2020/21	2021/22	2022/23
Additional total	£1,136,953	£0	£0
Reduction	(£1,152,758)	£0	£0
Net Impact	(£15,805)	£0	£0

CAPITAL COSTS	2020/21	2021/22	2022/23
Additional total	£0	£0	£0
Reduction	£0	£0	£0
Net Impact	£0	£0	£0

BANK RECONCILIATION

- 4.1. In August 2017 it came to light that the bank reconciliation had unreconciled entries that required investigation.
- 4.2. The actions taken from that date to resolve the issues are summarised by financial year below.

Financial year 2017-18

- 4.3. The financial control team carried out internal investigations from August to September 2017. It was identified that additional resource would be required to support the investigation given this would be time consuming. Resource was secured for a period of 8 weeks from October to December 2017.
- 4.4. Action was taken to set up processes to enable income received in the bank to be identified, allocated and reconciled to the correct service accounts more easily. This proactive management of our income ensured that the amount of unreconciled income would not grow. This process was reviewed by internal audit prior to implementation and was actively managed from November 2017.
- 4.5. As bank reconciliations from that point had been reconciled and reviewed by internal audit as part of the annual system controls audits, agreement was made with the Deputy Director & Head of Finance at that time to transfer the unreconciled amount to the balance sheet. This was for ease of transparency while further investigations took place. This was transacted in January 2018.
- 4.6. The 2017-18 bank reconciliation control audit was carried out in March 2018 and this included a review of the success of the new processes implemented in November 2017. This audit which was on the revised reconciliation process resulted in a final report awarding the 2nd highest of 4 audit opinions which is 'Substantially complete and generally effective'.

- 4.7. The 2017-18 bank reconciliation was completed in April 2018 and was audited by the external auditor as part of the statement of accounts audit including informing them of the unreconciled entries on the balance sheet.
- 4.8. The external auditor reported the unreconciled balances in the council's audit report in July 2018.

Financial year 2018-19

- 4.9. Further investigations continued by the financial control team leader from April to December 2018, this resulted in further prior year adjustments being identified, however unreconciled historic entries remained.
- 4.10. In January 2019 a fact finding investigation was requested from internal audit by the then S151 officer and terms of reference agreed to try to resolve the issues of the outstanding balance. A member of the Internal audit team would work alongside the finance officers to give clarity on the position of the unreconciled bank reconciliation entries and the credits on the Housing Benefit Subsidy Account. A fact finding investigation with a terms of reference was agreed with internal audit with a start date of April 2019. The outcomes of this investigation are stated below in paragraph's 4.14 to 4.15.
- 4.11. The ongoing 2018-19 bank reconciliation control audit was then carried out by internal audit in March 2019 this resulted in a final report awarding the 2nd highest of 4 audit opinions.
- 4.12. The issue was raised with external audit as on-going from 2017-18 and was included in the external audit report in December 2019.

Financial year 2019-20

- 4.13. In September 2019 during the fact finding investigation which had started in January, credits on the Housing Benefit Subsidy revenue account were identified which related to inaccurate prior year accruals arising as a result of incorrect allocation of entries between the bank account and the housing benefit accounts. These are internal transactions that require a technical financial adjustment to correct them in the 2020-21 revenue accounts which is what this report is seeking to do.
 - 4.14. After further investigations by the internal auditor it was confirmed that while we could identify bulk payments from the Housing benefit files for historic data we couldn't identify individual payments and the bank reconciliation outstanding entries couldn't be matched off. As a result we are left with the credit unallocated in the Housing benefit accounts totalling £1,152,758. This credit has been carried forward into the 20/21 accounts and correction requires a technical financial adjustment in the accounts. The retention of these payment records is now taking place in accordance with council requirements as a result of discussions between the Chief Accountant, Internal Audit and Revenues and Benefits.
 - 4.15. The issues were discussed with the then Director of Communities who at the time managed the revenues and benefits service and was therefore responsible for the reconciliations and storage of housing benefit data. It was agreed that the finance team would continue to carry out further investigations with the assistance of internal audit
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and that it would be highlighted to the external auditors for them to discuss in more detail during the audit of the 2019-20 Statement of Accounts.

INVESTIGATION CONCLUSION

- 4.16. In March 2020 after finishing investigations, identifying the total of unreconciled entries and confirming the credit total on the housing benefit accounts the conclusion is that the unreconciled entries and housing benefit credits cannot be individually matched off and that a technical financial adjustment is required to rectify this in the statement of accounts. This adjustment if approved would be reflected in the 2020-21 accounts but noted by external audit for the 2019-20 external audit report.
- 4.17. This Internal audit work has now been brought to a close and it has confirmed the value of initial entries that were unreconciled and transferred to the balance sheet, the credits on the Housing Benefit Subsidy Account, as well as investigating the issue of historic data from the Housing Benefit Academy system for Housing Benefit payments. Areas identified where there were anomalies found by Internal Audit included the memorandum account, there is a non-material transaction within the 2019-20 reconciliation that needs further investigation. This investigation will continue during the course of the 2020-21 bank reconciliation control audit.
- 4.18. The bank reconciliation is now completed successfully with correct entries and was last audited by internal audit in 2018/19. The revised cash and bank reconciliation process will be audited as part of the Key Financial Systems audits for 2020/21 to enable the processes and procedures to be fully adopted. This audit will be carried out during the next few months and agreed with the Section 151 Officer and Chief Accountant to ensure that appropriate assurance can be obtained. The audit report will be reviewed by the Section 151 Officer as is the process for all internal audit reports.

5. LEGAL IMPLICATIONS

- 5.1. In producing and reviewing this report the council is meeting its legal obligations to monitor its financial position.

6. RISK MANAGEMENT

- 6.1. Due to their overarching nature, Key Financial systems are not individually incorporated as a subject area in the corporate risk area. If the recommendations of this report are approved then any risk occurring in specific service areas is removed. Internal audit will carry out the annual Bank reconciliation control audit within the next few months to confirm if any risk remains.

7. POTENTIAL IMPACTS

- 7.1. Equalities – none
 - 7.2. Climate change/sustainability – none
 - 7.3. Data Protection/GDPR –none
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8. CONSULTATION

8.1. None.

9. TIMETABLE FOR IMPLEMENTATION

9.1 Implementation date if not called in: immediately.

10. APPENDICES

10.1 This report has no appendices.

11. BACKGROUND DOCUMENTS

11.1 This report is not supported by any background documents:

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance and Ascot	11/06/20	15/06/20
Duncan Sharkey	Managing Director	09/06/20	09/06/20
Russell O'Keefe	Executive Director of Place	08/06/20	
Adele Taylor	Director of Resources/S151 Officer	05/06/20	08/06/20
Kevin McDaniel	Director of Children's services	08/06/20	15/06/20
Hilary Hall	Deputy Adults, Commissioning and Health	08/06/20	09/06/20
Elaine Browne	Head of Law	08/06/20	10/06/20
Mary Severin	Monitoring Officer	08/06/20	
Nikki Craig	Head of HR, Corporate Projects and IT	08/06/20	09/06/20
Louisa Dean	Communications	08/06/20	15/06/20
Karen Shepherd	Head of Governance	08/06/20	11/06/20

REPORT HISTORY

Decision type: Council decision	Urgency item? No	To Follow item? No
Report Author: Ruth Watkins, Chief Accountant.		