

South Ribble Council and
Chorley Council

Final
Internal Audit Report

Bank Reconciliation and Cash
Flow Forecasting
2023/2024

Audit Assurance: Substantial
Auditor: David Holgate
Date Issued: 30th April 2024



WORKING TOGETHER

Reason for the Audit & Scope	
1	<p>A banking reconciliation is the process of comparing the Council's bank statements to its own financial records to ensure that all transactions are accounted for. Our review will assess the current arrangements to ascertain if an effective bank reconciliation process is operational enabling discrepancies to be identified in a timely manner and help prevent fraud/theft from the Council bank account.</p> <p>By regularly reconciling bank accounts and maintaining accurate financial records the Council can improve its cash flow forecasting which is a process of estimating the flow of cash in and out of the Council over a period of time. An accurate cash flow forecast will help the Council predict future cash positions, avoid cash shortages, and earn returns on any cash surpluses that it may have. This review will seek to ensure that effective arrangements are in place so that financial issues are identified and promptly resolved.</p> <p>The objective of this audit was to ensure that all bank accounts are reconciled on a regular and timely basis and that the methodology used is robust and that cash flow forecasting is operating effectively.</p>
2	<p>This review is included within the 2023/24 Audit Plan approved by the South Ribble Governance Committee on the 26th of September 2023 and Chorley Governance Committee on the 27th of September 2023.</p>

Audit Objectives	
3	<p>The overall objective of the audit was to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are being sufficiently managed.</p>
4	<p>The audit also assessed the effectiveness of the various other sources of assurances using the three lines of defence methodology.</p>
5	<p>The audit will focus on specific risks where the controls in place mitigate a gross red / amber risk to a residual green risk. In addition, all fraud risks and performance management data will be included within our work.</p>

Audit Assurance	
6	<p>Cash flow forecasting and bank reconciliations have typically been included within a wider review of Treasury Management, this was last undertaken in 2021/22 and was awarded a Substantial assurance rating.</p>
7	<p>The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.</p>
8	<p>Appendix A shows the risks for the Bank Reconciliation and Cash Flow Forecasting the assurance opinion awarded to each. Our evaluation of the reliance we can place on the three lines of defence is also shown.</p>
9	<p>The Financial Accounts team are responsible for undertaking regular reconciliations of both Council's bank accounts and ensuring that cash flow forecasting spreadsheets are maintained to predict future cash positions. After a period of change, the current team have been in place since January 2023.</p> <p>Our work confirmed that the controls in place are well established, documented and generally operating as intended. Monthly bank reconciliations are up to date and sampled entries within the bank reconciliation and cash flow forecasting spreadsheet were accurate and verified to supporting records.</p>

In accordance with the Public Sector Internal Audit Standards, internal audit has been the subject of an independent external assessment, which concluded that the 'internal audit activity conforms to the Standards'

Some weaknesses were identified that once resolved will strengthen the control environment:

- Supervisory checks are not formalised and documented.
- There are a number of historical transactions (pre-April 2023) that have not been matched from the general ledger to the bank statement, or vice versa, these need to be investigated as soon as possible and/or should be considered for write off.

Furthermore, the service would benefit from undertaking a review of the variance target utilised for each Council's daily cash flow performance indicator to ascertain if this is an acceptable level of variation for each council and is reflective of the circumstances that each council operates within, as well as considering the performance of the existing cash flow model given the fluctuation in monthly variances reported.

For these reasons, a **Substantial** assurance rating has been awarded for this review.

Control Rating Key

Full – the Authority can place complete reliance on the controls. No control weaknesses exist.

Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.

Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.

Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

Risk and Controls	Control Evaluation	
	CBC	SRBC
Risk 1 – The cash position of the authority is calculated incorrectly or is not calculated at all.		
Procedures have been established, documented, and applied consistently for cash flow forecasting.	Working as intended	Working as intended
Performance indicators are in place and regularly reported.	Action 1	Action 1
Records to support anticipated movements in and out of the bank are maintained.	Working as intended	Working as intended
Unexplained abnormal variances between estimated and actual balances are tracked and verified.	Action 2	Action 2
Responsibilities for cash flow forecasting are clearly defined.	Working as intended	Working as intended
Supervisory checks are undertaken.	Action 3	Action 3
Officers are suitably trained.	Working as intended	Working as intended
Segregation of duties are considered.	Working as intended	Working as intended
Fidelity Insurance in place	Working as intended	Working as intended
Risk 2 – Incorrect balances and/or discrepancies in transactions can lead to unexpected cash shortfalls and abnormalities.		
Frequent reconciliations of bank accounts are undertaken.	Working as intended	Working as intended
Supervisory checks are undertaken.	Action 3	Action 3
Discrepancies are identified and investigated in a timely manner.	Action 4	Actions 4
Procedures have been established, documented, and applied consistently for bank reconciliations.	Working as intended	Working as intended
Bank Accounts held by the Council are regularly reviewed	Working as intended	Working as intended
Responsibilities for Bank Reconciliations are clearly defined.	Working as intended	Working as intended
Segregation of duties are considered.	Working as intended	Working as intended
Officers are suitably trained.	Working as intended	Working as intended

*Additional risks and controls identified by Internal Audit to be added to GRACE

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AUDIT ASSURANCE

Three Lines of Defence

Audit Area	1 st Line	2 nd Line	3 rd Line	Internal Audit opinion
Banking reconciliation and Cash Flow Forecasting	Management	External Audit	Internal Audit	It is evident that an established process is in place supported by detailed documented procedures. A review of the cash flow methodology and associated performance indicators will strengthen this area further.

Risk and Control Evaluation

Risks Examined	Full	Substantial	Adequate	Limited
The cash position of the authority is calculated incorrectly or is not calculated at all.			✓	
Incorrect balances and/or discrepancies in transactions can lead to unexpected cash shortfalls and abnormalities.		✓		
OVERALL AUDIT OPINION		✓		

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MANAGEMENT ACTION PLAN			
NO.	FINDING	AGREED ACTION	OFFICER & DATE
1	<p>Cash flow forecasting is never going to be 100% accurate, however the Council needs to be confident that it will be accurate enough for good decisions to be made and as such the following performance indicators (PI) have been established for Chorley and South Ribble and are based on a target level of variation of 5%.</p> <ul style="list-style-type: none"> • CH SFS02 - Accuracy of daily cash flow forecasts • SR SFS02 - Accuracy of daily cash flow forecasts <p>Our review identified that the description and procedures for each PI do not currently meet the standards set out within the Council's Data Quality Framework.</p> <p>PI descriptions and procedures should be updated to ensure that reliable, timely and accurate data is provided.</p>	<p><u>No Action Agreed</u></p> <p>The Performance Indicators in place for both South Ribble and Chorley have been reviewed by the Financial Accounts team alongside the Director of Finance and it's been agreed that the performance indicators do not provide a meaningful insight to the accuracy of the cashflow forecasting and have been superseded by the establishment of comprehensive cashflow forecast procedures.</p> <p>Furthermore, there are existing reporting measures in place to ensure the Council maintains a healthy cashflow with annual treasury management reports (August) and mid-year reviews (November) taken to Governance Committee that provide an update on Treasury Management performance, compliance with agreed Prudential Indicators and the TM Code of Practice</p> <p>The Director of Finance has agreed to remove the cash flow forecast performance indicators with effect from the 31st March 2024.</p>	
2	<p>The Financial Accounts Team were unable to identify when or how the 5% variance PI target for cash flow forecasting was agreed and have only been calculating and reporting the monthly figure on the corporate performance system since April 2023 onwards.</p>	<p><u>No Action Agreed</u></p> <p>The Financial Accounts team advised that the 5% variance PI that was introduced historically is an</p>	

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	<p>Testing identified that the average daily forecast reported for each month is routinely more than the +/- 5% variance target, and the figures reported for the period Nov 23-Jan 24 differ greatly from one month to the next.</p> <p>Although our review identified no instances where the Council were disadvantaged or suffered financial repercussions due to differences between the actual and predicted cash balance, a review should be undertaken to establish:</p> <ul style="list-style-type: none"> • If a 5% variance target is an acceptable level of variation for each council and is reflective of the circumstances that each council operates within. • If the existing cash flow model is precise enough for the purposes it is utilised or whether a change in methodology should be considered to improve accuracy. 	<p>unrealistic target due to the nature of the cash flow process.</p> <p>The current methodology used by the council is best practice within the industry in utilising previous years actual figures and using this to inform current year forecasts.</p> <p>As per action 1, the 5% variance performance indicators have been removed as the Treasury Management function have existing performance and compliance measures in place to adhere to the TM Code of Practice.</p>	
3	<p>Although testing did not identify any errors, omissions or anomalies, there was little evidence of routine supervisory checks being undertaken. Furthermore, where the template/spreadsheet had been drafted to include an authorising signatory, this was not routinely being utilised.</p> <p>Consideration should be given to adopting a programme of supervisory checks and retaining evidence of these to help promptly identify any errors/inaccuracies; and provide assurance that agreed procedures are being consistently followed.</p>	<p>Supervisory checks will be adopted for bank reconciliations and evidence of checks undertaken by the Principal Financial Accountant will be retained. Additionally, the daily dealing spreadsheet will be countersigned when supervisory checks have been undertaken.</p> <p>Procedure notes will be updated to reflect the change in processes.</p>	<p>Jean Waddington</p> <p>May 2024</p>
4	<p>Testing of the bank reconciliations identified that the Financial Accountants Team undertake reconciliations monthly and investigate where:</p>	<p>The Financial Accounts Team will agree an approach to clearing the pre 2023/24 unreconciled items with the</p>	<p>Jean Waddington</p> <p>September 2024</p>

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	<ul style="list-style-type: none"> • Items appear on the general ledger but not on the bank statement • Items appear on the bank statement but not on the general ledger. <p>Our review identified that evidence is maintained for current year transaction investigations with progress notes and communications from services routinely retained. However, there are a number of historical items prior to April 2023 that remain unmatched, mainly for South Ribble where there is a lack investigation notes for this period.</p> <p>These transactions need to be investigated as soon as possible and/or should be considered for write off.</p>	<p>Director of Finance. The agreed approach will commence as soon as possible.</p>	
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