

## AUDIT COMMITTEE – 27 February 2014

<b>Title of paper:</b>	<b>INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION</b>	
<b>Director(s)/ Corporate Director(s):</b>	Geoff Walker Acting Director of Strategic Finance	<b>Wards affected: All</b>
<b>Report author(s) and contact details:</b>	Shail Shah Head of Internal Audit ☎ 0115-8764245 ✉ <a href="mailto:shail.shah@nottinghamcity.gov.uk">shail.shah@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	To critically appraise the Internal Audit report at <b>Appendix 1</b> to:- <ul style="list-style-type: none"><li>• Determine whether the audit work was of an appropriate quality and scope;</li><li>• Determine whether the service's response was sufficiently proportionate, robust and prompt;</li><li>• Make any further observations and/or comments considered relevant;</li><li>• Determine any further action.</li></ul>	

### **1. REASONS FOR RECOMMENDATIONS**

This report presents the Bank Reconciliation report selected for detailed examination, at the Committees' November 2014 meeting. The Audit Committee's role is to appraise the quality and scope of the Internal Audit work and determine whether the action taken by the audited service was sufficiently robust and prompt in response to the audit findings. Colleagues from Internal Audit and the reviewed service will be present at the meeting to assist this activity.

1.1. **Appendix 1** is the selected Bank Reconciliation report selected by the Committee at its November 2014 meeting.

1.2. **Table A** below summarise summarises key issues found.

<b>TABLE A – Bank Reconciliation</b>					
<b>Reason for audit:</b> The Audit selected was performed as part of the planned Internal Audit coverage. <b>Appendix 1</b> contains the latest position as reported as part of the 2014/15 Internal Audit Plan.					
<b>Latest Assurance level:</b>	High				
<b>Key findings</b>					
The 2013/14 Audit gave limited assurance based upon the failure to perform regular reconciliations throughout the year on the main bank accounts used by the council to receive income and pay citizens and businesses. This weakness was found to be addressed in our 2014/15 review which found reconciliations being completed on a regular basis and being given to a Senior Finance Manager for approval in accordance with our previous recommendations. Consequently a high level of assurance was judged to be appropriate.					
<b>Recommendations Update</b>					
<b>Total:</b>	0	<b>High Priority:</b>	0	<b>Medium Priority:</b>	0
The ownership of Internal Audit recommendations is the responsibility of the audit client and an update of progress has been included in the report.					

## **2. BACKGROUND**

The critical appraisal of selected Internal Audit reports by Audit Committee is an important aspect of the Council’s governance framework. This helps the Committee to fulfil its responsibility to receive reports on the work undertaken by Internal Audit and to critically appraise its performance. In doing this, the Committee is testing the robustness of and contributing to the organisation’s audit and other governance arrangements. This also aids development of a deep understanding of the Council’s internal control environment and Internal Audit working practices. Issues to consider are:

- How the audit was selected – for example the risk assessment, the potential for fraud, previous track record of the service, frequency of the audit;
- Whether the audit coverage was appropriate, adequate and correctly focussed;
- The time spent on the audit against the outcomes and findings;
- The quality of the internal audit report;
- The actual findings and the impact on the service and the council overall;
- The service’s response to the audit recommendations;
- The speed and robustness of the actions taken to address the recommendations;
- Whether there are any learning points or principles that could be applied in future audit or governance work.

This list is for guidance only and the Committee is at liberty to explore other governance issues.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

None



## **FINAL INTERNAL AUDIT REPORT Bank Reconciliation 2014-15**

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### **Distribution List**

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# Executive Summary

## Introduction and Background

- 1.1 We have reviewed the operation of Bank Reconciliations as part of the 2014/15 Audit Plan.

The scope of this audit consisted of the following:

- The reconciliation of the General Account
- The reconciliation of the Drawings Account

## Key Findings

- 1.2 All figures used in the General Account and Drawings reconciliations matched their source (e.g. bank balances).
- 1.3 Each month a number of transactions occur through the General Account bank account (such as the addition of interest) that are not processed through Oracle. This results in variances between the bank balances and Oracle records. Journal entries are used to rectify these variances. In testing it was found that all necessary journal entries had been created.
- 1.4 One of the main factors in creating these variances every month is that appropriate radius rules cannot be put in place to automatically account for the transfers and other transactions. This is as a result of restrictions put in place by the bank. With the transfer of banking services to the new provider this should be rectified as new radius rules can be put in place.
- 1.5 All calculations and formulas used in the reconciliations were found to be correct.
- 1.6 We are pleased to see an improvement since we last reviewed this area and can report the fact that reconciliations are now being completed on a regular basis and are being passed to the Senior Finance Manager for approval.

## Opinion

- 1.7 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We are able to give **High Assurance** on the controls in this area.

## Added Value

- 1.8 There has been an improvement in the level of control, since this area was last reviewed with last year's recommendation being implemented.

## **Responsibilities**

- 1.9 The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary. As a consequence we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken.

## Appendix A – Definitions of Audit Opinion

### Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

**High Assurance** High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.

**Significant Assurance** Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited Assurance** Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.

**No Assurance** No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

### Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

**High Priority** A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.

**Medium Priority** A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.

**Low Priority** The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.