



**Report on:**

**Westminster City Council**  
**Unpresented Cheque Reconciliation 2003/04**

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## **Executive Summary**

Significant difficulties in respect of the 'Unpresented Cheque Reconciliation' (being part of the overall bank reconciliation) has resulted in:

- Delays in concluding audit of 2003/04 financial statements
- Identification of accounting errors
- Recognition that procedure improvements and monitoring required

Delays have been extensive following recognition that the methodology utilised in preparing the reconciliation was incorrect, and that accounting errors had occurred. Significant additional resource was required to investigate issues dating as far back as 2000/01.

Investigation has identified the requirement for a £1.2 million write off to the General Fund, plus an additional £238 thousand provision in respect of items requiring further scrutiny, impact being to 'Rent Allowances Service'. The items in respect of which the charges apply cover the financial years from 2000/01 onwards. No cash loss was involved in these accounting adjustments.

Vertex and Westminster City Council working in partnership have identified a number of improvements that will ensure accurate monthly reconciliations will be prepared on a go forward basis – which in summary constitute a complete overhaul of the methodology, timeframe and monitoring of the reconciliation.

## **Introduction**

This report has been prepared to provide both an update and explanation in relation to the delays in concluding the financial statements for 2003/04 and the related £1.2 million write off to the General Fund

In reading this report, it should be initially noted that preparation of the bank reconciliation is a fundamental financial control that must be effectively prepared, monitored and agreed on a timely, regular, basis.

It should also be noted that the volume of payments, in excess of £800 million per annum, going through the related bank accounts for this area are very significant to all aspects of the Council's financial affairs.

The overall bank reconciliation for Westminster City Council contains a figure for 'Unpresented Cheques', being an amount derived from the Westminster City Council 'cashbook'.

The cashbook in turn reflects all payments produced and payments presented in respect of:

- General Creditors
- Payroll and Pensions
- Housing Benefits

The purpose of the 'Unpresented Cheque Reconciliation' is to verify the Unpresented Cheque figure by means of reconciling between the cashbook figure and system listings of unpresented payments.

Properly executed – the Unpresented Cheque reconciliation lends confidence in respect of payments produced and payments presented being properly reflected within the financial systems of Westminster Council. Being particularly important in respect of identifying and reflecting on system:

- Cheques and bacs credited to bank statements
- Cheques encashed at One Stop

The purpose of this report is therefore to summarise in respect of the 'Unpresented Cheque Reconciliation'

- The significant difficulties experienced to date in preparing the reconciliation
- The current position in respect of the reconciliation
- The way forward in respect of the reconciliation

## **Background**

Historically, the Unpresented Cheque reconciliation has been prepared twice yearly:

- Half Year as at 30<sup>th</sup> September
- Year End as at 31<sup>st</sup> March

Responsibility for preparation of the reconciliation rests within the 'Banking and Control' department, being a department outsourced by Westminster City Council to:

- Capita until 30<sup>th</sup> November 2003
- Vertex since 1<sup>st</sup> December 2003

It should also be noted that staff employed by Capita transferred to Vertex under standard TUPE arrangements at the date of transfer. For all practical purposes, Banking and Control personnel did not therefore change under the new contractual arrangements.

Capita are still involved in the successful preparation of the reconciliation given their role in managing Housing Benefits on behalf of Westminster City Council. Vertex therefore requires reports from Capita in relation to Housing Benefits that comprise a significant element of the complete reconciliation.

Westminster City Councils key responsibility in this area being monitoring the reconciliations prepared in respect of timeliness and quality.

The fourth, and final party, with a specific duty in respect of the reconciliation are District Audit. The Unpresented Cheque reconciliation being a working requiring audit on an annual basis.

To put the figures contained within this report in context, it should be borne in mind that total figures for financial year 2003/04 total:

- Payments Produced £802,215,752
- Payments Presented £802,369,445

### Chronological Summary of Key Issues

From a retrospective viewpoint, the following are considered to be the main issues, in order of timing, that have occurred.

- Sep 03      Half-year reconciliation not prepared and monitoring appears not to have highlighted this in an agreed and accepted manner between Vertex and the Council
- Apr 04      Vertex (previously Capita) manager with responsibility (current and historical) resigned without giving notice, and having previously given assurances agreed audit timetable would be met – with no backup employee being in place to cover task and assurances not being fully met.
- Jul 04      Auditors flagged to Westminster City Council senior management that reconciliation overdue by five weeks – Vertex senior management then notified – representing lack of timely escalation within Westminster City Council and Vertex line management
- Jul 04      Vertex management attended City Hall and prepared reconciliation utilising same format and methodology as prior year – with a £21K unreconciled variance in existence
- Aug 04      Audit review noted that system listings for Unpresented Cheques had been raised utilising the wrong system command – input of figures derived from correct system reports resulted in a significant unreconciled variance
- Sep 04      Given the failure of the 2003/04 reconciliation, the methodology underpinning the 2002/03 reconciliation was revisited. Indications following this review cast significant doubt upon the accuracy of the both the methodology and prior year reconciliation
- Attempts were also made to utilise the two ex employees (including the manager who resigned without notice) – but without success
- Sep/Oct 04      Following on from the significant doubt re past methodology – a back to basics approach was then taken in respect of the reconciliation.
- In summary – the following detailed work has taken place:
1. The reconciliation has been broken down in to the following areas:
    - a. General Creditors
    - b. Payroll and Pensions – which includes LPFA
    - c. Housing Benefits
  2. Each area has in turn been analysed to the following level of detail:

- a. Payments Produced – for both Bacs and Cheques
  - b. Payments Presented -for both Bacs and Cheques
  - c. Returns – for both Bacs and Cheque
3. Additional ‘stand alone’ analysis for the month of April 2004
    - a. To prove go forward methodology
    - b. To allow a blue print – for further analysis of 2003/04 and prior years
  4. Additional work performed for Housing Benefits on a cumulative basis
    - a. Internal balancing of CR6050 system report
    - b. Reconciliation to WIMS system

In performing the work noted above, emphasis was placed upon ensuring that all entries contained within the Cashbook Unpresented Cheque figure reflects appropriate related backup (primarily payments produced, presented, returned and unpresented cheque listing), whether system reports or bank statements (analysed by day for entire year). The intention being that the reconciliation work lends significant weight to both accuracy and completeness of system entries and reports in this area

Nov 04 Following on from the work performed during September and October, revised reconciliation with backing papers have been presented to District Audit, with the following being the key points to note:

- 1) Journal for £1,191,907 (Dr Rent Allowances Service (Revenue) Cr Bank Overdraft) in respect of 3 items.

£771,620 2002/03 - reversal of overstated stopped cheques  
 £235,169 2003/04 - reversal of overstated stopped cheques  
 £185,118 2001 to 2004 – stopped cheques to be reversed as presented

- 2) Provision for £238,000 (Dr Rent Allowances Service (Revenue) Cr Provisions)

Being a provision in respect of the unreconciled balance within Housing Benefits, being for the years:

£198,634 2000/01  
 £(115,244) 2001/02  
 £202,769 2002/03  
 £(47,845) 2003/04

It should be noted that the methodology for analysing this difference has been developed – but extremely time consuming.

The methodology being to compare on a daily basis presented payments per Housing Benefits Academy system to bank statements, identify variances, drill down on variances to identify specific components.  
The intention is to identify the components of the balance for close of year 2004/05

- 3) It should also be noted that a small number of minor unreconciled variances exist, along with a number of reconciling items that require investigation and appropriate resolution. Such items are considered immaterial and shall be corrected as appropriate within 2004/05

## **Conclusions and Recommendations arising from Key Issues**

Following on from the key issues noted above, it is recognised that areas of weakness must be addressed. The following are considered to be the key components required to create improvement.

### **Format of Reconciliation**

It is recognised that the historical format of the reconciliation is not adequate for either ease of preparation or review.

The revised format of the reconciliation provides clarity and simplistic cross-reference to the underlying working papers for the three payment areas that comprise the overall reconciliation, being:

- General Creditors
- Payroll and Pensions
- Housing Benefits

### **Reconciliation Methodology**

Linked to the revised format, a simplistic (back to basics) methodology has been put in place. While full details of the methodology can be referenced within the Audit File, the basis of the methodology is as follows:

- Separate reconciliations created for:
  - General Creditors
  - Payroll and Pensions
  - Housing Benefits
- Detailed Reconciliation of Monthly Cashbook
  - Payments produced breakdown and verification to system reports
  - Payments presented breakdown and verification to bank statements
  - Payments returned breakdown and matching to bank statements
- Reconcile brought forward and carried forward Unpresented Listings
  - Utilises the detailed cashbook breakdown
  - Identifies reconciling items either timing or corrections

Underpinning the revised reconciliation methodology is the necessity to accurately document cheques and/or bacs that do not clear in an orderly fashion, plus sundry credits to the bank statements. In relation to which the following are representative:

- Bacs returns credited to bank statements
- Stopped Cheques credited to bank statements
- Cheques clearing at an amount that differs from that raised

In order to ensure that Westminster City Council funds are both properly safeguarded and accurately represented within financial systems – such items are within the new methodology systematically logged and reconciled.

### Control Environment

It has been recognised that the control environment for both Westminster City Council and Vertex has required strengthening.

In respect of this, the following has taken place:

General:	Monthly reconciliations replacing twice yearly historical preparation
Westminster City Council:	Assistant Finance Director now on board – one task being to ensure monitoring comprehensive and adequate  Responsibility for monitoring has been transferred from ‘contract performance’ to the ‘central finance department’ – to ensure appropriately trained staff involved in the review function
Vertex:	Full time on site finance manager presence from 1 <sup>st</sup> November 2004

The intention of this additional management focus is to ensure that significant issues are noted at an early stage, escalated to senior line management, and resolved in a timely manner.

### Adequacy of Interaction

It was noted during investigation of the reconciliation that interaction between the following relevant parties was not adequate.

Westminster City Council	in role as client
Vertex	in role as provider responsible for preparation of reconciliation
Capita	in role as provider responsible for provision of Housing Benefit reports from Academy system (Housing Benefits being one of the constituent areas of the reconciliation)

Meetings have taken place to gain a full understanding of the reports provided by Capita via the Academy system. Capita in turn now have a full understanding of the reports required by Vertex each month end, and the timing for provision of such reports.

### Timetable – The Way Ahead

To ensure that difficulties are both highlighted and dealt with in a timely manner – reconciliation will now take place on a monthly basis.

At present the reconciliation has been rolled forward through April 2004, and the intention is to roll forward on a monthly basis going forward.

Targets being agreed and set as follows:

#### High Level Target

31<sup>st</sup> December 2004                      Reconciliation complete to 30<sup>th</sup> September (half year)

31<sup>st</sup> January 2005                        Reconciliation complete to 31<sup>st</sup> December

#### Monthly Targets

Working Day 5                            Capita provide Housing Benefit Reports to Vertex

Working Day 15                         Vertex deliver reconciliation to Westminster City Council for review

Working Day 20                         Westminster City Council sign off reconciliation with list of comments/issues as appropriate

#### 2004/05 Financial Statements

03/04 Processes                         A full review of the processes will be carried out as soon as possible after completion and signing of the 2003/04 accounts. This review will include both agreement on accountability and responsibility, plus agreement of process for ensuring full satisfactory investigation and conclusion of the transactions provided for in the 2003/04 financial statements

### **Background Papers**

It should be noted that background papers referred to throughout this report are available for inspection.

The papers contain both comprehensive reconciliation calculations in respect of all areas of the reconciliation along with technical procedures in respect of the detailed reconciliation methodology now in place.