

Chapter 39

Bank and An Post Reconciliation

Bank and An Post Reconciliation

39.1 The Department of Social Protection (the Department) processed around 85 million welfare payment transactions in 2010 with a combined value of the order of €20 billion. These included electronic fund transfers direct to clients' bank accounts and electronic information transfer payments through An Post, which acts as a payment agent for the Department²⁹⁸ as well as cheque payments.

39.2 Arising out of difficulties in reconciling its authorised and paid transactions, the Department began work in 2002 on a project to address the deficiencies²⁹⁹. The reconciliation systems in use, at that time, had been in operation since 1986 and were not linked to the Department's main financial recording system. Key objectives for the replacement system were that it would be capable of posting the Department's expenditure to its general ledger, matching issues and encashments, identifying unmatched encashments for investigation and resolution, and carrying out automated reconciliation of the Department's accounts with those of its banks and of An Post.

39.3 The replacement system, known as the Payment and Agency Reconciliation Platform (PARP), was delivered at a cost of €0.1 million and was commissioned at the beginning of June 2009.

39.4 I reported following the audit of the financial statements of the Social Insurance Fund (the Fund) for 2009, which was completed on 29 December 2010, that there were deficiencies in the bank reconciliation processes operated by the Department. In that regard, I stated that

Deficiencies were noted in relation to the timeliness of preparation, format and review of bank reconciliations and in the procedures relating to the cancellation of cheques. The same deficiencies had existed at each month end since the adoption of a new computerised reconciliation process in June 2009.

The Department is carrying out work to reproduce accounting trails, fully reconcile the bank transactions and improve its business processes around bank reconciliations. At the time of my report, certain items have not been fully investigated. The net amount subject to investigation is of the order of €330,000. Accounting adjustments, which are not considered to be material in the context of the Fund's turnover, may be necessary in future years in order to address any errors identified.

39.5 System and process improvements made by the Department early in 2011 did not have retrospective effect. As a result, the same shortcomings with regard to bank reconciliations were evident in the course of the 2010 audits of the Vote for Social Protection and the Fund. In addition, there continue to be differences in the balances claimed as due by An Post and those recorded by the Department.

Chapter Focus

The chapter outlines the deficiencies in the bank reconciliation processes noted on audit and the shortcomings in arrangements to independently confirm balances due to An Post.

²⁹⁸ Social welfare payments of around €10 billion are paid annually through An Post under an agency arrangement.

²⁹⁹ See Annual Report of the Comptroller and Auditor General 2004.

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39.6 It was noted in the course of the audits that the PARP system posts transactions to the ledger, and has improved the Department's ability to trace individual transactions and to identify unmatched encashments quickly for further investigation. However, it had not yet succeeded in delivering a functioning bank reconciliation in the standard format.

39.7 The system's reporting output was not in the standard format for a bank reconciliation because

- The reconciliation module, as implemented, did not report transactions by reference to the periods of account to which they relate.
- An up-to-date report of the status of the bank reconciliation for a particular day, adjusted for items that were subsequently matched or processed, could not be produced from the system.
- It had accumulated rather than eliminated a considerable portion of cashed payment instruments. The value of these accumulated non-matched items at 31 December 2010 was of the order of €2 billion.
- It did not distinguish between cancelled and outstanding cheques.
- Bulk posting of cancelled cheques meant there was no one-to-one matching within the system of those transactions.

39.8 Consequently, work-arounds were necessary to help construct a standard format bank reconciliation — these involved using other software packages.

39.9 Following completion of the process, the total of unverified differences at 31 December 2009 was €361,000 (Vote €28,000; Social Insurance Fund €333,000). While the audit of the Social Insurance Fund for 2010 is not yet complete, the unverified difference on the Vote at 31 December 2010 was €35,000.

Views of the Accounting Officer

39.10 The Accounting Officer stated that the system allows for tracing of individual cheques, at any point in time. However, she acknowledged that certain factors had contributed to the system not delivering a standard format bank reconciliation. These included

- the non-commissioning of the cheque status identifier when the PARP system was implemented meant summarisation of uncashed cheques by cheque status category was not possible
- the system was unable to match batched cancellations with corresponding cheques in the outstanding cheques lists
- a coded rule for PARP to apply in automatically matching cancelled cheques with issues was not included in the system
- it was also difficult to examine unmatched records outside the system because the system set up limited the Department's capacity to extract more than 50 records at a time (a fraction of the total unmatched).

39.11 The Accounting Officer stated that adjustments or enhancements to the PARP system either commissioned or planned for 2011 include the following

- With effect from February 2011, the status attaching to cheque payments on the PARP system differentiates between outstanding, cancelled and stopped cheques. Uncashed cheque listings can now be exported from PARP for summarisation and analysis by status category using other software packages.
- Cancelled cheques will no longer be bulked when posting to the general ledger. This will enable the individual cheque reference to be maintained through the posting process, facilitating one-to-one matching of cancelled cheques and their removal from reconciliation reports.
- A facility will be provided (a period identifier) to update transactions historically and update the period end reconciliation.
- The setting which previously restricted extraction of unmatched records to 50 records at a time was a default setting. A change in business procedures has eliminated this restriction and no additional development work was required.

Conclusion – Bank Reconciliation

The Department needs to address its capacity to comprehensively and transparently reconcile its account balances with those of its banks. It is important that reconciliations be done at each month end within an accounting period.

Despite introducing a new computerised process, the Department continues to require additional work-around procedures to generate a standard format reconciliation and unverified differences following the reconciliation process continued to exist at 31 December 2010.

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39.12 The Department has considerable unreconciled amounts representing the differences between the version of transactions recorded by An Post and that recorded in its own records. There was a difference of €2.2 million between the balances recorded by the two organisations at the end of 2010.

39.13 A functional specification for the PARP system drawn up in March 2006 envisaged automated production of a daily reconciliation between the Department's and An Post's accounts. However, the system as implemented does not produce such reconciliations.

39.14 In the course of developing the system, it was concluded that the planned An Post reconciliation could not be compiled in the same way as the bank reconciliation.³⁰⁰ The reasons stated were because the data supplied each day by An Post did not include a statement of balances or a record of payment advances by the Department, and because posting to the general ledger is on an encashment basis i.e. only when a payment reported by An Post matches an authorised payment instruction. Instead, it was proposed that the system would produce a monthly An Post cash account, to be sent to An Post by the fifth working day of the following month. However, this account is not being produced.

³⁰⁰ The basis for the conclusion is outlined in a functional solution design report (November 2008) compiled by the contractor that implemented the PARP system.

39.15 A further problem is that An Post encashments processed through PARP are in certain instances being attributed to the incorrect period because the system bases its posting to the general ledger on the date the encashment information is processed rather than upon the actual date of the encashment by An Post. Manual adjustments in the Department's accounts are required to rectify this.

Views of the Accounting Officer

39.16 The Accounting Officer acknowledged that while PARP does not produce automated cash accounts in respect of An Post, manual cash accounts are produced in conjunction with An Post on a monthly basis using information supplied by PARP and the Department's general ledger.

39.17 The Accounting Officer has stated that arrangements are in place to enhance PARP in 2011 in order to produce an automated monthly reconciliation of cash accounts produced by the Department with cash accounts produced by An Post. A further proposed enhancement is to change the posting period of reconciled encashments from reconciliation date to date of encashment in the post office.

Conclusion – An Post Reconciliation

A key element of the planned PARP system that was intended to ensure that the An Post balances could be independently validated was not delivered. Considerable differences exist between the balances recorded by both organisations.

Conclusion

While the PARP system implemented by the Department provides for enhanced traceability of individual payments, it is weak in aggregating those payments in a manner that provides standard format bank reconciliations. The enhancements outlined by the Accounting Officer will be reviewed in the course of future audits.

In the meantime, extended audit procedures give reasonable assurance that the bank balances of the Department are not materially misstated.

Initiatives that might be considered by the Department include

- from a control perspective, putting in place procedures to reconcile bank balances on a monthly basis and to identify any period-to-period divergences
- from a governance perspective, having internal audit carry out annual year end projects to assure the Accounting Officer as to the accuracy and completeness of the reconciliations underpinning the accounts of the Department that are being presented for audit.

Because the payment administration of assistance and benefit schemes is integrated, it would be desirable that the accounts of the Vote and those of the Social Insurance Fund be produced and audited simultaneously. This would eliminate the risk that certain adjustments impacting on the Vote might not be detected in the course of its audit.

The Department needs to bring to a conclusion the work of reconciling the balances in the records of An Post with those in its own records. This would position it to better manage its banking relationship with An Post.