

# Audit of Treasury Management

Draft Report Issued: 31 March 2020  
Director Draft Issued: 20 April 2020  
Final Report Issued: 21 April 2020



## Audit Report Distribution

<b>Client Lead:</b>	Principal Accountant
<b>Chief Officer:</b>	Corporate Director of Finance & Resources Chief Executive
<b>Others:</b>	Technical Finance Officer Financial Services Manager Information Governance Manager
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 6 <sup>th</sup> July 2020 will receive a copy of this report.

*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.*

## 1.0 Background

- 1.1. This report summarises the findings from the audit of Treasury Management. This was an internal audit review included in the 2019/20 risk-based audit plan agreed by the Audit Committee on 18<sup>th</sup> March 2019.
- 1.2. Treasury Management is important to the Council as it is the management of the organisation's cash flow including banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- 1.3. The Council has an agreement with Link Asset Services to provide treasury consultancy and leasing advisory services.

## 2.0 Audit Approach

### Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

### Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Principal Accountant and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
  - Failure to achieve business objectives due to insufficient governance.
  - Cash reserves not appropriately safeguarded by suitable internal control framework including insurance and compliance with Council's own policies and procedures.
  - Bad decisions made due to incomplete, incorrect or untimely information.
  - Poor value for money achieved through investments.
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

## 3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

- 3.2** From the areas examined and tested as part of this audit review, we consider the current controls operating within Treasury Management provide **substantial level assurance**.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

#### **4.0 Summary of Recommendations, Audit Findings and Report Distribution**

- 4.1** There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

<b>Control Objective</b>	<b>High</b>	<b>Medium</b>
<b>1. Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
<b>2. Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
<b>3. Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	-
<b>4. Value</b> – effectiveness and efficiency of operations and programmes (see section 5.4)	-	-
<b>5. Security</b> - safeguarding of assets (N/A)	-	-
<b>Total Number of Recommendations</b>	<b>-</b>	<b>2</b>

- 4.2** Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

**4.3 Findings Summary (good practice / areas for improvement):**

Overall there are good controls in place within the Treasury Management function a small number of recommendations have been made as a result of this review to further strengthen these controls.

The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities, this was last revised in 2017 and the Council formally adopted this revision in February 2018.

The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2019/20 was formally approved by Council in February

2019. Council formally approved amendments to this Strategy in September 2019. The 2020/21 strategy has been formally approved by Council in February 2020.

The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2019/20 – 2021/22.

All the counter parties and their limits are included in the annual Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2019/20. An amendment to this has been completed mid-year and was appropriately approved.

An operational risk for the service is recorded on SharePoint, this risk has not been reviewed since August 2019 due to the risk owner being absent from work, this should be monitored in line with the Corporate Risk Management Policy.

Treasury officers are experienced and receive regular training and support which is crucial for the Council to ensure the best value for money is obtained through investment.

A scheme of delegation and procedures are in place for treasury management.

Treasury Management monitoring reports are regularly completed and reported.

The Council receives regular forecasts from Link to try and protect against rate fluctuations and inflation.

Restrictions to the accountancy drive and treasury management folder should be reviewed and reduced to the officers who need access. As best practice officers should lock their workstations when they leave their desk unattended.

**Comment from the Corporate Director of Finance and Resources**

It is reassuring that the controls surrounding the Council's borrowings and investments, a significant financial process, are sound and assessed as being substantial. The 2 recommendations are accepted by management and will be implemented within the agreed timescales.

## 5.0 Audit Findings & Recommendations

### 5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities, this was last revised in 2017 and the Council formally adopted this revision in February 2018.
- 5.1.2** The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2019/20 was formally approved by Council in February 2019. Council formally approved amendments to this Strategy in September 2019.
- 5.1.3** The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2019/20 – 2021/22.
- 5.1.4** The Treasury Management Strategy Statement for 2020/21, the Investment Strategy and Minimum Revenue Provision Strategy, together with the Prudential Indicators for 2020/21 and the Treasury Management Policy Statement have been approved by the City Council on 4 February 2020.
- 5.1.5** Officers and members who have responsibility for Treasury Management receive training from Link Asset Services who provide the Council with Treasury advice. Officers also provide training to Members at Audit Committee.
- 5.1.6** Adequate Corporate guidance is available to members and officers in relation to Treasury Management, these include the following:
- The Constitution;
  - The Council Procedure Rules;
  - The Financial Procedure Rules;
  - TM Strategy and Statement;
  - The Corporate Director of Finance and Resources Directorate's Scheme of Delegation;
  - Treasury Management Practices;
  - Anti Money Laundering Policy.
- 5.1.7** Officers involved in Treasury Management receive policy / procedural updates.
- 5.1.8** The Treasury Management Outturn Report for 2018/19 was reported to the Executive, Scrutiny, Council and the Audit Committee.
- 5.1.9** Quarterly Treasury Management Monitoring Reports are completed and reported to the Executive and the Audit Committee.

- 5.1.10** A sample of figures reported in the quarterly treasury management monitoring reports were checked for accuracy, one issue was noted where the figures for the investments made (7 investments totalling £14,850,000) in the Q2 monitoring report were not detailed in Appendix A2. After further investigation it was established that the total figure reported included the seven missing entries, therefore the correct figures had in fact been reported. In future officers should ensure that all the figures are included within the reports.
- 5.1.11** A structure is in place which is supported by relevant job descriptions.
- 5.1.12** Financial Services Service Plan 2019/20 has been documented and an objective is in place that relates to the Treasury Management function.
- 5.1.13** The Council's Retention Schedule includes Treasury Management and a disposal log is maintained for Financial Services Records.

## **5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts**

- 5.2.1** The Council's current contract for treasury consultancy services and leasing advisory services is with Link Asset Services. A copy of the extension of this contract was provided and has been signed by both parties, this is due to expire on 31st March 2021.
- 5.2.2** The team receive email treasury updates including regular forecasts from Link Asset Services and policy / procedural updates.
- 5.2.3** A review of the Counter parties' forms part of the annual Treasury Management Strategy review. Amendments to this can be undertaken as required and go through the same approval process.
- 5.2.4** Operational risks for the service are recorded on SharePoint, the risk for Treasury Management has suitable control strategy / mitigating actions recorded. This risk has not been reviewed since August 2019 due to the risk owner being absent from work.
- Recommendation 1 – Risks should be reviewed by another officer in the absence of the risk owner, in line with the Corporate Risk Management Policy.**
- 5.2.5** A scheme of delegation and procedures detailing this are in place for treasury management.

- 5.2.6** Audit tested a random sample of investments to confirm that the deal was completed by approved treasury management officers, no issues were noted.
- 5.2.7** A sample of deals were reviewed to confirm that they had been authorised in accordance with the policy and procedures, the following was noted:
- Ten investment payments were appropriately approved;
  - One transfer payment to and from HSBC accounts had been initiated and authorised by the same officer as the other three officers were absent. Where possible these transactions should be countersigned by an appropriate officer;
  - Five of the deals were reinvestments of funds that were due to mature, therefore no payments were made, all had been made by an authorised officer.
- 5.2.8** A sample of investments were successfully traced from the cash flow spreadsheet to documentation received, the accounting system and bank statements.
- 5.2.9** Daily investment rate changes are recorded on a spreadsheet, which was found to be up to date.
- 5.2.10** All the counter parties and their limits are included in the annual Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2019/20. An amendment to this has been completed mid-year and was appropriately approved.
- 5.2.11** A sample of 16 investments were randomly chosen for audit testing and all had been made with an appropriate institution defined in the policy document, none of the limits in value had been exceeded or the duration specified in the policy.
- 5.2.12** Observations were made during the audit review where officers had left their workstation unlocked when their desk was left unattended. Officers should ensure that they lock their workstation when unattended.
- 5.2.13** The users, their parameters and authorisation limits for the HSBCnet system were reviewed and all seem reasonable. Recent changes to the system had been initiated by one officer and authorised by another.
- 5.2.14** A list of officers with access to the Treasury Management Folder was provided by ICT Services. This identified several officers have access to the folder that do not need it. It is possible to reduce access to folders within drives and have read only access if required. There is a risk that the cash flow spreadsheet could be accessed and amended, which could affect the accuracy of the Councils daily cash flow record.



**Recommendation 2 – Access to the Accountancy Drive and the folders within this including treasury management should be reviewed and restricted to officers who only need access.**

### **5.3 Information – reliability and integrity of financial and operational information**

- 5.3.1** Treasury Management transactions are recorded daily on a master spreadsheet, this was found to be up to date.
- 5.3.2** The Council's cash flow is monitored daily and daily forecasts are competed.
- 5.3.3** Council loans are recorded and monitored via spreadsheets.
- 5.3.4** Two loans taken out during the current financial year were appropriately authorised and the Council was in receipt of the funds.
- 5.3.5** Audit testing identified no issues with the repayment on loans and interest.
- 5.3.6** A sample of matured investments and interest was tested, all appropriate funds had been received and accounted for correctly.
- 5.3.7** A monthly interest accrual is completed.
- 5.3.8** Treasury officers' complete daily checks, however, no formal reconciliation of treasury management transactions to the accounting system is completed, although a full-year end reconciliation is completed and the previous financial year 2018/19 has been successfully audited by external audit.
- 5.3.9** The Council does have a current fidelity guarantee insurance policy, however it does not cover all the accountancy posts in the current structure (dated February 2020). The renewal from 1<sup>st</sup> May 2020 does cover all the officers in the current accountancy structure.
- 5.3.10** The Council has a current Professional Indemnity Insurance policy as well as a Business Interruption cover.

## **5.4 Value – effectiveness and efficiency of operations and programmes**

**5.4.1** The Council has an up to date Business Continuity Plan – Service Recovery Plan.

**5.4.2** The Council's cash flow is assessed daily and should remain in credit. Only three examples were noted where one of the three banks accounts were in a deficit balance and one of these examples was not the Council's fault as the bank in question did not repay a maturing investment on time, so they paid the Council's overdraft charges.

**5.4.3** Any Council surplus funds are identified and invested promptly.

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<p>Recommendation 1</p> <p>Risks should be reviewed by another officer in the absence of the risk owner, in line with the Corporate Risk Management Policy.</p>	M	If risks are not regularly monitored there is a risk that Council priorities are not achieved / supported.	Risk Register contact details to be updated to include a Deputy should the Risk Owner be absent for any reason. Risk Management Assurance Framework to be updated to ensure deputy risk owners are nominated.	Principal Accountant/ Office Manager & PA to Chief Executive	July 2020
<p>Recommendation 2</p> <p>Access to the Accountancy Drive and the folders within this including treasury management should be reviewed and restricted to officers who only need access.</p>	M	There is a risk to the safeguarding of information if data was accidentally changed or deleted by unauthorised individuals.	<p>Password protection to be added to the master cash flow spreadsheet and the password shared with relevant officers.</p> <p>Restrictions were previously in place to limit access for certain individuals to specific folders only. Unsure when or why these have been removed.</p> <p>A review of access to the Accountancy drive to be undertaken with IT and access restricted again where required.</p> <p>Roll out to Office 365 would resolve this going forward.</p>	<p>Technical Finance Officer</p> <p>Principal Accountant</p>	<p>May 2020</p> <p>October 2020</p>

## Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
<b>Limited/None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

## Appendix C

### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).