

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Strategic Finance Manager
Principal Accountant:
Treasury Management
Assistant Accountant:
Treasury Management

SUBJECT: Treasury Management
DATE: 4 December 2014

1 Introduction

- 1.1 As part of the 2014/2015 plan, an audit was undertaken recently on the procedures and controls in place to manage Treasury Management.
- 1.2 At the time of the audit there was £55.6m invested in a range of short term investments and long term capital borrowings of £136.2m.
- 1.3 My thanks are extended to all members of staff for the help and co-operation received during the audit.
- 1.4 This report outlines the approach to the audit and presents the findings and conclusions arising.

2 Scope and Objectives of the Audit

- 2.1 The approach to the audit was to ascertain, evaluate and test the processes and controls in place by applying the CIPFA Control Matrices for the sub-systems on Treasury Management. The CIPFA Control Matrices comprise internal control questionnaires which are a series of compliance tests that are linked to the ICQs and designed to identify any control weaknesses.
- 2.2 Detailed tests have been completed to test that controls are in place for all 13 CIPFA Control Matrices for Treasury Management.
- 2.3 The expected controls under these modules are categorised into the following areas:
 - (1) Policies and procedures
 - (2) Staffing
 - (3) Risk management
 - (4) Cash-flow
 - (5) Lending
 - (6) Borrowing
 - (7) Capital investment
 - (8) Payments
 - (9) External service providers
 - (10) Fraud prevention

- (11) Records and reconciliations
- (12) Monitoring and reporting
- (13) Security of data

3 Findings

3.1 Policies and Procedures

- 3.1.1 The departmental Treasury Management daily procedure notes were last updated in February 2013. Roger Wyton, Principal Accountant, has agreed to update the procedure notes during December 2014.

Risk

Any new staff, or staff covering for absences, will not have accurate procedure notes to refer to that ensure that activities are undertaken correctly.

Recommendation

The daily procedure notes should be updated to reflect current practices, with the manual being updated to include current documentation.

- 3.1.2 The annual Treasury Management Strategy Plan, as approved by the Executive and Council in March 2014, is well supported by the set of 12 generic Treasury Management Procedures.

3.2 Staffing

- 3.2.1 The staffing arrangements for Treasury Management was considered and deemed to be suitable.
- 3.2.2 In 2014, staff attended seminars run by sector specialist Capita (Sector) to enhance their personal development.

3.3 Risk Management

- 3.3.1 Audit review confirmed that risks e.g. liquidity of treasury investment, as identified in the Treasury Management Practices, are managed by adopting strict rules based on counter party credit ratings. The lending list of potential counter parties with maximum limits for investments is regularly reviewed as a result of receiving updated credit ratings from Capita (Sector) on a daily and weekly basis.

3.4 Cash Flow

- 3.4.1 Audit testing confirmed that the daily cash flow controls were compliant with the following guidance:
 - 'Treasury Management Practice 4 Approved Instruments, Methods and Techniques'
 - 'Treasury Management Practice 8 Cash Flow Management' and
 - Procedure notes for daily treasury management duties.

3.5 Lending

- 3.5.1 Treasury Management Procedure 1 (Risk Management) and Treasury Management Procedure 4 (Approved Instruments, Methods and Techniques), were compliance-tested for 2014/15 investments.
- 3.5.2 Audit testing for a sample of 10 investments confirmed that the investments were consistent with the 2014/15 annual investment strategy Fitch credit ratings for counter parties.
- 3.5.3 The sample of 10 investments were also compliant with the prescribed type of investments and pound sterling lending limits for counter parties.
- 3.5.4 All 10 investments tested per Treasury Management records were verified to investment transaction documentation and extracts from the Total General Ledger. This confirmed that the procedures and authorisation controls had been complied with.
- 3.5.5 Audit testing confirmed that a regular review of money market percentage interest rates for short and medium term investments is completed to evaluate and make investment decisions.
- 3.5.6 A sample of 2 investments with maturity dates up to the date of audit confirmed that the principal and correct interest receivable was returned to the Council.

3.6 Borrowing

- 3.6.1 The 2014/15 annual Treasury Management Strategy outlined the authorisation limit of £166.1m and operational boundary limit of £151.1m.
- 3.6.2 At the date of audit the Public Works Loan Board capital borrowings of £136.2m is within the borrowing limits per the 2014/15 annual Treasury Management Strategy.
- 3.6.3 The procedure and authorisation controls for payment of the £2.4m PWLB interest payable as at 30th September 2014 were complied with.
- 3.6.4 The £2.4m PWLB interest payment was verified as paid on 29th September 2014 and was agreed to the Total General Ledger.

3.7 Capital Investment

- 3.7.1 Review of the PWLB capital borrowings of £136.2m is confirmed to buy out the Department of Communities and Local Government interest in receiving subsidy from the Housing Revenue Account and not to finance capital projects.

3.8 Payments

- 3.8.1 Audit testing for a sample of 10 confirmed that the procedures, evidenced source documentation for investment payments, segregation of staff responsibilities and authorisation controls per the daily procedure notes for making investment payments using HSBCnet are operating effectively.

3.9 External Service Providers

3.9.1 The performance of Capita (Sector) Treasury Management specialist by giving advice and issuing of credit rating reports is ultimately measurable by the performance of the in house Treasury Investments compared to the LIBID Benchmark (London Inter Bank Bid Rate). The 2013/14 in house performance was higher than the LIBID Benchmark.

3.9.2 A procurement enquiry using the ESPO Dealing Direct Framework to Capita (Sector) for the period 6th January 2015 to 5th January 2018 has been sent.

3.10 Fraud and Prevention

3.10.1 Audit review confirmed that the Council's Anti Fraud and Corruption Strategy, Employee Code of Conduct and Treasury Management Procedure for Money Laundering are in place and available to all staff.

3.11 Records and Reconciliations

3.11.1 Upon audit review of the monthly/quarterly reconciliation between i) the Treasury Management control records for pound sterling capital principal and pound sterling bank interest received/receivable and ii) the pound sterling balances in the Total General Ledger, it was found that neither the reconciliation performed by the Accountancy Assistant nor the subsequent review by the Principal Accountant is evidenced.

Risk

Reconciliation controls are deferred to year end and the investments are substantially different to those held during the year.

Recommendation

A quarterly detailed reconciliation between Treasury Management investment spreadsheet records per counterparty/money market fund should be prepared and signed off as correct.

The reconciliation should detail any incorrect transaction values requiring journal adjustment between principal and interest received, with the objective of ensuring that the financial reporting to Executive is facilitated.

3.12 Monitoring and Reporting

3.12.1 Audit review of monitoring and reporting confirmed that the annual and half yearly monitoring and reporting to the Finance and Audit Scrutiny Committee has taken place.

3.13 Security of Data

3.13.1 Audit review of the Treasury Management records concludes that the records are securely managed.

4 Conclusion

- 4.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place surrounding the Treasury Management activities of the Council are appropriate and are working effectively.
- 4.2 Relatively minor issues were noted in respect of the updating of procedure notes and evidencing of a regular reconciliation process.

5 Management Action

- 5.1 Recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

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