

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Principal Accountant (Capital and
Treasury Management)
Portfolio Holder – Cllr Hales

SUBJECT: Treasury Management
DATE: 9 October 2019

1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 In its Treasury Management Code of Practice, CIPFA defines treasury management as:
“The management of the organisation’s borrowing, investments and cash flows, its 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”.
- 2.2 The audit has taken place at a time of significant change which has its roots in the ‘General Power of Competence’ introduced under the Localism Act 2011, and consequent ventures of local authorities into commercial activity. The most recent updates to the aforementioned Code of Practice and the Prudential Code have been produced with this in mind.
- 2.3 From the audit perspective, this includes a noticeable fusion of treasury management with capital strategic management reflected in a modification by CIPFA to the previous format for its treasury management governance and audit training events to ‘*capital and treasury management*’.
- 2.4 The most noticeable by-product of this the requirement under the Prudential Code to adopt a Capital Strategy. This was duly put in place as part of the 2019/20 Budget approval.

- 2.5 It is fair to say, however, that the above changes have had little impact on mainstream treasury management which continues to operate on the basis of an organisational risk appetite officially classified as 'low'. In view of this, the audit has been scoped and conducted along the lines of the traditional risk-based systems approach while recognising the role of the Capital Strategy.
- 2.6 At the time of writing, the Council has an investment portfolio valued on the region of £90 million and a long-term borrowing portfolio of around £148 million. The investments range from longer-term corporate equity funds to liquid money market funds, while the bulk of the borrowings relate to a tranche of Public Works Loans Board (PWLB) loans taken out in 2012 to finance the Housing Revenue Account buy-out.
- 2.7 The above borrowing figure also includes a new PWLB loan of £12 million taken out at the time of the audit for purposes linked with capital outlay on the leisure centre refurbishments.

3 **Scope and Objectives of the Audit**

- 3.1 The audit examination was undertaken for the purpose of reporting a level of assurance on the adequacy of controls for the effective delivery of treasury management for the Council in accordance with relevant legislation, government regulations and national standards.
- 3.2 The examination took the form of a systematic risk-based examination of structures and processes for treasury management considering the following key areas:
- governance and regulatory requirements
 - organisational objectives and strategic objectives
 - financial controls and operational risks
 - performance and risk management.
- 3.3 The examination drew primarily on the control recording and testing model for treasury management contained in the CIPFA Systems-Based Auditing Matrices. Given the limitations of this model due to its age, the test programme required a large measure of adaptation.
- 3.4 Based on the CIPFA model, the audit was structured under the following themes:
- policies and procedures
 - staffing
 - risk management
 - cash flow
 - lending
 - borrowing
 - capital investment
 - payments
 - external service providers
 - fraud prevention
 - records and reconciliations
 - monitoring and reporting
 - information governance.

3.5 The findings are based on discussions with Richard Wilson (Principal Accountant) and Karen Allison (Assistant Accountant) along with examination of relevant documents and records. Samples for testing have concentrated on activity within the current financial year.

4 Findings

4.1 Recommendations from previous report

4.1.1 There was only one recommendation arising from the previous audit reported in November 2016 (low risk) as follows:

Recommendation	Management Response	Current Status
Authorise the IT Help Desk to give Principal Accountant (Housing) access to the treasury management folders.	E mail request sent to ICT Helpdesk and access enabled.	This was to address an immediate need at the time of the previous audit and warrants no follow-up.

4.2 Policies and Procedures

4.2.1 The Council's policy provisions for treasury management are manifested primarily in three interlinked sources, all approved by Full Council:

- Code of Financial Practice
- Capital Strategy
- Annual Treasury Management Strategy (and appended provisions).

4.2.2. Although a new document, it was decided not to attempt to evaluate the Capital Strategy at length on the grounds that a new corporate business plan was in the process of being developed and a new asset management strategy was still to be adopted at the time of the audit. These will inevitably inform further development of the Capital Strategy.

4.2.3 The policy provisions and practices, as represented in the Treasury Management Practice (TMP) statements, show as duly consistent with the statutory framework. In the case of the TMPs, however, some minor issues were raised regarding aspects of their content when they to Internal Audit input:

- On two occasions the TMPs were found to refer incorrectly to annual reporting by Internal Audit on treasury management. A suggestion has been offered that this should be changed to a non-specific representation of frequency to be determined by the risk-based audit needs assessment process.
- There was some concern over the existing placement of the role of Internal Audit in the context of countering fraud, error and corruption – this could be construed as representing Internal Audit as a first line of defence over and above management, supervisory and technology controls.

Risk

The role of Internal Audit in respect of treasury management may be misunderstood.

Recommendation

The Treasury Management Practice statements should be revised to reflect the proper status of Internal Audit in the control environment and risk-based determination of audit frequencies.

4.2.4 It was noted that the TMPs are published on the Council's website, but the access links invoked the first produced version back in 2008. Management has been alerted to this and the observation is raised here as an advisory only.

4.3 Staffing

4.3.1 In structural terms, the delegation of responsibilities has remained unchanged for a number of years and continues to come across as robust. Staffing changes for key posts since the previous audit have been duly addressed through appropriate training.

4.3.2 It was advised that the first training event for Members on treasury management since the 2019 Council election is due to take place in November 2019.

4.4 Risk Management

4.4.1 The hierarchy of evidence for application of the corporate Risk Management Framework to treasury management comes across as duly coherent.

4.4.2 Testing to the CIPFA model has shown the risk assessment mitigation factors to be sufficiently comprehensive in risk coverage, subject to the observations above concerning Internal Audit input.

4.5 Cash Flow

4.5.1 The processes for keeping track of cash liquidity are well-established based on Excel spreadsheet models with recourse to on-line banking and access to Money Market Funds for real-time money movements to maintain acceptable daily bank balances.

4.5.2 It was verified from testing that these processes are functioning effectively in accordance with the TMPs.

4.6 Lending

4.6.1 The lending process is subject to clear policy, delegations and procedures enshrined in the annual Treasury Management Strategy, TMPs and documented daily procedures. This is regulated internally by information resources on permitted investment instruments and counterparties. Appropriate external information resources are used to monitor market conditions in support of the process.

4.6.2 Testing on lending activity in the current financial year to date confirmed that the approved policy and procedural provisions are being complied with and that proper record trails are kept.

4.7 **Borrowing**

4.7.1 As already stated, the Council's borrowing portfolio relates solely to long-term PWLB loans. Short-term borrowing has been successfully avoided for a number of years and current strategy does not envisage resorting to this for the foreseeable future.

4.7.2 As with lending, the process to be followed for any borrowing is subject to clear policy, delegations and procedures enshrined in the annual Treasury Management Strategy, TMPs and (in this case) the Code of Financial Practice. This reserves the decision-making authority for long-term borrowing with the Head of Finance, subject to Council ratification via the Capital and Treasury Management Strategies.

4.7.3 This current financial year marks the first occasion of new borrowing since 2012. Review of background documentation to this has confirmed that due process has been followed in its initiation in accordance with the TMPs.

4.7.4 Interest payments on the 2012 tranche are scheduled on a straightforward basis of a consolidated half-yearly payment by direct debit (principal repayments are not due until the respective maturity dates from 2053 to 2062).

4.8 **Capital Investment**

4.8.1 Adoption of the indicators required under the Prudential Code is reaffirmed in the Capital Strategy and Treasury Management Strategy. Review of the new PWLB loan in relation to the prudential indicators did not reveal any issues.

4.9 **Payments**

4.9.1 It is clear that corporate e-banking has moved on considerably since the CIPFA audit model was last updated. Payments for investments use the HSBCNet Priority Payments module controlled by personal user IDs, passwords and secure PIN key cards.

4.9.2 It is here that the delegations and requisite separations of duties are rigorously enforced by technology controls to mitigate the risk of financial loss. Embedded transaction and daily payment limits are a further feature that serves to mitigate the risk.

4.9.3 Bank mandates were found to be up to date and an indicative sample test focusing on payments into the MMFs served to reinforce confidence in the banking controls. Payment details were found to be retained and held securely.

4.10 **External Service Providers**

4.10.1 A limited review of this area looked briefly at the contract status for banking and treasury consultancy services, only to find that re-tendering processes are being pursued for both at the time of writing in accordance with the Code of Purchasing Practice.

4.10.2 In view of the transition, it was decided not to examine this area further.

4.11 **Fraud Prevention**

4.11.1 The Council's commitment on fraud is manifest in the Anti-Fraud and Corruption Policy while the standards expected from staff are prescribed in the Employee Code of Conduct. On the matter of money laundering, basic provisions are outlined in the Code of Financial Practice with safeguards specific to treasury management activities set out in the TMPs.

4.11.2 Confirmatory proof of fidelity guarantee insurance showed cover at the same level as the last audit, which is generally consistent with other similar size authorities.

4.12 **Records and Reconciliations**

4.12.1 The only noticeable in-year reconciliations for treasury management activity are those of movements in the MMFs to the FMS ledger accounts carried out quarterly. Given the relatively low incidence of other relevant transactional activity, the need for further in-year reconciliations between loan records and ledger accounts has to be seen as questionable at best.

4.12.2 Tests on lendings and repayments in the current financial year included tracing the transactions individually between the FMS and the Excel records (both ways) with no issues arising. Year-end reconciliations were not reviewed in detail.

4.13 **Monitoring and Reporting**

4.13.1 The annual Strategy submission, in effect, reaffirms the Council's commitment to best practice in its treasury management objectives and practices. This includes Members' scrutiny by means of half-yearly reporting to Finance and Audit Scrutiny Committee.

4.13.2 The performance aspects of reporting are primarily focused on investment return against London Interbank Bid (LIBID) rate benchmarks. This is underpinned by ongoing analysis and assessment using the aforementioned Excel spreadsheet models.

4.14 **Information Governance**

4.14.1 The information outside of the FMS supporting treasury management operations is primarily electronic and maintained in a departmental network domain with access restricted appropriately. No evidence of documented retention policy has been seen, but a review of content

indicates adherence to the HMRC rules for taxation purposes and an annual purging of transactional records accordingly.

5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect treasury management operations are appropriate and working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with the controls that do exist.

5.3 A single recommendation has been incorporated to address a minor issue relating to how the Internal Audit role is expressed in the Treasury Management Practice statements.

6 **Management Action**

6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Treasury Management – October 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.3	The Treasury Management Practice statements should be revised to reflect the proper status of Internal Audit in the control environment and risk-based determination of audit frequencies.	The role of Internal Audit in respect of treasury management may be misunderstood.	Low	Principal Accountant (Capital and Treasury)	The Treasury Management Practices will be reviewed for the 2020/21 Treasury Management Strategy.	February 2020

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.