



Internal Audit Report

CHIEF EXECUTIVE'S UNIT – STRATEGIC FINANCE

Review of Treasury Management

November 2009

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	1
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	2
7	Audit Opinion	2
8	Acknowledgements	2
Appendix 1	Detailed Findings	4
Appendix 2	Action Plan	8

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Treasury Management within the Chief Executive's Unit, Strategic Finance as part of the 2009/2010 Internal Audit programme.

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by the Council on 27 March 2002. The Code sets out a number of requirements and practices and additional guidance notes are also available. Treasury Management in this context is defined as "The management of a local authority's 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".

Overall responsibility for the Council's Treasury Management lies with the Head of Strategic Finance and day to day responsibility is delegated to the Finance Manager, Development Services who has a Senior Accountant and Accounting Assistant to assist him. In addition the Council has appointed Sector Treasury services as an external treasury adviser.

Total external debt at 31 March 2009 was £156m. With an average rate of interest of 6% while during 2008/09 the average daily investment was £58m. providing an average rate of return of 4.95%

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review will extend to treasury management objectives, governance arrangements, monitoring, gross and net borrowing, counterparty lists and the use of treasury management advisers.

The global banking crisis and the collapse of the Icelandic banks in October 2008 in particular highlighted the large sums of public money on deposit outside as well as inside the UK. As a result the Audit Commission (relating to local authorities in England and Wales) has reviewed the implications and the objective of this review is to examine the recommendations of the Audit Commission and confirm that the Council's treasury management systems comply.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

There are no direct references to treasury management within the risk register but the appropriate risks are covered in a broad context.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

We found that in general the current treasury management procedures and practices will satisfy the requirements of the Audit Commission (and therefore Audit Scotland) and CIPFA as a result of the Audit Commission's report Risk and Return. The only area where improvement can be addressed is in relevant training and the emphasis must be on "relevant". It may be necessary to request CIPFA or the Council's Treasury Adviser to act as a training provider in this regard.

6 RECOMMENDATIONS

Three recommendations were identified as a result of the audit, two of medium and one of minor priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

The auditor is satisfied that the section has answered the ICQ in an appropriate manner.

Based on the findings we can conclude that the Council's Treasury Management Procedures comply with the CIPFA Code of Practice and the likely changes to the code following the recommendations of the Audit Commission in its report Risk and Return.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale.

Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Finance Manager, Development Services and his staff for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held

responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	It has not been normal practice to train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function.	Medium	Regular training should be provided to staff and elected members who have accountability for the stewardship of Council funds that they can effectively scrutinise and account for the treasury management function.	Head of Strategic Finance	31 March 2010
2	It has not been part of the Council's strategy to look for economies of scale by sharing resources between authorities or with pension funds while maintaining separation of those funds.	Minor	Economies of scale by sharing resources between authorities or with pension funds while maintaining separation of those funds should be considered as a possibility but it is important that any sharing of resources is carefully investigated to ensure no loss of control and may require the introduction of additional internal checks.	Head of Strategic Finance	31 March 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	<p>The Treasury Management Annual Strategy is approved as part of budget process by Executive Committee and confirmed by the full Council.</p> <p>The annual strategy can be approved by a named relevant committee and does not have to be approved by full board/council. Where approval is taken by a body other than full board/council the annual strategy should be reported to the full board/council.</p>	Medium	<p>The Council should consider delegating the scrutiny and approval of treasury management strategy and reports to an alternative committee, for example, the Audit Committee who perhaps should be in a position to devote more time to these tasks and reduce the volume of training required the number of committee members being significantly less. Highlights of each paper must be reported to the Executive Committee.</p>	Head of Strategic Finance	31 March 2010