



**Internal Audit Report**

FINAL

Chief Executive's Unit,  
Strategic Finance

**Review of Treasury Management**

March 2011

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Treasury Management within Strategic Finance as part of the 2010/11 Internal Audit programme.

Treasury Management is defined as “the management of the local authority’s 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 AUDIT SCOPE AND OBJECTIVES**

The internal audit review examined the CIPFA Treasury Management Code of Practice to confirm that the Council’s Treasury Management systems complied. Recent key changes in the Code included an enhanced scrutiny role for those charged with governance, more transparent reporting requirements, and greater emphasis on the requirement for ensuring those charged with governance have sufficient skills to adequately perform their role.

The objective of the review was to ensure the Council had created clear treasury management objectives and policies and that these were supported by sound practices, including reporting of performance to relevant stakeholders.

The audit approach was to examine the treasury management policy, strategy, reporting and systems relating to investment, borrowing, consultancy appointments and risk and reward and verify that these satisfy the Code of Practice.

## **3 RISK ASSESSMENT**

Risk is an inherent aspect of treasury management and the Chartered Institute of Public Finance and Accountancy (CIPFA) publish a Code of Practice on Treasury Management (revised November 2009) which requires a treasury management policy statement which includes the Council’s approach to the risk management of its treasury activities.

## **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 the main the Treasury Management Section complied with CIPFA's Code of Practice in all respects. However the Treasury Management Policy Statements were in the process of being updated during this review. We noted that the existing documents dealt with all the required matters with the exception of Money Laundering and Training and Qualifications of treasury management staff.

## 6 RECOMMENDATIONS

One recommendation of medium priority was identified as a result of the audit. The recommendation is shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Finance Manager, Development and Infrastructure Services.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definition of each classification is set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## **7 AUDIT OPINION**

The auditor is satisfied that the section has dealt with the requirements of the CIPFA Code of Practice for Treasury Management in an appropriate manner.

Based on the findings we can conclude that the Treasury Management function operates in accordance with the CIPFA Code of Practice on Treasury Management and meets its statutory requirements to have regard to the CIPFA Prudential Code.

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 & Infrastructure and the Treasury Management Section 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	<p>The Section was in the process of updating the Treasury Management Policy and Practices. Of all the practices identified in the CIPFA Code of Practice (12) only 2 were not included in the Annual Strategy Report submitted to the Executive Committee for the year 2010/11. These were Money Laundering and Training and Qualification of Staff.</p>	Medium	<p>The Treasury Management Section should complete its updating of the Treasury Management Policy and Practices and include money laundering and training and qualification of staff.</p>	<p>Finance Manager, Development and Infrastructure Services</p>	<p>30<sup>th</sup> June 2011.</p>