

## **AUDIT ASSURANCE ON TREASURY MANAGEMENT**

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### **1 INTRODUCTION**

- 1.1 This report sets out information around the arrangements in place in relating to management controls and risk for treasury management. Its purpose is to provide assurance to the Audit Committee that appropriate arrangements are in place.

### **2 RECOMMENDATIONS**

- 2.1 The report is noted.

### **3 DETAIL**

- 3.1 Treasury Management is a complex area of the Council's activities with the potential for significant financial consequences and as a result there are key risk and management control issues. Recognising this and the Audit Committee's overall interest in management controls and risk this report has been prepared to give assurance to the Audit Committee that there are appropriate arrangements in place for managing the Council's treasury activities.

- 3.2 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."

- 3.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24 June 2010. The primary requirements of the Code tailored to show how they are met in Argyll and Bute are as follows:

- a) The Council will create and maintain, as the cornerstones for effective treasury management:
- b) A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- c) Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- d) The Executive will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its

close, in the form prescribed in its TMPs.

- e) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Head of Strategic Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management.
- f) The Council nominates the Executive to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- g) The Council nominates the Resources Spokesperson as the member responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3.4 The Audit Committee should be able to take assurance that the Council has appropriate management arrangements in place for its treasury activities based on the following:

3.4.1 Regulatory: The Council has adopted and complied with the Code of Practice and a review is carried out each year to ensure we continue to meet the requirements of the Code. The following TMPs are in place and reviewed annually: The TMPs can be revised with the agreement of the Head of Strategic Finance.

TMP 1 Treasury risk management

TMP 2 Best value and performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Staff training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

3.4.2 Management: There are clear lines of responsibility, accountability and delegation in relation to treasury activities. This is captured in TMP 5 which is attached as Appendix 1.

3.4.3 Reporting: The Council meets and exceeds the requirement to report to treasury management by

- Preparing an annual treasury and investment strategy (submitted to Council 10 March 2011)
- Submitting an annual report on treasury and investment activities (submitted to Council on 23 June 2011)
- Submitting a quarterly report on treasury activities to the Executive as at end of June, September and October.

- 3.4.4 Member Involvement: The Leader is the nominated lead member for treasury management and receives copies of all reports on treasury management for scrutiny.
- 3.4.5 Training: Training requirements for officers are reviewed at quarterly review meetings with the treasury advisors. Officers also attend external training seminars arranged by the treasury advisors. Members training was delivered on 22 April 2010 and again on 11 November 2011.
- 3.4.6 Internal Audit: Treasury activities are subject to regular review by internal and external audit. The Internal Audit Plan for 2011-12 includes 20 days for Internal Audit of Treasury Management. The audit is scheduled to take place in January 2012. During 2010-11 an internal audit of 20 days was undertaken and there was one recommendation. This has been addressed. A copy of the action plan is attached as Appendix 2.
- 3.4.7 External Audit: The external audit work in 2010 -11 resulted in one recommendations relating to treasury management. This is being addressed. A copy of the recommendation is attached as Appendix 3.
- 3.4.8 Advisory Support: The Council is supported by Sector Treasury Services as its Treasury Advisors. Sector Treasury Services are part of the Capita group of companies. It is the largest provider of treasury advice to Councils in the UK. The Council retenders the contract on a 3 year cycle.
- 3.5 The section below outlines in summary terms how some of the key risks are managed:
  - 3.5.1 Transactional Risks: Segregation of duties and in particular separation of initiator and approver roles and setting limits for individuals in terms of their delegated authority are key controls to transaction risks. There are regular reconciliation and cross checking of treasury records to act as a management/supervisory control. One area of risk identified is the finding and recommendation in the External Audit report that deposit bank account reconciliations were not carried out timeously in 2010-11 and this has now been addressed.
  - 3.5.2 Strategic Risks: There are quarterly reviews with the treasury advisors and review of economic and market data in between to assess the ongoing relevance of the agreed strategy. One significant risk is the concentration of treasury knowledge and experience in 2 members of staff. As the service review for Strategic Finance is implemented we will look to address this issue by increasing the range of staff with experience and knowledge of the treasury function.
  - 3.5.3 Interest Rate Risk: Interest rate and market data is monitored daily and assessed in terms of any action the Council needs to consider or take. Triggers are set to prompt formal consideration of when to drawdown borrowing or reschedule debt etc.
  - 3.5.4 Borrowing Risks: The borrowing portfolio is reviewed to avoid over exposure to too

many loans maturing in any one period. There are also limits to balance the mix between fixed and variable rate loans. All borrowings are in sterling so there is no exchange rate exposure.

3.5.5 Investment Risks: The risk of counter parties is reviewed with the treasury advisors and investments are made only within agreed policy. This sets down approved counter parties and agreed limits on amount and duration of investment. All investments are in sterling so there is no exchange rate exposure. The Council complies with the Scottish Government investment regulations. Changes and potential changes in counter parties credit status is monitored in order that action can be taken where required.

## **4 CONCLUSION**

4.1 The report outlines the management arrangements and audit activities in place relating to the Councils treasury function. This could be used as the basis for an annual report to the Audit Committee to ensure it has sufficient information to be satisfied that risks and controls related to the Council's treasury activities are properly managed.

For further information please contact Bruce West, Head of Strategic Finance 01546-604220

Bruce West  
Head of Strategic Finance  
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# **APPENDIX 1 - TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

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## **5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS**

### **5.1.1 Council**

The Council:

- a) has adopted the Treasury Policy Statement,
- b) will receive reports on its Treasury Management Policies, Practices and Activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its Treasury Management Practices,
- c) has delegated responsibility for the implementation and monitoring of its Treasury Management Policies and Practices to the Executive
- d) has delegated responsibility for the execution and administration of Treasury Management decisions to the Section 95 Officer.

### **5.1.2 Executive**

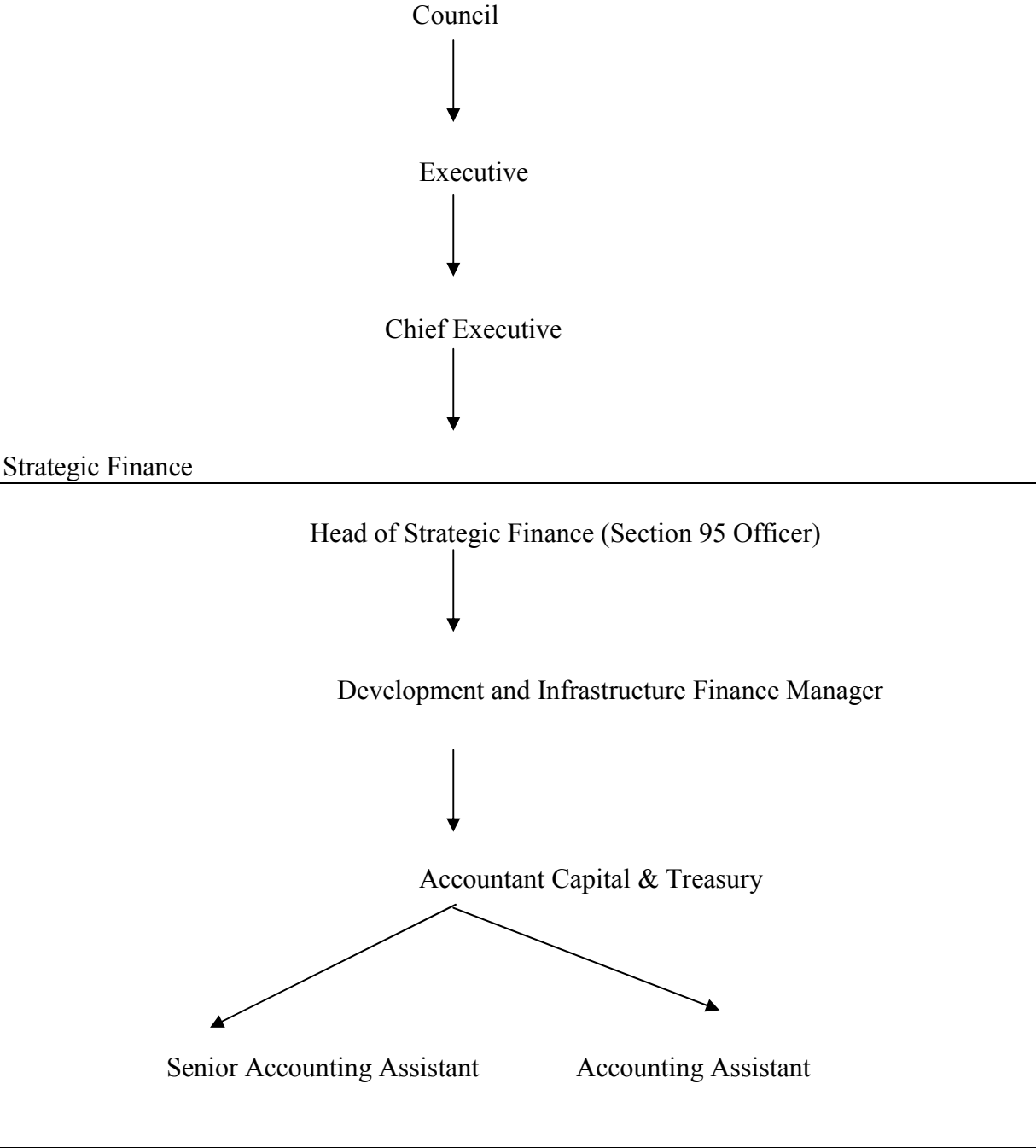
The Executive will:

- a) have responsibility for Treasury Management Strategy
- b) receive and review reports on Treasury Management Policies, Practices and Activities, the Annual Treasury Management Strategy and Annual Treasury Report.
- c) Receive a report, on each debt rescheduling exercise, at the first suitable meeting after the rescheduling has taken place.
- d) will be responsible for regulating and controlling the finances of the Council to comply with the Council's Financial & Security Regulations.
- e) approve the selection of external service providers and agree terms of appointment in conjunction with the Section 95 Officer in accordance with The Financial Regulations.

## **5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES**

There will be a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

**5.3 TREASURY MANAGEMENT ORGANISATION CHART**



**5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST**

**5.4.1. Section 95 Officer**

The Section 95 Officer will:

- a) Recommend clauses, Treasury Management Policy Statement and Treasury Management Practices for approval, reviewing the same on a regular basis, and monitoring compliance.

- b) Submit treasury management policy reports as required.
  - c) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
  - d) Consider and approve the Treasury Management Budget
  - e) Receive and review management information reports.
  - f) Review the performance of the treasury management function and promote best value reviews.
  - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
  - h) Ensure the adequacy of internal audit, and liaising with external audit.
  - i) Receive and review external audit reports and put recommendations to the Audit Committee.
  - j) Make recommendations on the appointment of external service providers in accordance with council standing orders.
1. The Section 95 Officer has delegated powers through this policy to take the most appropriate form of borrowing or financing from the approved sources available, and to make the most appropriate form of investments in approved instruments.
  2. The Section 95 Officer may delegate his power to borrow and invest to members of his staff.
  3. The Section 95 Officer and the Executive Director of Customer Services will ensure that the Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
  4. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Section 95 Officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
  5. It is also the responsibility of the Section 95 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

#### **5.4.2. Development and Infrastructure Finance Manager**

The Treasury Function Responsibilities of this post will be: -

- a) Execution of transactions in the absence of the Senior Accountant Capital & Treasury and Accountant Capital & Treasury
- b) Where not providing cover under a) provide cover for the treasury duties of the Head of Strategic Finance

#### **5.4.3. Accountant Capital & Treasury**



This post is a supporting post for the Development and Infrastructure Finance Manager. In addition to supporting that role specific Treasury Function responsibilities of this post will be: -

- a) Provide Absence cover for the Senior Accountant Capital & Treasury
- b) Execution of transactions.
- c) Adherence to agreed policies and practices on a day-to-day basis.
- d) Maintaining relationships with third parties and external service providers.
- e) Provide absence cover should both the accounting assistants be absent simultaneously.

#### **5.4.4. Senior Accounting Assistant**

This post is the main administrative post within the treasury function and the responsibilities of this post will be:

- a) Maintenance of the Logotech Loans information system. This includes ensuring deals are timeously updated and also producing reports as required.
- b) Monthly reconciliations of all relevant Loans Fund accounts.
- c) Preparation of supporting Schedules for annual accounts figures.
- d) Completion of various lending and borrowing returns.
- e) Update weekly cashflow model within Logotech.
- f) Processing of paperwork for CHAPS payments.
- g) Processing of paperwork for the administration of Local Bonds and Temporary Deposits.

#### **5.4.5. Monitoring and review Roles**

The following officers and departments are involved in various aspects of the monitoring and review of the Treasury Function:

##### **5.4.6.1 Chief Executive**

The responsibility of this post will be to ensure that the Section 95 Officer reports regularly to the Executive on treasury policy, activity and performance.

##### **5.4.6.2 Executive Director of Customer Services (in the role of Council Monitoring Officer)**

The responsibilities of this post will be: -

- a) To investigate any issue or complaint which may be raised regarding compliance by the Section 95 Officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Where appropriate to be consulted and be satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Section 95 Officer when advice is sought.

- d) Act as the Monitoring Officer for receiving reports of money Laundering.

### 5.4.6.3 Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

## 5.5 ABSENCE COVER ARRANGEMENTS

In treasury matters, the cover for the Head of Strategic Finance will be provided by the Development and Infrastructure Services Finance Manager. Where the Development and Infrastructure Services Finance Manager is already providing cover within the Treasury Function the cover for the Head of Strategic Finance will be provided by the Corporate Accounting Manager.

The Development and Infrastructure Services Finance Manager will provide cover when both the the Accountant Capital & Treasury is absent.

## 5.6 DEALING LIMITS

### Investing

Treasury Post	Limit per transaction	Period	Section 95 Officer prior approval
Development and Infrastructure Services Finance Manager *	£10 million	Up to 1 month	No
Development and Infrastructure Services Finance Manager ~	£10 million	1-3 months	Yes
Accountant – Capital & Treasury*	£10 million	Up to 1 month	No
Accountant – Capital & Treasury ~	£10 million	1-3 months	Yes

### Borrowing

All long term borrowing must be authorised by the Section 95 Officer.

Treasury Post	Limit per transaction	Period	Section 95 Officer prior approval
Development and Infrastructure Services Finance Manager *	£10 million	Up to 364 days	No
Development and Infrastructure Services Finance Manager ~	£10 million	Over 365 days	Yes
Accountant – Capital & Treasury *	£5 million	Up to 1 month	No
Accountant – Capital & Treasury ~	£5 million	1-3 months	Yes

\* In the absence of the Head of Strategic Finance any deals which do not require prior approval of the Section 95 Officer can be executed by the Development & Infrastructure Services Finance Manager at a sum above the £10m limit specified in the tables above subject to prior approval of the Corporate Accounting Manager or in whose absence the Finance Manager Customer Services. Any such deal executed must be reported on the same day to the Chief Executive.

~ In the absence of the Head of Strategic Finance any deals which require prior approval of the Section 95 Officer will require prior agreement of the Chief Executive. Once agreed with the Chief Executive the Development & Infrastructure Services Finance Manager can execute such deals as agreed with the Chief Executive i.e. above £10m limit specified in the tables above.

## **5.7 LIST OF APPROVED BROKERS**

A list of approved brokers is maintained within the Development and Infrastructure Services Finance Team of Strategic Finance and a record of all transactions recorded against them

## **5.8 POLICY ON BROKERS' SERVICES**

It is Council policy to rotate business between brokers.

## **5.9 POLICY ON TAPING OF CONVERSATIONS**

It is Council Policy not to tape brokers' conversations.

## **5.10 DIRECT DEALING PRACTICES**

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

## **5.11 SETTLEMENT TRANSMISSION PROCEDURES**

Transactions will be settled by a CHAPS payment or BACS if requested.

## **5.12 DOCUMENTATION REQUIREMENTS**

A dealing slip must be completed for each transaction. This is also used to record the entry of the transaction details into the various computer records. A file record is maintained for each loan.

## **5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.**

An external investment fund manager manages a portfolio of investments on behalf of the Common Good and Trust Funds.



**APPENDIX 2      TREASURY MANAGEMENT ACTION PLAN 2010-11**

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>

## **Appendix 3**

### **Deposit account reconciliations**

External Audit Point: Deposit account reconciliations are not reviewed on a timely basis. This increases the risk that errors or reconciling differences are not review and resolved timeously.

Rating: Low

Recommended Action: All bank account reconciliations should be passed for review as soon as they are complete.

Management Comment: Agreed

Implementation Date: 30 June 2010