



Internal Audit Report

FINAL

Chief Executive's Unit,
Strategic Finance

Review of Treasury Management

May 2012

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 2011/12 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.

Risk is inherent in all treasury management activities and it is necessary to balance risk and return. In the public services it is generally considered that the priority is to protect capital rather than maximise return.

The first edition of the CIPFA Treasury Management Code was developed in 2001, revised November 2009, with an updated edition being published in November 2011. Local authorities in Scotland are required to have regard to the Code under Part 7 of the Local Government in Scotland Act 2003.

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 resulted in a revision to the Treasury Management Policy Statement, which was approved by the Council on 15 March 2012.

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, as noted in the introduction, the Council is required to maintain a treasury management policy statement, documenting the approach to the risk management of its treasury activities, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.

The treasury management team is a relatively small specialist team, and this provides benefits in terms of building a strong knowledge base of procedures,

but can also create operational difficulties in maintaining adequate segregation of duties when members of staff are absent.

However, there is a strict segregation of duties between the Treasury Management Team, who deal with the strategy and administration of the banking, money market and capital market activities, and the Strategic Finance accounting team, who authorise the movement of funds.

Nevertheless, during a period of re-organisation, with associated staff uncertainty, it must be recognised that the potential for collusion between members of staff in the separate areas may be increased, and this could override the established control environment. However, the existing supervisory controls and reconciliations will act as a deterrent and routinely identify errors except in the most exceptional circumstances.

4 CORPORATE GOVERNANCE

A strategic risk has been identified by management and reported to the Audit Committee. This recognises the concentration of treasury knowledge and experience in two key members of staff. Whilst this risk is partially mitigated by the involvement of treasury advisors in the quarterly reviews, it is hoped to more fully address the risk as part of the Service Review for Strategic Finance. This will look to increasing the range of staff with experience and knowledge of the treasury function.

5 MAIN FINDINGS

We found that in the main the Treasury Management Section complied with CIPFA's Code of Practice in all respects. The Treasury Management Policy Statements had been updated and approved on 30 June 2011, incorporating the points on money laundering and training and qualifications of treasury management staff, which were noted as outstanding in last year's report.

6 RECOMMENDATIONS

Four recommendations of Medium priority were identified as a result of the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

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, subject to the points raised in the Action Plan, the Council 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.

Any 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, Corporate Support 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	Steps are currently being taken to develop the use of data on the Logotech system to fully utilise its functionality.	Medium	Implementation of improvements in the Logotech system should be actioned as per the Strategic Finance service review implementation plan.	Finance Manager, Corporate Support	30/6/2012
2	The Treasury Management Policy and Practices require to be updated for the Bribery Act 2010 and any other relevant legislative changes, together with the minor corrections noted.	Medium	Ensure that the next annual review of the TMPs addresses the issues noted.	Finance Manager, Corporate Support	31/7/2012
3	At the time of our audit review the Access and Authorisation Rights to the Logotech System were in process of being amended as part of a staffing reorganisation within the section.	Medium	An approved list of Access and Authorisation Rights should be finalised as soon as possible, with a copy being forwarded to Internal Audit.	Finance Manager, Corporate Support	30/6/2012

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4	Our examination of the monthly PSTM to GL Reconciliations revealed that these are being fully completed and signed by the compiler. However the reconciliations are not being signed by another person as evidence of review.	Medium	Consideration should be given to formally signing off the review as evidence that it has been completed satisfactorily.	Finance Manager, Corporate Support	30/6/2012