

AUDIT ASSURANCE ON TREASURY MANAGEMENT

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 (now the Council) 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 Executive (now the Council) has responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility 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 (now the Performance Review and Scrutiny Committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- g) The Council nominates the Resources Spokesperson (now the Lead Councillor for Finance) 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: TMP 5 sets lines of responsibility, accountability and delegation in relation to treasury activities.

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 15 March 2012)
- Submitting an annual report on treasury and investment activities (submitted to Council on 28 June 2012)
- Submitting a quarterly report on treasury activities to the Executive as at end of June, September and December.

- 3.4.4 Member Involvement: The Resources Spokesperson (now the Lead Councillor for Finance) 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. Member training has been arranged for 9 November 2012.
- 3.4.6 Internal Audit: Treasury activities are subject to regular review by internal and external audit. The Internal Audit Plan for 2012-13 includes 10 days for Internal Audit of Treasury Management. The audit is scheduled to take place in January 2012. During 2011-12 an internal audit of 20 days was undertaken and there were four recommendations. These have been addressed. A copy of the action plan is attached as Appendix 1.
- 3.4.7 External Audit: The external audit has placed reliance on the work of Internal Audit did not separately review treasury management during 2011-12.
- 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 reappointed Sector Treasury Services in March for a period of 3 years following a tendering exercise.
- 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.
- 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.
- 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 Council's 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

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5 September 2012

APPENDIX 1 TREASURY MANAGEMENT ACTION PLAN 2011-12

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 Now complete
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 Now complete
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 Now complete

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
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 Now complete