



Internal Audit Report

CHIEF EXECUTIVE'S UNIT,
STRATEGIC FINANCE

TREASURY MANAGEMENT

JANUARY 2013

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 2012/13 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’.

The Treasury Management function transaction values in 2011/12 were as follows:

Cash flow:	Total Income	£361.6m
	Total Payments	£358.5m

Treasury transactions:-

Deposits with banks	£52.5m
Deposits returned by banks	£49.4m

2 AUDIT SCOPE AND OBJECTIVES

In consultation with Audit Scotland the Council’s external auditors it was agreed to co-operate on the audit of major financial systems. Therefore the agreed objective of the review was to ensure the Council has approved clear Treasury Management objectives, strategies and policies and that these are supported by sound operational practices, including the appropriate authorisation and recording of transactions and the reporting of performance to relevant stakeholders.

Internal audit reviewed the management and operational processes and controls in place to ensure the appropriate and efficient use of Council funds, with particular reference to the following areas:

- Borrowing and lending transactions are in accordance with statutory powers and approved policy and strategy;
- Annual borrowing requirements and daily balances are properly estimated;
- Borrowing and lending transactions are properly controlled
- Loan repayments and interest are paid on the due dates and in respect of valid loans;
- Deposits and interest are recalled/repaid on the due dates; and
- Borrowing and lending transactions are correctly recorded in bank accounts, financial ledgers and Treasury Management systems.

3 RISK ASSESSMENT

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

- SF04 Failure to effectively manage the Treasury function, with particular reference to failures in adherence to codes of practice, leadership and direction, achievement of borrowing and investment target rates and the effective use of treasury consultants.

These risks have been addressed within the scope of this audit.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

We found that the Treasury Management Section complied with the CIPFA Code of Practice on Treasury Management.

- 5.1 Internal audit found that Treasury Management have controls in place which are operating effectively and required systems backups are taking place.
- 5.2 To ensure continued compliance with the Code operational procedures and controls will need continued development and this has been discussed with management.

6 RECOMMENDATIONS

Three recommendations of Medium priority and one of Low 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 high, medium or low. 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

Based on the findings of our audit it can be concluded 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. There are appropriate strategies, controls and procedures in place to safeguard the investment of Council funds although the level of assurance gained from these controls would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

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	The Treasury Management Practices (TMP) document has been updated and re-issued August 2012 but includes a number of tables and references which are not complete.	Medium	The TMP document should be reviewed and revised to ensure all tables and references are appropriate and complete.	Finance Manager, Corporate Support	30/4/2013
2	The Council's Constitution includes Treasury Management regulations within Part D, Financial Regulations, although this document requires review and update to reflect recent changes within the Council.	Medium	The Financial Regulations should be updated to reflect changes to Council committee roles and responsibilities implemented during 2012.	Head of Strategic Finance	31/5/2013
4	Steps are currently being taken to extend the range of users of the Logotech Public Sector Treasury Management System (PSTMS) and more fully utilise its functionality but operating procedures and controls are not documented.	Medium	In association with the planned developments in the use of Logotech, system control procedures should be enhanced to include all end-to-end processes including the authorisation and amendment of system users, standing data and system security back-up.	Finance Manager, Corporate Support	30/4/2013