

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVE'S UNIT
AUDIT DESCRIPTION	FINANCIAL SYSTEM AUDIT
AUDIT TITLE	TREASURY MANAGEMENT
AUDIT DATE	APRIL 2014

2013/2014



1. AUDIT SCOPE AND OBJECTIVES

This report has been prepared as a result of the Internal Audit review of Treasury Management within the Corporate Support section of Strategic Finance as part of the 2013/2014 Internal Audit programme.

CIPFA defines treasury management 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 Objectives of the Audit are as follows:

- To ensure that the Council's Treasury Management Regulations and Policies are up to date and in line with the CIPFA Code of Practice on Treasury Management and the Prudential code for Capital Finance in Local Authorities.
- To ensure that authorisation and approval limits are complied with.
- To ensure that reports to Management and Committee are produced in line with the Treasury Management Strategy.
- To ensure that Treasury Management and Prudential Indicators are calculated and reported accurately.

2. RISKS IDENTIFIED

- The Council does not maintain appropriate treasury and cash management policies and procedures, resulting in a failure to operate arrangements which reflect good practice and current statute and regulations.
- Arrangements to prevent inappropriate or unauthorised investments are inadequate, representing higher financial risk to the Council.
- The Council's cash flow forecasts are not accurate, or are based on inappropriate assumptions.
- The Council may not have appropriate processes in place to report and monitor Treasury Management Indicators, leading to the risk of breaches against the Prudential Code.

3. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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 definitions of each classification are set out below:-

<p>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;</p> <p>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;</p> <p>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.</p>
--

4. FINDINGS

The following findings were generated by the audit:

- A review of the Management and Committee reports during 2013/14 showed that the reports are issued in line with the planned timetable and that the guidance for the information contained within the reports is followed and in line with the Treasury Management Strategy.
- We reviewed the Council's Treasury Management Regulations and Policies which were found to be up to date and in line with the CIPFA Code of Practice on Treasury Management and the Prudential Code. The Treasury Management Practices 2013/14 document, which is only used internally, would benefit from some adjustment to layout as it is disjointed and in places difficult to read due to formatting issues.
- The Investments/Borrowing strategies are approved by the Council on an annual basis, and limits are clearly set out. The limits were adhered to during the financial year 2013/14, apart from deposits with the Clydesdale Bank exceeded the limit for a short period during the Christmas closedown, this was rectified on the day that staff returned to their duties.
- All loans have a formal agreement or contract, approved and signed off by the relevant parties prior to the completion of the loan.
- We reviewed the Prudential Indicators and performed recalculations of the figures held in the Annual Treasury report 2012-13 and the Treasury Management Strategy Statement 2014-15 and these were found to have been reported accurately with background paperwork available. The indicator calculations for reports were calculated at different times using figures available at that time, leading to differing actual figures within different reports. Thereby the actual figures for set years can differ in reports.
- Investment controls are comprehensive these include the Annual Investment strategy which sets out clear guidance on creditworthiness of counterparties, permitted investments and interest rate forecasts. Limits and cash flow daily checks, loan fund daily balance checks and monthly bank reconciliations are all in evidence. These controls were reviewed and tested and all were found to be completed and authorised as appropriate.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There were two low recommendations for improvement identified as part of the audit, which are not reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the staff and management of Strategic Finance, Corporate Support Team for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Contact Details

Name Vivienne Barker

Address Kilmory, Lochgilphead, Argyll, PA31 8RT

Telephone 01546 604759

Email vivienne.barker@argyll-bute.gov.uk

www.argyll-bute.gov.uk

Argyll & Bute – Realising our potential together

