Swindon Internal Audit Services

Treasury Management

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FINAL

Contents and Distribution

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Ian Burbidge	Head of Finance: Housing, Treasury and Growth
Darren Stevens	Finance Manager: Housing, Treasury and Growth
Keir Garnham	Treasury Management Assistant
Mick Bowden	Head of Finance

Auditor:

Ahsan Khan	Internal Auditor

Executive Summary

Background

This audit was undertaken as part of the planned Internal Audit programme for 2016/17 financial year. It is intended to provide assurance to the Board Director: Resources that the risks associated with Treasury Management are being adequately managed and the Council is not exposed to any significant financial risk as a result.

The objectives for Treasury Management are outlined in the `Treasury Management Strategy 2016/17', and were approved by full Council on the 14th April 2016. The objectives are detailed below:

- Part of the treasury management operation is to use the cash management process to ensure that the Council's cash flow is adequately planned, and cash is available when needed. The Council has a low risk appetite for investments, therefore available surplus cash is invested in low risk counterparties or instruments providing adequate liquidity initially before considering the investment return (paragraph 3.1).
- The second function of the treasury management service is the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This may involve arranging long or short term loans, or using longer term cash flow surpluses (paragraph 3.2).

The Treasury Management Team is required to produce a minimum of three main reports each year:

- A Treasury Management strategy
- A mid-year Treasury Management report
- An annual Treasury Management report

These reports are required to be scrutinised before being recommended to Council. Under the Council's Constitution, the scrutiny of the Treasury Management is undertaken by the Audit Committee.

The system has received a "high standard" audit opinion for a number of years. Processes remain largely the same as previous years. As a result we have taken a follow-up approach to this year's audit, walking-through processes and controls to confirm they are still in place, and carrying out testing to ensure previous recommendations have been implemented.

Audit Opinion

The impact and materiality of Treasury Management is considered **high** and combined with the Auditor's opinion that the system controls are of a **high standard** gives an overall risk assessment to the Council of **moderate**.

Key Messages

Treasury Management continues to be well administered and at the time of the audit is achieving the objectives set out in the Treasury Management Strategy for 2016/17.

Investments are made with organisations that offer a low risk of default in line with guidance provided by third party advisors Capita Asset Services. Whilst investment return is not a priority, the weekly reports produced by Treasury Management indicate rates received are slightly above the benchmark rates and borrowing rates being below average lending rates.

Cash flow for the year was well managed. Expected payments and receipts have been input in a cash flow forecast through to 2017.

Walkthroughs and testing confirmed that Treasury Management practices and processes have not changed substantially from the previous financial year and appropriate controls remain in place.

Context

Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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*".

As at 1st April 2016 the Council had approximately £40m of investments, £7.6m of short term borrowing and £285.7m long term borrowing. A failure of process would therefore have a significant impact on the Council's cash flows, its available funds to meet capital expenditure requirements and ability to service its debts.

Treasury Management is performed in compliance with the CIPFA Treasury Management Code as adopted in the Council's Financial Regulations (Schedule 2 of the regulations). It is one of the key financial systems reviewed by Internal Audit to provide assurance to the Board Director: Resources in his role as the Council's Section 151 Officer.

Treasury Management is a centralised function that is administered by a small team within Corporate Finance. They have direct access to the LloydsLink system, which allows them to view balances and make transfers via the internet.

The boundaries of Treasury Management work are defined in the Treasury Management Strategy, this outlines the approach to be used investing money, when borrowing monies and in setting the "affordable borrowing limit" (a statutory requirement), which is the amount the Council can afford to borrow.

The in-house team currently manage short to medium term investments (up to three months). The Council uses an external company called Capita Asset Services (previously Sector) to provide treasury management consultancy services and to provide credit ratings for when making investments.

Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were agreed with the Head of Technical Finance and the Finance Manager: Housing, Treasury and Growth before commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

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Risk Area Examined and Findings	*Audit Conclusion*
Risk: Regulation • The Treasury Management Strategy 2016/17 was presented to Audit Committee (19th April 2016) and Cabinet (16th March 2016), with Cabinet recommending it to Council for adoption. The strategy was confirmed and adopted by Council on 14th April 2016. Due to timing differences, the Audit Committee was not able to scrutinise the strategy before it was presented to Cabinet. • The Council has adopted all the mandatory clauses recommended in the CIPFA Treasury Management Code of Practice although the one relating to who provides scrutiny over Treasury activity has not been included in the Council's Financial Standing Orders. However, the Audit Committee Terms of Reference states it is responsible for "*oversight of Treasury Management activities*". **AP 1.1** • The Internal Audit report on Treasury Management (2015/16) was presented to the Audit Committee in April 2016 to provide assurance regarding the adequacy of control within the system.	**Satisfactory**
Risk: Market conditions • The Council employs Capita Asset Services (previously Sector) to provide guidance to the Treasury Management function to enable Treasury Management to make informed investment/ borrowing decisions. The contract with Capita Asset Services is for a period of three years at a cost of £10,850 per annum. Capita Asset Services provide regular market updates on a daily, weekly and ad hoc basis. They also provide investment benchmarking analysis.	**High Standard**
Risk: Cash flow • Cash flow analysis is undertaken daily and, as recommended by the CIPFA code, there is a twelve month cash flow projection in place. The Treasury Management Assistant updates the cash flow as information becomes available.	**High Standard**
Risk: Counterparties • Treasury Management continue to invest in accordance with the Strategy, with all investments with low risk organisations. • Investments are all short to medium term and in line with Capita Asset Services guidance for the institutions concerned. • The Council mainly uses two brokers to occasionally place business, with a third broker also available for use. This is in line with the CIPFA code, which recommends at least two.	**High Standard**
Risk: Error, fraud and corruption • The Treasury Management Assistant has the ability to set up CHAPS payments but not to approve them. A minimum of two people need to be involved in processing a CHAPS payment up to £250,000. A third person is required for any amounts above this. There is good segregation of duties in the process. The LloydsLink system enforces segregation of duties in processing payments through its authorisation processes. • Reconciliations are undertaken on a rolling basis, with previous periods available. However, reconciliations are not reviewed by an independent person. **AP 2.1**	**High Standard**

Risk: System integrity • Treasury Management continues to use Logotech as its main database for recording transactions and cash-flow forecasting. • The Council banks with Lloyds after transferring from the Co-operative bank in 2015. A high level review of security controls in the system has been carried out as part of this review. • The system requires individual user accounts to log on to the system. System administrator and standard user accounts have been segregated. Segregation of duties are enforced by the system, requiring two people to approve a payment. As a further control, a randomly generated code from a smartcard is required to approve payments in Lloyds link, i.e. two factor authentication is in place. • System access reviews are undertaken by the Treasury Management Assistant on a monthly basis. • The audit trail was observed and covers actions such as processing of transactions, setting up users and logging into the system • The Treasury Management Assistant reviews system access monthly. With users of the system in a number of departments, this process could be enhanced by distributing the list of system users to departmental service managers (Finance Admin, Electoral Services and Revenues and Benefits) as part of the monthly check).This finding is low risk, as Finance Admin team members are only able to view transactions on the system. **AP 2.2** • There is no forced change of password by the system, e.g. a requirement to change passwords periodically. This risk is partially mitigated by requiring an additional, random generated password to processes and transactions on the system, limiting the risk arising from this. **AP 2.3**	**Satisfactory**

Overall Opinion

Materiality and Impact: High. The Treasury Management team is responsible for managing the Council's investments and borrowing position. As at 1st April 2016 the Council had approximately £40m of investments, £7.6m of short term borrowing and £285.7m long term borrowing. Treasury Management is also responsible for ensuring the Council has sufficient cash available to meet its financial liabilities as they arise. Materiality is therefore **high**. Any failure of the Treasury Management function would have a significant impact on the Council. Impact is therefore **high**.

Changes since the last audit: The Council is now using Lloyds Bank to provide financial services.

The Treasury Management Audit in 2015/16 made four low/medium priority recommendations of which none have been implemented.

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Priority of Recommendations	Total	Implemented	Partially Implemented	Not Implemented
High	0	0	0	0
Medium	1	0	0	1
Low	3	0	0	3
Total	4	0	0	4

Opinion on system controls: High Standard (see Appendix A) i.e. the Auditor completing the review concluded that the significant controls are in place and operating effectively and only minor recommendations have been made.

Overall Assessment of Risk: the combination of the medium impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **moderate**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High Standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Treasury Management, together with the recommendations to mitigate risks, the manager's response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	***Risk: Regulation***			
1.1	**Scrutiny of Treasury Management Performance** CIPFA Code - mandatory clauses: The CIPFA Code on Treasury Management clause "*this organisation nominates (name of responsible body) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies"* has not been included in the Council's Financial Standing Orders. This is one of four clauses CIPFA recommends for formal adoption by public services. The Council has included the first three in its Financial Standing Orders. It is recognised that this role is undertaken by the Audit Committee and is included in the committee's terms of reference.	It is recommended that the CIPFA clause on the scrutiny of Treasury Management strategy and policies is included in Schedule 2 (New Formal Adoption Clauses for Treasury Management Code of Practice) of the Council's Financial Standing Orders. **Priority: Low** *This recommendation was made in the 2015/16 audit and has not been implemented.*	Head of Technical Finance May 2017	**Agreed** The requirements to change standings orders is in discussion with the committee section to enable this change to be implemented at the earliest opportunity

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	***Risk: Error, Fraud and Corruption***			
2.1	**Reconciliations** Reconciliations between Logotech and the General Ledger are not reviewed by an independent person. The reconciliations are done on a rolling basis with previous periods available. The Treasury Management Assistant stated that these accounts feed into year-end balances and are reviewed in detail then.	Treasury reconciliations should be undertaken quarterly and reviewed by an independent person. Evidence of the review should be maintained. **Priority: Medium** *A similar recommendation was made and agreed in the 2015/16 audit but has not been fully implemented.*	Head of Technical Finance December 2016	**Agreed** A full history of the reconciliation is now available and going forward we will ensure it is reviewed regularly by a Finance Manager
2.2	**User Access to Systems** The Treasury Management Assistant reviews users with access to the system on a monthly basis. With users of the system in a number of departments, this process could be enhanced by distributing the list of system users to departmental service managers (Finance Admin, Electoral Services and Revenues and Benefits) as part of the monthly check). A review of system access found two members of staff who were no longer employees of the Council. The Treasury Management Assistant confirmed that one member was now employed by Public Power Solutions (PPS) and only had access to relevant accounts. This finding is low risk, as team members are only able to view transactions on the system. Currently the Logotech system has two 'generic' admin profiles called 'LOANS' and 'LOGOT'. 'LOGOT' is an admin account which is used if assistance is required from Logotech. The profile 'LOANS' has not been used since 2013 and should be removed if not required.	The Treasury Management Assistant should contact the service managers within Finance Admin, Revs and Benefits and Electoral Services via email as part of the review to confirm whether all named staff are current employees and that they still require access. Access for the member of staff who has been identified as no longer being an employee of the Council should be disabled. The name will be provided to the Treasury Management Assistant by Internal Audit. Consider removing the generic profile 'LOANS' if it is not required. **Priority: Medium**	Head of Technical Finance December 2016	**Agreed** The process of handling leavers is currently being reviewed; we will ensure that our requirements are taken into account. As a backup we will look into the best way of covering this including the possibility of emailing service managers. We will check with Logotech the implications of removing the "LOANS" Profile.

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	***Risk: Error, Fraud and Corruption***			
2.3	**Forced Password Changes** Currently the LloydsLink system does not force users to change their passwords. The Council's Password Policy states that passwords should be changed a minimum of every 90 days. The risk in relation to this is partially mitigated by a control that requires a randomly generated smartcard code to processes any payments on the system.	Contact LloydsLink helpdesk to establish whether a requirement can be set up for users to be forced to change their passwords every 90 days. **Priority: Low**	Head of Technical Finance December 2016	**Agreed** We have contacted Lloyds on this matter and are awaiting their response.

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APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low. The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below). The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).	**Audit Opinion 1. *High standard*** **The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made.**
	Audit Opinion 2. *Satisfactory standard* The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.
	Audit Opinion 3. Significant improvements required The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.
	Audit Opinion 4. *Fundamental weaknesses identified* The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.

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Name	Job Title
Keir Garnham	Treasury Management Assistant