

**Treasury Management**  
**March 2015**  
**(Final)**

**Swindon Internal Audit Services: Treasury Management 2014/15****Contents and Distribution****Contents**

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## Swindon Internal Audit Services: Treasury Management 2014/15

### Executive Summary

#### Background

This audit was undertaken as part of the planned Internal Audit programme for 2014/15 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 2014/15 are outlined in the Treasury Management Statement/ Strategy 2014/15, and were approved by full Council on the 14<sup>th</sup> February 2014. 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 3.2).
- 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 3.3).

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 should be undertaken by the Audit Committee.

#### 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**.

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### Key Messages

Treasury Management continues to be well administered and achieving the objectives set out in the Treasury Management Strategy for 2014/15. Investments are made with organisations that offer a low risk of default and in line with guidance provided by 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.

The three reports required were produced accordingly, although the Audit Committee, due to meeting schedules not coinciding, did not see the mid-year or annual report.

## Swindon Internal Audit Services: Treasury Management 2014/15

### 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*”.

At the 28<sup>th</sup> February 2015, the Council had approximately £28.5 million of investments, £16 million of short term borrowing and £242 million long term borrowing. A failure of process would therefore have a significant impact on the Council’s cash flows, capital 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 Co-op Bank Financial Directors system, which allows them to view balances and make transfers via the internet. The current banking arrangements with the Co-operative Bank will end on the 31<sup>st</sup> March 2015. The Council will switch over to a new provider of banking services, Lloyds Bank plc. Treasury Management will switch off the Co-operative system once all necessary closedown procedures have been completed.

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. Capita Asset Services recommended that investments in counterparties be between three months and two years. The Council has adopted this recommendation although it has limited investments in counterparties to a maximum of one year.

### 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.

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The key risks to the achievement of the business objectives were agreed with the Board Director: Resources and the Head of Technical Finance before the 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:

Risk Area Examined and Findings	Audit Conclusion
<p><b>Risk: Regulation</b></p> <ul style="list-style-type: none"> <li>The Treasury Management Strategy 2014/15 was presented to Audit Committee (4<sup>th</sup> February 2015) and Cabinet (5<sup>th</sup> February 2015), with Cabinet recommending it to Council for adoption. The strategy was confirmed and adopted by Council on 24<sup>th</sup> February 2015.</li> <li>The mid-year and annual performance Treasury Management report did not go to Audit Committee for scrutiny before going to Cabinet and Council. <b>AP 1.2</b></li> <li>It is noted that the 2015/16 Treasury Management Strategy went to Cabinet and Council in February 2015 but not Audit Committee. Again this was due to the alignment of meetings.</li> <li>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. The Audit Committee Terms of Reference states it is responsible for "<i>oversight of Treasury Management activities</i>". <b>AP 1.1</b></li> <li>Last year the Head of Internal Audit shared the Treasury Management 2013/14 audit report with the Audit Committee, for their information, when they reviewed the 2013/14 Treasury Management Strategy.</li> </ul>	<p><b>Satisfactory</b></p>
<p><b>Risk: Market conditions</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Capita Asset Services provide regular market updates on a daily, weekly basis and ad hoc. They also provide investment benchmarking analysis.</li> </ul>	<p><b>High Standard</b></p>
<p><b>Risk: Cash flow</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p><b>High Standard</b></p>

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### 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 uses three brokers to occasionally place business. This is in line with the CIPFA code, which recommends at least two.
- Weekly reports should be produced showing investment and borrowing and the average interest being achieved against the market averages. The report also itemises investments and short term borrowing by institution, except for time deposits held. The report also includes the Capita Asset Services weekly credit list for the week concerned. At the time of the audit the reports were not up to date, and were produced whilst the audit was in progress. These reports should be produced and reviewed promptly. **AP 2.1**
- Within Treasury Management they will only place up to £20 million worth of investments with any one organisation. However, the Treasury Management Practices document states a limit of £10 million. **AP 2.2**

**High Standard**

### Risk: Error, fraud and corruption

- The Treasury Management Assistant has the ability to set up CHAPS payments but not to approve them. Four people need to be involved in processing a CHAPS payment. There is good segregation of duties in the process.
- Money received is allocated through the cash management process with the Treasury Management Assistant providing cash management with the General Codes to process the payment against.
- The current Co-op banking system enforces a segregation of duties for CHAPS payments. The new Lloyds system also enforces a segregation of duties when processing CHAPS payments and other payments e.g. Faster Payments (payments made to and received by the recipient within two hours of the initiating transaction by the payer).
- Reconciliations are not undertaken and reviewed on a timely basis. At the end of February 2015 most of January 2015 reconciliations had not been completed and reviewed. Reconciliations are undertaken on a rolling basis, with the previous period updated and overwritten, but the spreadsheets do not indicate what period is being reconciled. **AP 3.1**

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<ul style="list-style-type: none"> <li>The Treasury Daily Dealing Notes, a procedure showing how daily treasury activity should be undertaken, is written to include reference to the Co-op's on-line system. This and other procedures which reference the Co-op system will need to be re-written to reflect the new on-line system provided by Lloyds Bank. <b>AP 3.2</b></li> </ul>	
<p><b>Risk: Systems integrity</b></p> <ul style="list-style-type: none"> <li>The Auditor was informed that there had been no change to the Co-op's on-line system that Treasury Management uses.</li> <li>From the 6<sup>th</sup> March 2015 Treasury will be using the Lloyds on-line link to process financial transactions. The system integrity of this will be subject to a separate Internal Audit review.</li> <li>Treasury Management will continue to use Logotech as its main database.</li> </ul>	<p><b>N/A</b></p>

### Overall Opinion

**Materiality and Impact: High.** Treasury Management is responsible for managing the Council's investments and borrowing position. At the 28<sup>th</sup> February 2015 the Council had approximately £28.5 million of investments, £16 million of short term borrowing and £242 million 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 currently transitioning to a new provider of banking services. Following the Co-operative Bank's withdrawal from providing such services to local authorities, the Council has selected Lloyds Bank to provide financial services.

**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**:



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		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

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### 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
<b>1</b>	<b>Risk: Regulation</b>			
1.1	<b>Scrutiny of Treasury Management Performance</b> (a) CIPFA Code - mandatory clauses: The CIPFA Code on Treasury Management clause " <i>this organisation nominates (name of responsible body) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies</i> " 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. This role is undertaken by the Audit Committee.	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.  <b>Priority: Medium</b>	Head of Technical Finance in conjunction Committee Services  May 2015	Agreed

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Regulation</i></b>			
1.2	<p><b>Scrutiny of Treasury Management Performance</b></p> <p>(b) Audit Committee: The Audit Committee does not see all the three main Treasury Management papers/reports produced each year. The papers/reports are the:</p> <ul style="list-style-type: none"> <li>• Annual Strategy</li> <li>• Annual Performance report</li> <li>• Previous year's Treasury Management Strategy activity and a half year update on the current year's Treasury Management performance against the current Strategy.</li> </ul> <p>Audit Committee will see the Annual Strategy for 2015/16 at its April meeting, although it has already been seen by Cabinet and approved by Council.</p> <p>In financial year 2014/15 the Audit Committee did not receive the performance reports. One of the main issues is the alignment of meeting schedules. This issue was raised in the 2013/14 Treasury Management Internal Audit report.</p> <p>Risk: inadequate scrutiny of Treasury Management activity.</p>	<p>Audit Committee to receive all three main Treasury Management papers/reports, to enable them to perform their scrutiny role prior to the papers/reports going to Cabinet and Council.</p> <p>If the Audit Committee and Cabinet/ Council meeting dates don't allow for the Audit Committee to receive and review the papers and reports, they should be emailed to the Audit Committee Members. If this happens then the minutes of the next Audit Committee meeting should record this and any action taken.</p> <p><b>Priority: Medium</b></p>	<p>Head of Technical Finance</p> <p>September 2015</p>	<p>Agreed</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>2</b>	<b><i>Risk: Counterparties</i></b>			
2.1	<p><b>Weekly Reports</b></p> <p>Every week the Treasury Management Assistant should prepare a brief weekly report which the Head of Technical Finance then reviews and signs off. The report outlines the Council's current Treasury position at the end of the week concerned. It shows the investment and borrowing situation, along with an analysis of interest rates obtained against average market rates. At the time of the audit these reports had not been produced for over five weeks.</p> <p>Risk: investments could be made with inappropriate counterparties</p>	<p>The weekly reports should be produced by the Treasury Management Assistant and reviewed/signed off by Tuesday of the following week.</p> <p><b>Priority: Medium</b></p>	<p>Head of Technical Finance</p> <p>April 2015</p>	Agreed
2.2	<p><b>Investment limits</b></p> <p>The accepted maximum amount that the Council will invest with any one counterparty is twenty million pounds. In the Treasury Management Practice document this limit is stated as ten million pounds and twenty million in total, where two institutions are owned by the same bank.</p> <p>Risk: breach of Council regulations</p>	<p>The Treasury Management Practice document should be updated to reflect the de facto practice of investing more than twenty million pounds with one institution.</p> <p><b>Priority: Low</b></p>	<p>Head of Technical Finance</p> <p>May 2015</p>	Agreed

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Error, Fraud and Corruption</i></b>			
3.1	<p><b>Reconciliations</b></p> <p>Reconciliations between Logotech and the General Ledger are not undertaken on a regular basis or reviewed by an independent person. At the end of February January's reconciliations were still outstanding.</p> <p>Furthermore, the reconciliations are done on a rolling basis and the previous one is overwritten. Also no evidence of review is maintained. According to the Treasury Management Assistant these accounts feed into year-end balances and are reviewed in detail then.</p> <p>Risk: errors and mistakes not identified promptly.</p>	<p>Treasury reconciliations should be undertaken promptly at month end and review by an independent person. Confirmation of reviewed should be sent by email so this can be retained as evidence.</p> <p><b>Priority: Medium</b></p>	<p>Head of Technical Finance</p> <p>April 2015</p>	Agreed
3.2	<p><b>Procedures</b></p> <p>Currently, procedures, such as the Treasury Daily Dealing Notes, make reference to, and include screen prints, of the Co-op Bank's on-line system used by Treasury Management to make payments, obtain bank statement information etc. The Co-op on-line system is being replaced by one provided by the Council's new provider of banking services, Lloyds.</p> <p>Risk: staff may be unaware of new procedures leading to errors.</p>	<p>Treasury Management procedures should be updated as necessary to reflect the change of banking services provider to the Council. This applies especially to the Daily Dealing Notes which contains screen prints from the Co-op system.</p> <p><b>Priority: Low</b></p>	<p>Head of Technical Finance</p> <p>June 2015</p>	Agreed

Standard Audit Opinions	Standard Audit Opinion System Control
<p>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.</p> <p>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).</p> <p>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).</p>	<p><b>Audit Opinion 1. <i>High standard</i></b> The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made.</p>
	<p><b>Audit Opinion 2. <i>Satisfactory standard</i></b> 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.</p>
	<p><b>Audit Opinion 3. <i>Significant improvements required</i></b> 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.</p>
	<p><b>Audit Opinion 4. <i>Fundamental weaknesses identified</i></b> 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.</p>

## Acknowledgements

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<b>Name</b>	<b>Job Title</b>
Keir Garnham	Treasury Management Assistant
Gaynor Ralph	Senior Accounting Technician
Ian Burbidge	Finance Manager
Paul Smith	Head of Technical Finance