

# **THE WEST LOTHIAN COUNCIL INTERNAL AUDIT UNIT**

**Finance Services**

**Treasury Management**



**FS36494**



**CUSTOMER SERVICE EXCELLENCE**

**27 February 2009**

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## 1.0 EXECUTIVE SUMMARY

1.1 A review of the procedures and controls in place over the council's Treasury Management operations has been undertaken. Overall it is concluded that there is a good level of control in place.

1.2 The remit, scope and objectives of this audit are set out in section two of this report.

1.3 CIPFA's Treasury Management in the Public Services: Code of Practice, adopted by the council, defines treasury management activities as:

“the management of the organisation's 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”.

1.4 At 31 October 2008 the council had investments totalling £121.4 million and total borrowings of £329.1million.

1.5 The following key controls were found to be in place:

- compliance with the council's Financial Regulations with regard to the reporting of treasury management strategy and activities was verified for each of the previous three financial years;
- comprehensive Treasury Management Practices (TMP's) and supporting procedures were found to be in place;
- segregation of duties in relation to the origination, recording, and authorisation of transactions continues to be in place;
- the segregation of duties is also reflected in the Corporate Internet Banking system permissions provided to each Treasury Management staff member;
- an investment counterparty list is maintained by the Treasury Officer, and is used to identify where surplus funding may be placed within the limits set in the TMP's. Audit testing confirmed that this list was maintained accurately by the Treasury Officer;
- a diary system is in place within the Logotech system which ensures that loan repayments and recurring payments are made on due dates.

1.6 No critical weaknesses were identified during this audit.

1.7 The action plan in section three of this report details the findings and recommendations made, grades their risk, and includes management comment. The implementation of the recommendations made within this report will help improve control.



**Kenneth Ribbons**  
**Internal Audit Manager**

Graham Jack

## **2.0 REMIT, SCOPE AND OBJECTIVES**

- 2.1 In accordance with the annual audit plan for 2008/09 an audit has been undertaken of the Treasury Management function within Finance Services.
- 2.2 The objectives of the audit were to determine whether controls are in place which ensure that:-
- transactions are in accordance with council policy, standing orders and financial regulations;
  - payments are made only in respect of valid deposits, debt repayments or creditors;
  - deposits are made with approved counterparties only;
  - payments are made accurately and timeously.
- 2.3 The audit was restricted to a review of the key controls and testing was undertaken on a sample basis. Therefore, the weaknesses identified in the report are not necessarily all those which exist.
- 2.4 The draft report was discussed for factual accuracy with Graham Melville, Group Accountant, Corporate Accounting and Treasury, on 13 January 2009.
- 2.5 Responsibility for implementing the recommendations in this report rests with the Head of Finance who therefore assumes any risk arising from not acting on any of these recommendations.
- 2.6 The assistance and cooperation of staff within the Treasury Management function during the conduct of the audit is acknowledged and appreciated.

### 3.0 FINDINGS AND RECOMMENDATIONS

The audit findings and recommendations are detailed below, including management comment regarding the weaknesses identified. Appendix A defines the risk levels allocated to the audit recommendations made.

Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
1	<p><b><u>Treasury Management Practices (TMP's)</u></b></p> <p>The council's current Treasury Management Practices were reviewed and were found to be comprehensive, and contain sections for each the aspects of Treasury Management referred to in the CIPFA code.</p> <p>Some minor revisions were identified as being required. These were as follows:</p> <p>Pages 14,25,31,33 – reference to “appendix X” re CHAPS payments, however no appendices appear in the TMP's.</p> <p>Page 37 – TMP 6.2 appears to refer to English legislation.</p> <p>Page 48 – banking services to be completed.</p> <p>Page 48 – adviser services to be completed.</p> <p>Page 49 – section 12.2 to be completed or removed.</p>	The Treasury Management Practices should be updated for the minor revisions identified during the audit.	<b>Routine</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes		31 March 2009

Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
2	<p><b><u>Investment versus Debt Redemption</u></b></p> <p>TMP 6.1 specifies the matters to be addressed by the annual treasury management strategy.</p> <p>One of the items specified in TMP 6.1 is a specific statement concerning investment versus debt redemption.</p> <p>A review of the last two treasury management strategy papers found that a specific statement on investment versus debt redemption was not included.</p>	The treasury management strategy should include a statement on the council's position with regard to investment versus debt redemption.	<b>Routine</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes		31 March 2009
3	<p><b><u>Treasury Management Policy</u></b></p> <p>The council has a Treasury Management Policy, the wording of which follows the content of section 6 of the CIPFA code.</p> <p>We noted that the council's Financial Regulations, approved by Committee in February 2007, includes a regulation which requires the council's treasury management policy to follow the content of section 6 of the CIPFA code.</p> <p>The full text of the policy is not included within the Financial Regulations, nor is it readily available through the council's intranet site.</p>	Consideration should be given to including the wording of the policy statement within the council's Financial Regulations.	<b>Routine</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes	Agree to include the full text of the policy statement in the next update of the Financial Regulations.	On next review of FR's

Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
4	<p><b><u>Authorised Signatories</u></b></p> <p>A sample of CHAPS payments were tested to ensure that these had been approved by officers permitted to approve CHAPS requests.</p> <p>During testing it was noted that two officers included on Treasury list of authorised users for CHAPS payments did not have an authority for CHAPS payments as recorded on the Internal Audit database of authorised signatories.</p> <p>It is noted that from 1 April 2009 Treasury will be solely responsible for maintaining an authorised signatory list for CHAPS payments. A standard form has been prepared for this purpose.</p>	It is recommended that the new form is completed for <u>all</u> officers authorising CHAPS payments from 1 April 2009. This would form the basis of a new authorised signatory list from that date.	<b>Significant</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes	<p>The two officers referred to are the Revenues &amp; Benefits Manager and the Head of Housing &amp; Building Services both of whom are on the Treasury list of authorised users for CHAPS payments. The Revenues &amp; Benefits Manager is also one of the authorised signatories for Bank payments.</p> <p>The new procedure for CHAPS authorised signatories only being maintained by Treasury will eliminate any future problems between these lists.</p>	31 March 2009

Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
5	<p><b><u>Counterparty Limits</u></b></p> <p>The Treasury Officer maintains a list of counterparty investments and the amounts currently invested with each counterparty.</p> <p>This schedule is not provided to the Treasury Manager for regular review of investment levels against set counterparty limits.</p>	<p>A copy of this counterparty investments list should be included with the weekly Treasury Management report to allow monitoring by the Treasury Manager of actual investment levels against limits.</p> <p>The counterparty investment list provided to the Treasury Manager should also include a note evidencing any changes in credit ratings made to the counterparty list during the week.</p> <p>The agreement of the credit ratings in the monthly Sector Treasury Services credit rating reports to those in the counterparty investment list should be evidenced on the counterparty investment lists provided to the Treasury Manager.</p>	<b>Routine</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes		31 January 2009



Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
6	<p><b><u>Reports from Sector Treasury Services</u></b></p> <p>We noted that the monthly credit rating reports received from Sector Treasury Services were not being retained as expected. A specific folder within in the Finance Services server has been created for these reports.</p> <p>These reports support changes made to the credit ratings on the counterparty list maintained by the Treasury Officer.</p>	In line with intentions, it should be ensured that the monthly reports from Sector Treasury Services are retained in the specified location on the Finance Services server.	<b>Routine</b>	G Melville Group Accountant – Corporate Accounting & Treasury	Yes		31 January 2009
7	<p><b><u>Beneficiaries Administration</u></b></p> <p>It was noted during testing that the Treasury Manager appeared to have permissions on the Corporate Internet Banking system to create beneficiaries within the Corporate Internet Banking system.</p> <p>The Treasury Management segregation of duties procedures note that beneficiaries administration is a role assigned to the Treasury Administrator.</p>	The Corporate Internet Banking system should be reviewed to determine whether beneficiary administration permissions can be restricted to the Treasury Administrator and substitute, so as to further align the system with the Treasury Management segregation of duties procedures.	<b>Significant</b>	D Maule, Group Accountant – Financial Planning	Yes		31 March 2009

Ref	Findings	Recommendation	Risk Level	Responsible Officer	Agreed	Client Response	Action Date
8	<p><b><u>Fidelity Guarantee</u></b></p> <p>It was confirmed with the Risk and Insurance Manager that the Fidelity Guarantee cover currently stands at £10million with an excess of £175,000.</p> <p>The current single transaction limit on the CIB system is £20million, although Treasury Management has arrangements in place whereby transactions in excess of £20million may be carried out.</p>	The existing level of Fidelity Guarantee cover should be reviewed to confirm that this is adequate in relation to the Council's Treasury Management activities.	<b>Significant</b>	Chris Haywood, Risk and Insurance Officer	Yes		30 June 2009

**CONCLUSION MATRIX**

As part of the audit a conclusion is arrived at for each control objective. The conclusion flows from the level of importance attached to the recommendations for each control objective. Definitions of the conclusions are as follows: -

<b>EFFECTIVE</b>	Major strengths. Only minor recommendations. A good example of effective internal control.
<b>GOOD</b>	Important strengths with some areas for improvement.
<b>REQUIRES IMPROVEMENT</b>	Control environment could be improved.
<b>POOR</b>	Some important weaknesses. Changes must be made.
<b>UNSOUND</b>	Major weaknesses. Fundamental improvements are required.

**AUDIT RECOMMENDATIONS – RISK LEVELS**

Each audit recommendation has a level of risk attached to it. Definitions of these risk levels are as follows: -

<b>ROUTINE RISK</b>	A minor weakness in control has been identified. Such weaknesses do not severely compromise control but a system can be improved by the implementation of the audit recommendation.
<b>SIGNIFICANT RISK</b>	An important weakness in control has been identified which could result in a system failing to operate effectively.
<b>CRITICAL RISK</b>	A serious weakness in control has been identified which leaves the system at risk of misuse or abuse. The weakness and implementation of the audit recommendation should be addressed immediately.