

Causeway Coast and Glens Borough Council

Internal Audit Report Treasury Management

March 2021



INTERNAL AUDIT REPORT

Treasury Management

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2020/21. This report summarises the findings arising from a review of Treasury Management (TM).

The table below summarises the key risks reviewed, and number of recommendations made:

| Risk | Number of recommendations & Priority rating | | |
|--|---|----------|----------|
| | 1 | 2 | 3 |
| There may be an ineffective Governance framework in place to guide Treasury Management resulting in a lack of capital planning and review of medium/long-term borrowing requirements, leading to an inability of the Council to meet its capital spending obligations. | - | 3 | 1 |
| There may be ineffective cash flow management leading to poor use of public funds, inability of the Council to meet its payment commitments and inappropriate reserve levels being held by the Council | - | | 1 |
| There may be inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds | - | 3 | |
| Total recommendations made | 0 | 6 | 2 |

We also include 1 Point for Management in Appendix III.

Based on our audit testing we are able to provide the following overall level of assurance:

Limited

There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

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| Auditor: | Catriona McHugh |
| Distribution: | Audit Committee Chief Executive Director of Corporate Services Chief Finance Officer Audit, Risk and Governance Officer |

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1. Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and considered the main risks facing Treasury Management and a review of the key systems and controls in place to address these. The objective was to ensure that:

- There is an adequate Treasury Management framework in place,
- the Council's Treasury Management Policy complies with the CIPFA Code of Practice and promotes the most effective use of Council resources.

2. Background

In March 2011 a review was undertaken by central government in the UK to assess the level of independence that Local Authorities had to manage funds and take advantage of investment opportunities. This review concluded that Local Authorities should have more freedom over their borrowing and investment activities. As a result of this review, the Local Government Finance Act (Northern Ireland) 2011 – “the Act” - provided legislative guidance and provisions for the financial affairs of district Councils in Northern Ireland. Under the Act, Councils are required to make arrangements for the proper administration of their financial affairs.

The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy (in 2011 and more recently updated in 2018). The Council is required to have regard to the Prudential Code when carrying out its duties in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011. The Code was established to provide a basis to create clear treasury management objectives and to structure sound treasury management policies and procedures.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be considered and requires that limits on the level and type of borrowing before the start of the financial year are set. The prudential indicators are designed to support and record local decision making in a manner that is publicly accountable.

3. Risks

The risks identified by Internal Audit relating to Treasury Management and agreed with management are as follows

1. There may be an ineffective Governance framework in place to guide Treasury Management resulting in a lack of capital planning and review of medium/long-term borrowing requirements, leading to an inability of the Council to meet its capital spending obligations.

2. There may be ineffective cash flow management leading to poor use of public funds, inability of the Council to meet its payment commitments and inappropriate reserve levels being held by the Council
3. There may be inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds

4. Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

5. Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Ineffective Governance Framework to Guide Treasury Management

ISSUE 1 – Treasury Management Policy and Annual Strategy

- a) **Observation-** The CIPFA Code stipulates that Council should have an overarching TM Policy and that an Annual TM Strategy should be developed, approved, and put in place in advance of each Financial Year.

Council adopted a Treasury Management (TM) Policy in 2016 which laid out the key principles by which council would manage its Treasury management. This includes Treasury Management practices (TMPs) recommended by CIPFAs Treasury Management Code of Practice, and which are relevant to Council. This Policy has not been reviewed and updated since 2016. The Policy currently states that the Corporate Policy & Resource Committee has responsibility for the scrutiny of TM practices. Since October 2019, the Finance Committee has had the responsibility to oversee treasury management.

To complement the TM Policy an Annual TM Strategy should also be adopted by Council. Audit found that an Annual TM Strategy was not put in place for the year 2020/21. Audit also found that an action to perform “a cost of carry and breakeven

analysis of debt” which had been identified in the Annual TM Strategy for 2019/20 had not taken place. Audit reviewed the Corporate Policy & Resources Committee minutes (from August 2018 – January 2021) and could not find any documented evidence that the Annual TM Strategy 2019/20 was reported to this committee.

(See also Issue 6 TMP)

b) Implication- The absence of an updated Annual Strategy (2020/21) results in non-compliance with the CIPFA Code of Practice on Treasury Management and is contrary to the council’s own Treasury Management Policy. Failure to follow the Annual TM Strategy in place (2019/20) means Council may not address Treasury Management issues in a timely manner. This causes an increase in the risk of critical failure of Council’s treasury management undertakings.

c) Priority Rating- 2

d) Recommendation- Every year council must put in place an Annual Strategy for TM and get it approved by Finance Committee. The Annual Strategy should be followed in full.

e) Management Response- Annual strategy for TM missed during 20/21 probably due to absence of key member of staff for much of that year, 21/22 Strategy will be in place

f) Responsible Officer & Implementation Date-
CFO April 2021

ISSUE 2 – Minimum Revenue Provision Policy

a. **Observation-** Local Government regulations state that authorities are required to prepare an annual statement of their policy on making MRP for approval by Council. Audit was advised that the Minimum Revenue Provision (MRP) Policy paper is presented as part of the pack of papers provided to Councillors to support agreeing the estimates and striking the rates each year. Audit was advised that a separate folder containing the reports for the Council Rates meeting is kept by Finance. Audit was provided with the MRP Policies for 2019/20 and 2021/22. However the MRP Policy for 2020/21 could not be located; Audit was advised it may have been deleted or misfiled. In compliance with regulations the MRP policies which were available for review by Audit contained the detail of method applied, within Council, to calculate the MRP.

Audit reviewed documents uploaded onto the meetings section of the Council’s website, for the Striking the rates meeting, in previous years but the missing MRP Policy 2020/21 had not been included with the other reports.

Audit notes the MRP Policy (2021/22) has been included in the pack of papers for the most recent Council Rates meeting on 25th February 2021 and is available on the Council website with all other papers provided at that meeting.

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| <p>a) Implication- In the absence of evidence that the MRP Policy is provided to Councillors annually there is a gap in the audit trail and an increase in the risk of a perception of lack of transparency around MRP calculation and the possibility of poor decision making regarding the use of public funds.</p> |
| <p>b) Priority Rating- 3</p> |
| <p>Recommendation- The final version of the papers provided to Councillors for setting the rates, including the MRP Policy, should continue to be retained in a specially named folder on the Council’s shared drive (only accessible to senior Finance Team members) and should always be uploaded onto Council’s webpage along with the agenda/minutes of the Council meeting. A short checklist of the papers to be provided in line with the regulations (and any additional reports) should be created by Finance and signed off by the Chief Finance Officer before providing for upload to the Council website with the Rates meeting agenda.</p> |
| <p>c) Management Response- MRP policy is presented to council at rates setting meeting and was included with the papers at the recent rates meeting on 25th February 2021.</p> <p>Final versions of reports/policies retained in separate folders and a checklist of reports needed for the striking the rates meeting will be introduced by Finance.</p> |
| <p>d) Responsible Officer & Implementation Date- CFO in line with schedule of reports preparation for 2022/2023 rates meeting</p> |

ISSUE 3 – Prudential Indicators

- a) Observation-** A review of the MRP Calculations and Prudential Indicators (PI) Reports (over the last 3 years) revealed the following:

Finance found there had been an error in the MRP spreadsheets which resulted in an adjustment to the MRP figures in 2019/20. This was corrected and satisfactorily reported to the Finance Committee as part of the monthly reporting (March 2020) as an “in year adjustment with regards our Minimum Revenue Provision which had been overprovided previously to the value of £639,999.”

Audit also found that there was a change in approach in calculating one of the prudential indicators in 2019/20. MRP had previously been excluded from financing costs in calculating the “Financing costs to Net Revenue stream” (one of the affordability indicators) but was included as part of the financing costs from 2019/20. Audit was advised that this change in approach, resulted from correcting how this indicator had been previously calculated. This was not explained in the PI Report brought before the Corporate Policy & Resource (CP&R) Committee. (This matter arose before Finance Committee became responsible for TM matters). Audit was advised that this matter would have been verbally explained to the CP&R Committee at the time the PI Report was brought before them. Audit reviewed the relevant CP&R minutes but found the explanation is not recorded in the Committee minutes.

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| <p>b) Implication- If any change in the calculating of Prudential Indicators is not clearly explained in reports to Council Committee there is an increased risk of a perception of lack of transparency and an increased risk that elected members are not fully aware of the change which may lead to poorly informed decision making around TM matters.</p> |
| <p>c) Priority Rating- 2</p> |
| <p>d) Recommendation- The Prudential Indicator Report should be brought to the Finance Committee on an annual basis. Any change in the calculation (method) should be clearly documented in the PI report.</p> |
| <p>e) Management Response- Reference to the correction would have been verbal at the meeting where the report was presented, any future change will be included in the body of the report.</p> |
| <p>f) Responsible Officer & Implementation Date- CFO March 2021</p> |

ISSUE 4 – Documented Procedures

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| <p>a) Observation- Audit observes that there are no documented procedures to guide Treasury Management activities within Council.</p> |
| <p>b) Implication- This lack of a comprehensive summary of the TM activities required within Finance on an ongoing basis increases the risk that there may be a lack of awareness of all TM activities and specific obligations needed to ensure compliance with the TM Policy and CIPFA Code, within the wider Finance Team. Incorrect practices may be followed and out of date information may be used by Finance staff. This is critical when there is a change within the Finance Team or another member of Finance, unexpectedly, must take on the responsibility for TM matters e.g. sudden absence of Chief Finance Officer.</p> |
| <p>c) Priority Rating- 2</p> |
| <p>d) Recommendation- A short but comprehensive documented procedure covering all TM matters and timing of reports should be put in place as soon as possible.</p> |
| <p>e) Management Response- Procedures to be documented</p> |
| <p>f) Responsible Officer & Implementation Date- CFO April 2021</p> |

5.2 Risk 2 – Ineffective Cash Flow Management

| ISSUE 5 – Cash flow management |
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| <p>a) Observation- Audit found evidence of frequent checking of bank balances to ensure sufficient cash for payment runs. Audit was advised that the Council has not gone into overdraft, Council has no authorised overdraft in place. Audit reviewed the transfers between deposit and current bank accounts over the period December 2020 – February 2021 to verify top-ups to the current account in a timely manner.</p> <p>TMP 8 of Council’s TM Policy states that Cash Flow projections will be prepared and reviewed on a regular basis. Audit was advised that Finance prepared a cash flow projection at the beginning of Covid-19, at the time of audit testing this has not been reviewed and updated.</p> |
| <p>b) Implication- In the absence of regular review and update of cash flow projections there is an increased risk of poor use of public funds, inability of the Council to meet its payment commitments and inappropriate reserve levels being held by the Council.</p> |
| <p>c) Priority Rating- 3</p> |
| <p>d) Recommendation- A more frequent update of cash flow projections should be performed by Finance.</p> |
| <p>e) Management Response- Current cash flow projection is basic, development of the debt management model includes a cashflow projection which will address this issue.</p> |
| <p>f) Responsible Officer & Implementation Date- CFO April 2021</p> |

5.3 Risk 3 – Inadequate Performance Oversight and Decision Making

| ISSUE 6 – Reporting to Committee |
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| <p>a) Observation- Audit reviewed the minutes of the CP&R minutes (August 2018 – January 2021) and Finance Committee minutes (during the period October 2019 – February 2021) and noted the following:</p> <ul style="list-style-type: none"> • Management accounts are being considered at each meeting (including reserve position) • Council’s loan position was discussed at 3 out of 12 Finance Committee meetings • the Capital Programme was discussed at 3 out of 12 Finance Committee meetings |

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| <ul style="list-style-type: none"> • Capital realisation was discussed at 3 Finance Committee meetings and is a standing agenda item from February 2021 • A financial consultant has been in attendance at Finance Committee meetings since February 2020 • It is not clear from the Finance Committee minutes how the medium-term plan/financial recovery plan is progressing. • Audit found a number of issues raised at meetings where it is not clearly recorded if these were followed up on and reported back to the Finance Committee. |
| <p>b) Implication- There is a risk that the absence of reporting of progress against actions/issues raised may result in actions not being addressed in a timely manner or overlooked.</p> |
| <p>c) Priority Rating- 2</p> |
| <p>d) Recommendation- The Finance Committee agreed action list, of follow-up matters, should be discussed at the start of every meeting.</p> |
| <p>e) Management Response- Accepted</p> |
| <p>f) Responsible Officer & Implementation Date- CFO March 2021</p> |

ISSUE 7 – Treasury Management Practice(TMP) 6 - Reporting and Oversight of TM

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| <p>a) Observation- TMP 6 of the Council's Treasury Management Policy states that as a minimum the Council will receive an annual report on the TM strategy to be pursued in the coming year, a mid-year review, and an annual report on performance and compliance after the close of the financial year. Audit found a from a review of the CP&R and Finance Committee minutes that a formal Prudential Indicator Report is brought to Committee at the end of the year. A TM Strategy is prepared at the beginning of the year; however there was none in place for 2020/21 (see also Issue 1). There is no formal mid-year review of the TM Strategy.</p> |
| <p>b) Implication- Irregular reporting on TM progress results in non-compliance with the CIFPA Code and may increase the risk of a lack of clarity around decision-making in relation to investments, capital spend and increased possibility of poor use of public funds.</p> |
| <p>c) Priority Rating- 2</p> |
| <p>d) Recommendation- Finance should ensure compliance with TMP 6 of the Council's TM Policy by providing a mid-year review of progress, and an annual report on performance and compliance after the close of the financial year.</p> |

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| <p>e) Management Response- Mid-year review will be presented to committee in Oct/Nov 2021, Annual review for 2020/21 will be presented after year end.</p> |
| <p>f) Responsible Officer & Implementation Date- CFO May 2021</p> |

| ISSUE 8 – Training on Treasury Management and the CIPFA Code of Practice |
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| <p>a) Observation- TMP 10 of Council’s own TM Policy (created in line with the CIPFA Code) clearly states that training will be arranged for elected members and relevant staff. Audit reviewed details of financial training provided in recent years. There was training in December 2020 on Financial Matters. 4 Councillors attended (2 of these elected members sit on Finance Committee). Audit reviewed the training materials and note that 1 slide (of 25) makes brief reference to borrowing and prudential indicators. This financial training was focused on developing estimates and striking the rate; this is not an in-depth training on TM or Prudential Indicators.</p> <p>Audit was advised that the Finance Team would attend (annual) training on TM matters arranged by Arlingclose (Council’s Treasury Managers advisors); but that none has been arranged in the last 12-18 months.</p> <p>TMP 10 of Council’s own TM Policy (created in line with the CIPFA Code) clearly states that training will be arranged for elected members and relevant staff.</p> |
| <p>b) Implication- There is a risk that a lack of training for elected members increases the risk of inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds.</p> |
| <p>c) Priority Rating- 2</p> |
| <p>d) Recommendation- Training on Treasury Management and the CIPFA code of practice should be arranged as soon as possible for elected members who sit on the Finance Committee. Refresher training for senior Finance Team members should be re-instated.</p> |
| <p>e) Management Response- Member training does take place but needs to be extended to treasury management</p> |
| <p>f) Responsible Officer & Implementation Date- CFO to discuss training need with ODHR and Democratic Services - April 2021</p> |

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

| Risk | Key Controls |
|---|--|
| <p>There may be an ineffective Governance framework in place to guide Treasury Management resulting in a lack of capital planning and review of medium/long-term borrowing requirements, leading to an inability of the Council to meet its capital spending obligations.</p> | <ul style="list-style-type: none"> • Council has approved a Treasury Management Policy and related annual strategies • The Capital Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services • The Capital Strategy provides an overview of associated risks and implications on future financial sustainability • High level policies for Council borrowing and investments are in place • There is a list which details the approved banks and other financial institutions with which the Council can undertake short-term investments (usually within the Treasury Management Policy) • Council has documented procedures to support staff who work in the area of Treasury Management • Council has developed a 3-year Medium Term Financial Strategy which includes a Capital budget and details of plans for maintaining reserves and provisions • A Minimum Revenue Provision (MRP) has been made • MRP has been calculated correctly in line with relevant guidelines • Changes in MRP calculation have been submitted to Council for approval. • Council has set Prudential Indicators in line with the CIPFA Treasury Management Code • Prudential indicators are monitored and reported on |
| <p>There may be ineffective cash flow management leading to poor use of public funds, inability of the Council to meet its payment commitments and inappropriate reserve levels being held by the Council</p> | <ul style="list-style-type: none"> • Council operates within an approved, clear investment and borrowing strategy • Borrowing procedures and decisions made in relation to capital finance and borrowing are fully documented • Council takes on board any advice from external treasury management/financial advisors to support borrowing and investment decisions to maximise the use of Council's cash resources and minimise debt • Consideration is given to the financial institutions with which investments are place (e.g. credit ratings, stability etc) • Records of recent investments and loans undertaken are maintained • Performance of investments is monitored • The liquidity of investments and cash requirements are monitored regularly • Cash flow forecasts are developed showing Council's required cash resources for the forthcoming month, banking and investment of excess funds from operations • Council has put in place Treasury Management practices (in line with CIPFA's Treasury Management Code) |
| <p>There may be inadequate performance oversight and decision-making in relation to both investments and</p> | <ul style="list-style-type: none"> • A mid-year treasury management report is prepared and reported to Councillors • Any changes in the estimated capital spend, Treasury Management Strategy or Prudential Indicators are highlighted to and approved by Council |

| Risk | Key Controls |
|---|---|
| capital spend leading to poor use of public funds | <ul style="list-style-type: none"><li data-bbox="564 232 1380 293">• An annual treasury management report is prepared and reported to Councillors<li data-bbox="564 300 1380 329">• All reports are in line with CIPFA's Treasury Management Code<li data-bbox="564 336 1380 396">• Training has been provided to officers and Councillors on the Prudential Code |

Appendix III: Point for Management

Capital Strategy and Medium-Term Financial Planning

Observation- Audit notes that Council is yet to finalise its Medium-Term Financial Plan (MTFP) and Capital Strategy; both documents have been recommended in previous Internal Audits. However, audit did find that work is ongoing for both documents and that, running in parallel is a 10-year debt analysis and profiling exercise, which (at the time of this audit) is almost complete. All this work is being reported through the Finance Committee.

Council should prioritise the finalisation of these documents to ensure there is a clear picture of medium-term affordability of the Council's Capital Programme and to achieve Council's high level TM policies relating to best use of Council's cash and minimising of debt.

Management Response- Work is progressing on the formulation of a medium term financial plan and a capital strategy will be presented to Council by the end of June 2021