

Causeway Coast and Glens Borough Council

Internal Audit Report Treasury Management

November 2018
Final

MOORE STEPHENS

INTERNAL AUDIT REPORT

Treasury Management

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2018/19. This report summarises the findings arising from a review of Treasury Management which was allocated 6 days.

Through our audit we found the following examples of good practice:

- The Prudential Indicators have been established in line with the Prudential Code and an Annual Monitoring Report of progress of these indicators is created for Council.

One Priority 2 areas where controls could be enhanced was noted during our review:

- To ensure the

The following table summarises the total number of findings/recommendations from our audit:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be 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.	-	-	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	-	-	-
There may be inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds	-	1	1
Total recommendations made	0	1	2

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

Satisfactory

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.

Points for the attention of Management

We have identified one system enhancements during the course of the audit which does not form part of our formal findings, but may help enhance the existing controls. This is detailed at Appendix III.

Table of Contents

Executive Summary.....	2
1 Objective	5
2 Background	5
3 Risks	6
4 Audit Approach.....	6
5 Findings and Recommendations	7
5.1 Risk 1 – Lack of Capital Planning and Borrowing Requirements	7
5.2 Risk 2 – Cash Flow Management.....	7
5.3 Risk 3 – Oversight of Treasury Management Activities.....	8
Appendix I: Definition of Assurance Ratings and Hierarchy of Findings.....	10
Appendix II: Summary of Key Controls Reviewed.....	11
Appendix II: Points for Management.....	12

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Distribution:	Audit Committee Chief Executive Director of Corporate Services Chief Finance Officer
	November 2018

Audit progress	Date
Audit commenced	24 September 2018
Draft Report issued to senior management for response	25 November 2018
Responses Received	26 November 2018
Responses Agreed	26 November 2018
Report Issued	28 November 2018

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. The scope of this audit is to review the arrangements in place within the Council in relation to Treasury Management, focusing on the main risks associated with:

- Capital Planning
- Borrowing and Investments
- Cash Flow Management

The audit focus was on the structures and processes used in treasury management rather than being an assessment of the outcomes achieved in applying the treasury management processes.

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 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.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Chief Finance Officer
Senior Project Accountant
Financial Accountant

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 – Lack of Capital Planning and Borrowing Requirements

ISSUE 1 – Medium Term Planning

a) Observation-

Council have a plan of capital projects over the medium term; and a cap on annual capital spend.

On an annual basis the Senior Project Accountant and the Chief Finance Officer review the capital expenditure of ongoing projects and identify the need to draw down any loans. The review considers: what projects are complete; how much it cost (compared to budget); what approval was in place from Council at the beginning of the project and the need to move any loan funds and go back to Council for additional approval.

A comprehensive Medium-Term Financial Strategy is not yet in place but is currently being developed by the Chief Finance Officer.

b) Implication-

In the absence of a consolidated medium-term plan there is a risk that Council does not have a clear medium term financial outlook regarding the Authority's revenue and capital resource availability over the medium term.

c) Priority Rating-

3

d) Recommendation-

Finance should finalise a medium term financial strategy as soon as possible.

e) Management Response- Medium term financial plan currently being drawn up

f) Responsible Officer & Implementation Date- Feb 2019 – Chief Finance Officer

5.2 Risk 2 – Cash Flow Management

There were no issues identified

5.3 Risk 3 – Oversight of Treasury Management Activities

ISSUE 2 – Monitoring of Prudential Indicators and Treasury Management activities

a) Observation-

Prudential indicators are in place in line with the Prudential Code and are reviewed by Finance twice during the year; during the estimates preparation and also during the preparation of the Annual Financial Statements. A formal report is presented to Council as part of the annual rate setting process which includes the details of Council's series of Prudential Indicators.

It was noted that a formal mid-year report summarising the mid-year review of Council's series of prudential indicators is not prepared for Council.

The Council's Treasury Management Policy was updated in August 2018. The current (updated Policy) does not specify how often and what information should be reported to Council. It is good practice (and was a documented requirement of the previous version of Council's Treasury Management Policy) that the Council receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after the close of the financial year.

b) Implication-

In the absence of adequate performance oversight there is an increased risk of inappropriate decision-making in relation to both investments and capital spend leading to poor use of public funds

c) Priority Rating-

2

d) Recommendation-

Finance should ensure a more formal process of reporting treasury management activities to Council is put in place and includes the monitoring of the series of prudential indicators not only at the year-end but also at the midpoint of the year.

e) Management Response- Upon full implementation of the new Treasury Management Policy regular reports will be tabled at Corporate, Policy & Resources Committee detailing investments and borrowings

f) Responsible Officer & Implementation Date- Chief Finance Officer – Jan 2019

ISSUE 2 – Training on Treasury Management and the Prudential Code

a) Observation-

The Head of Finance and other Finance staff receive on the job training and mentoring from Council's Treasury Management Advisors on an ongoing and as needed basis.

Councillors have not received any training on the prudential code since the new Council was formed.

b) Implication-

If Councillors do not receive training on the prudential code there is a risk of inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds

c) Priority Rating-

3

d) Recommendation-

Councillors involved in oversight of treasury management should receive training on the prudential code

e) Management Response- Member Training to be investigated

f) Responsible Officer & Implementation Date- Chief Finance Officer – Post Election May 2019

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

Budgetary Control

Risk	Key Controls
<p>There may be 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 developed a 3-year Medium Term Financial Strategy • A Capital Plan is in place • A Minimum Revenue Provision has been made and has been correctly calculated • Council has set Prudential Indicators for: <ul style="list-style-type: none"> ○ External debt ○ Capital expenditure ○ Affordability ○ Prudence ○ Treasury • Prudential indicators are monitored and reported on (and the amounts reported are correctly calculated)
<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 has approved a Treasury Management Policy and has set a clear Treasury Management Strategy • Borrowing is prudent and within the limits set for Capital Finance Requirements • Council has approved a clear Investment 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 advisors to support borrowing and investment decisions • 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) Sample testing of investment transactions to ensure recorded in timely manner and recorded accurately in general ledger
<p>There may be inadequate performance oversight and decision-making in relation to both investments and capital spend leading to poor use of public funds</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 • An annual treasury management report is prepared and reported to Councillors • Training has been provided to Councillors on the Prudential Code

Appendix II: Points for Management

Tobacco Control – Shared Responsibilities

Testing revealed that at the time of audit that Council held only 1 investment. It was noted that under the new Treasury Management Strategy the plan is to diversify into more long-term investments.

Council should ensure that they perform a review of their resources and reserves and implement the new Treasury Management Strategy as soon as possible.

Management Response- Approval for CE, CFO and Fin Acct to manage investment facilities approved at C,P&R committee in November 2018, following council ratification this will allow the policy to be fully implemented quite quickly.