



Internal Audit Report

Treasury Management

Final

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Prepared for Surrey County Council

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1. Introduction

- 1.1 The Treasury Management code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the following three principles whilst acknowledging the difficulties between striving for effective risk management and control and pursuing value for money:
- Ensuring that public bodies put in place the necessary framework to ensure the effective management and control of treasury management activities;
 - That the framework clearly states that responsibility for treasury management lies clearly within the organisation and the strategy clearly states their appetite for risk; and
 - That value for money and suitable performance measures should be reflected in the framework.
- 1.2 The treasury management activities at Surrey CC are the responsibility of the Finance Manager (Assets & Accounting), who utilizes staff from across Finance to assist in providing the necessary cover for treasury management functions. The objectives of the treasury management function are:
- To ensure the security of the principal sums invested.
 - To ensure Surrey CC has access to cash resources as and when required.
 - To minimise the cost of borrowing required to finance Surrey CC's investment and capital programmes and management of short term cash flows.
 - To maximise investment returns commensurate with Surrey CC's policy of minimising risks to the security of capital and its liquidity position.
- 1.3 The objective of the audit is to provide assurance controls are in place and are operating to manage the Treasury Management activities of Surrey CC.
- 1.4 The review will also include a follow up to confirm implementation of previously agreed recommendations.
- 1.5 The review of the Treasury Management function is part of the annual assessment of key financial systems for 2017/2018.

2. Scope

The scope of the audit was to confirm:

- 2.1 Treasury Management Policy Statement is adopted which incorporates the CIPFA Code and sector specific guidance relating to Local Authorities and has been approved by members.
- 2.2 An annual strategy document is prepared and reported to the Audit and Governance committee and the council.
- 2.3 There is sufficient in-house treasury management expertise available and appropriate training is provided.

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- 2.4 All new treasury/funding activities or products are reviewed by the Audit and Governance Committee together with a report of potential risks and rewards.
- 2.5 The Audit and Governance committee receives periodic reports on treasury activities, including systematic sensitivity analysis.
- 2.6 A scheme of delegation for treasury management is in place and consistent with the policy.
- 2.7 Procedures are in place to monitor compliance with loan covenants, where possible standardised loan documentation is used to reduce the risk of unusual clauses being missed.
- 2.8 The council agree a strategy for investing cash which is risk averse; includes a range of acceptable investments; encourages using a number of institutions, not just one.
- 2.9 The actual cash flow outturn is recorded and monitored against the forecast, variances investigated, and appropriate amendments made to forecasts.
- 2.10 Cash flow projections, actual position and variations from plans are reported to senior management on a timely basis.

3 Audit opinion

3.1 Substantial Assurance Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions, what they mean, and sets out management's responsibilities.

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4. Basis of Opinion

4.1 We have been able to provide **Substantial Assurance** over the controls operating within the area under review because:

4.2 Treasury Management Strategy 2018/19

4.2.1 A Treasury Management Strategy Statement was adopted and endorsed by the Audit and Governance committee and approved by the council.

4.2.2 Documented procedures for treasury management are contained within the Office Manual and are consistent with the Strategy and its objectives.

4.3 Members Scrutiny of Treasury Management Activities

4.3.1 In compliance with CIPFA's Code of Practice for Treasury Management it was confirmed that on a bi-annual basis the Audit and Governance Committee receive a report which summarises the council's treasury management activities. The report also covers the council's Prudential and Performance Indicators in accordance with the requirements of the CIPFA Prudential Code.

4.4 Treasury Management Scheme of Delegation

4.4.1 It was confirmed the Treasury Management Scheme of Delegation was adopted by Cabinet at the February 2018 meeting.

4.5 Segregation of Duties

4.5.1 It was confirmed that a clear segregation of duties existed between

- The persons originating deals and those responsible for approving deals with counterparties.
- The persons making/receiving payments and those responsible for carrying out bank reconciliations.

4.6 Recording Treasury Management Transactions

4.6.1 There are secure and robust arrangements for recording treasury transactions. It was confirmed that all new dealings tested were recorded accurately and on a timely basis. Documentary records, electronic and hard copy were protected. Access to on-line banking systems was restricted.

4.7 Capable In-House Treasury Management Expertise

4.7.1 The Finance Manager (Assets & Accounting) is responsible for delivering the day to day operational functions covering treasury management activities, principally managing short term investment and short and long term borrowing transactions. The Finance Manager is supported by a 'virtual team' which is made up of members of the Asset and Accounting team, treasury management is an element of their overall accounting duties.

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This is not the traditional treasury management structure, however it has been operating successfully this way for some time with no perceptible negative impacts on its effectiveness or efficiency.

Surrey County Council is currently in discussions with its Orbis partners regarding the establishment of a Treasury Management Centre of Expertise. The exact organisational make up the centre has not yet been decided. It is expected that the Centre of Expertise will be put into operation in the 2018/19 financial year.

4.7.2 Currently the treasury management function is supported by external advisors Arlingclose Ltd. It was confirmed they provide regular information designed to assist treasury management decision making. The Finance Manager considers their performance to be satisfactory.

4.7.3 Members elected in May 2017 who were appointed to the Audit and Governance committee attended a training presentation in November 2017 entitled **Treasury Management at Surrey County Council** staged by treasury management officers and Arlingclose Ltd. Currently the council member training programme does not incorporate annual treasury management training for Audit and Governance committee members.

4.8 Cash flows

4.8.1 The auditor established that daily cash flow statements were produced, monitored and updated by the treasury management team. Evidence of other known anticipated cash movements in and out of the bank (such as payroll, loan repayments, rates payable etc.) were retained and attached to the daily balances sheet for retention in a local file. The auditor obtained evidence which indicated forecasting is generally accurate.

4.8.2 It was confirmed cash flow projections, actual position and variations from plans are routinely and periodically communicated to senior management and members.

4.9 Investments

4.9.1 During the first half of 2017/18 the council's average daily level of investments was £72.3m. For those transactions tested it was established that treasury management investment activities undertaken during the period complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. It was confirmed there was compliance with specific investment limits, this was reported to members at the Audit and Governance meeting in December 2017.

4.10 Borrowing

4.10.1 On 31st December 2017, the Authority held £649m of borrowing. The auditor observed the arrangements for short term and long term borrowing and verified there was adequate documentation held to support those transactions. It was

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confirmed there was compliance with specific borrowing limits, this was reported to members at the Audit and Governance meeting in December 2017.

4.11 Interest Rates

4.11.1 Details of interest payable and received are recorded on SAP. Cross checks carried out by the auditor between SAP and local records and bank statements gave assurance that records were up to date and accurate.

4.11.2 Interest paid and received is reported monthly as part of the central income and expenditure budget to council.

Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources		
Low	Represents good practice but its implementation is not fundamental to internal control	2	1 and 2
Total number of agreed actions		2	

5. Acknowledgements

6.1 We would like to thank all staff that provided assistance during the course of this audit.



Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p>Member Treasury Management Training</p> <p>The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.</p> <ul style="list-style-type: none"> • Currently the council member training programme does not incorporate annual treasury management training for Audit and Governance committee members. 	<p>The Audit and Governance committee members may have insufficient skills and expertise to understand and evaluate current treasury management activities.</p>	Low	<p>To coordinate and facilitate an annual schedule of relevant training for Audit & Governance Committee Members, which includes treasury management training.</p>
Responsible Officer:		Joss Butler, Committee Assistant	Target Date:	7 June 2018



	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p>Risk Register</p> <p>The current version of the treasury management risk register presented to the Audit and Governance committee covers the period 2016/17. Discussion with the Finance Manager established that this register was reviewed and the updated version included in the minutes of the July 2017 Audit and Governance meeting papers.</p> <p>The Finance Manager indicated treasury management risks were under constant review and that going forward a risk register will be presented to the Audit and Governance committee whenever treasury management activities are being reported.</p>	<p>If the Risk Register is not up to date current treasury management risks may not be identified and controlled.</p>	<p>Low</p>	<p>Treasury management risks continue to be under constant review and processes and procedures amended to mitigate the impact of identified risks. The maintenance of a risk register for treasury management is an iterative process and the most recent version of the risk register will be presented to the Audit & Governance Committee, at least half yearly, alongside the reporting of treasury management activities.</p>
<p>Responsible Officer:</p>		<p>Nikki O'Connor, Finance Manager</p>	<p>Target Date:</p>	<p>May 2018</p>

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.