

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF TREASURY MANAGEMENT AUDIT FOR 2015-16

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REVIEW OF TREASURY MANAGEMENT AUDIT FOR 2015-16

INTRODUCTION

1. This report sets out the results of our systems based audit of Treasury Management Audit for 2015-16. The audit was carried out in quarter Q4 as part of the programmed work specified in the 2015-16 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 1st March 2016. The period covered by this report is from February 2015 to February 2016.
4. As at the end of January 2016, total investments held by the Authority amounted to £308.0m. The key areas of investment are fixed deposits with a wide variety of UK financial institutions including Lloyds TSB (£80m), RBS (£80m), Santander (£20m) and Barclays (£10m). A further £117.5m is invested in a variety of City/County Councils/Local Authorities and Property/Growth Funds (£25m with CCLA and £5m each with Newton and Standard Life).
5. The authority has borrowed for the first time since 2009. Two loans have been taken out, one with Edinburgh City Council of £4m at 0.5% and one with South Lanarkshire Council for £7.2m at 0.35%.

AUDIT SCOPE

6. The scope of the audit is detailed in the Terms of Reference.

AUDIT OPINION

7. Overall, the conclusion of this audit was that Substantial Assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

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MANAGEMENT SUMMARY

8. Controls were in place and working well in the areas of:
 - Controls are in place to ensure the security of money being borrowed and invested.
 - The organisation's financial position is regularly assessed
 - Investment and borrowing records are complete and correct
 - Arrangements with external service providers are documented
 - Finance is readily available
 - Staff are sufficiently trained and qualified.
 - Investments are made to maximise returns to the council.

9. However we would like to bring to Management's attention the following issues:
 - Documented Treasury Management Practices have recently been reviewed, though these changes have not been formerly agreed.

SIGNIFICANT FINDINGS (PRIORITY 1)

10. No significant findings were identified during this review.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

12. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>It was discussed with the Principal Accountant Technical that the authority still utilises its own version of the CIPFA Treasury Management Practices. They were reviewed and updated in March 2015, though changes made have not been formally accepted on the document.</p> <p>The procedure sufficiently covers borrowing and making of investments, though large parts of it are awaiting approval for changes that have been made.</p>	<p>Guidance to staff is unclear or insufficiently detailed.</p>	<p>The Treasury Management Practices should be formally approved. [Priority 3]</p>

Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	The Treasury Management Practices should be formally approved.	3	The practices will be reviewed and formally approved	Principal Accountant	July 2016

Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.