

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF TREASURY MANAGEMENT AUDIT FOR 2017/18

Issued to: Tracey Pearson, Chief Accountant, Technical and Control
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Reviewed by: Principal Auditor

Date of Issue: 27 April 2018

Report No.: CX/14/12/2017

REVIEW OF TREASURY MANAGEMENT AUDIT FOR 2017-18

INTRODUCTION

1. This report sets out the results of our systems based audit of Treasury Management for 2017-18. The audit was carried out in quarter Q4 as part of the programmed work specified in the 2017-18 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 the overall effectiveness of operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 1st February 2018. The period covered by this report is from April 2017 to February 2018.
4. As at the end of January 2018, total investments held by the Council amounted to £322.2m. The key areas of investment were fixed deposits with a wide variety of UK financial institutions including Company 'A' (£80m), Company 'B' (£50m), Company 'C' (£20m), Company 'D' (£15m) and Company 'E' (£10m). A further £10m each was invested with a County Council, Housing Associations, and £80m in pooled funds (£40m with a charity fund manager, £30m with Company 'F' and £5m each with Company 'G' and Company 'H'). In addition, there was a loan of £2.3m to a Project Company and £34.9m in Money Market funds.
5. The Council has not made any borrowings in the last 12 months and there are no borrowings outstanding.

AUDIT SCOPE

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

AUDIT OPINION

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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.

MANAGEMENT SUMMARY

8. Controls were in place and working well in the following areas:

- The Council's financial position is regularly assessed;
- Investment records are complete and correct;
- All relevant investments have been fully incorporated and management ensure compliance to the investments processes;
- Monthly reconciliations are being performed to ensure that the journals are complete and accurate by reviewing the online accounts;
- Staff are trained and qualified;
- Investments are being made to maximise returns to the Council; and
- Relevant investment related information is supplied to senior management on a regular basis.

9. The following issues have been identified from our testing:

- In some instances, investments in Money Market Funds had not been made at the highest annual rate of return available and an audit trail to support the reasoning behind these decisions was not maintained;
- The Council has not sought assurance from its Investment Managers relating to the design and operating effectiveness of the internal controls in place over their systems for financial reporting; and
- Segregation of duties was not evidenced in the quarterly investments reconciliations performed.

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10. The Technical and Control team currently use a software provider's application to record details of the Council's fixed term treasury management investments. We were informed during our review that the number of these has reduced significantly in recent years because more money has been placed into pooled funds. The annual licence fee for using this software is £2,254.00 and the team are proposing in future to maintain these records on spreadsheets instead, supported by the hard copy files. We have discussed this with the Principal Accountant and are content with the proposed arrangements.
11. We also noted during the course of our audit that a new member of staff was due to start and the team were therefore proposing to update their treasury management procedures once he was established in the post.

SIGNIFICANT FINDINGS (PRIORITY 1)

12. No significant findings were identified during this review.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

13. 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

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

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1.	<p>Investments in Money Market Funds (MMF)</p> <p>Through discussions with the Principal Accountant, it was established that on a mainly daily basis, investments are made into or redeemed from Money Market Funds (detailed within the Treasury Management Practices) at the highest yield rate of return. The rates return information is received and updated on a daily basis. As investments are required to be made by 1pm, the previous day's rates sometimes have to be used when the rates haven't been updated on a company portal used for making the investments.</p> <p>There was no correspondence between the Capital Accountant and Principal Accountant or other documents to provide a rationale and approval for the investment decisions made. It was explained that, as the Capital Accountant and the Principal Accountant work alongside each other, confirmation of these investments is verbal.</p>	<p>There is a risk that optimal investment decisions are not being made.</p>	<p>An audit trail of MMF investment decisions made should be maintained, detailing the rationale and approval of these investments.</p> <p>[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

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2.	<p>Design and operating effectiveness of controls</p> <p>Through discussions with the Principal Accountant, it was established that the Council currently does not seek assurance from its Investment Managers relating to the design and operating effectiveness of the internal controls in place over their financial reporting.</p> <p>The Council could request a Systems of Control 1 (SOC1) report from its Investment Managers. The SOC1 report provides an independent third party assurance on the suitability of the design and operating effectiveness of the internal controls in place over funds invested and managed on behalf of the London Borough of Bromley.</p>	<p>There is a risk that the Investment Managers who manage investments on behalf of the Council do not have effective controls in place, resulting in potential threat to the London Borough of Bromley's investments in these funds.</p>	<p>Management should seek relevant assurance (such as a SOC1 report) from its Investment Managers over their internal controls for financial reporting.</p> <p>[Priority 3]</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3.	<p>Quarterly reconciliations</p> <p>The Treasury Management team perform investment reconciliations on a quarterly basis.</p> <p>Examination of two of these reconciliations, for April to June 2017 and for July to September 2017, confirmed that both of these had been evidenced as checked, but because these reconciliations did not detail who had prepared them, appropriate segregation of duties could not be confirmed.</p>	<p>There is a risk that the process is not subject to segregation of duties, resulting in errors and omissions not being identified in a timely manner and actioned appropriately. This which may lead to financial or reputational consequences for the Council.</p>	<p>Management should consider including a version history control within the quarterly reconciliation document. This version control should detail (but is not limited to):</p> <ol style="list-style-type: none"> 1. The preparing officer; 2. Date prepared; 3. The reviewing officer; and 4. Date of review. <p>[Priority 3]</p>

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1.	An audit trail of MMF investment decisions made should be maintained, detailing the rationale and approval of these investments.	3	Agreed, for when the current day's rate is not available. It should be noted that (historically) the movement in MMF rates day to day is very small, so any 'loss' as a result of e.g. choosing a fund based the previous day's rates is most likely negligible	Principal Accountant	June 2018
2.	Management should seek relevant assurance (such as a SOC1 report) from its Investment Managers over their internal controls for financial reporting.	3	Agreed	Principal Accountant	June 2018

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MANAGEMENT ACTION PLAN

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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.