

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

INTERNAL AUDIT OF TREASURY MANAGEMENT

Issued to: Tracey Pearson, Chief Accountant

Cc: Jo-Anne Chang-Rogers, Principal Accountant
Peter Turner, Director of Finance, (Final Report only)

Prepared by: Mazars Auditor
Date of Issue: 1st April 2019

Report No.: CEX/05/2018/AU

REVIEW OF TREASURY MANAGEMENT FOR 2018-19

INTRODUCTION

1. This report sets out the results of our systems based audit of Treasury Management for 2018-19. The audit was carried out in Quarter 4 as part of the programmed work specified in the 2018-19 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 Executive, Resources and Contracts Policy Development and Scrutiny (PDS) Committee approves an annual Treasury Management Strategy and Investment Strategy. The Committee receives quarterly reports on Treasury activities, a mid-year review report on the Treasury Management Strategy in November and a Treasury Management Annual Report in July.
4. The Treasury Officer maintains records of investments with counterparties (which include banks, building societies, public authorities and AAA rated money market funds). Individual investments are approved in advance by the Director of Finance or Chief Accountant, with the exception of money market fund investments which are made with funds used on a regular basis and do not require high-level individual approval.
5. Total investments as at 28th February 2019 amounted to £333.2 million. There was no external borrowing.

AUDIT SCOPE

6. The scope of the audit is detailed in the Terms of Reference issued on 24th January 2019.

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.

REVIEW OF TREASURY MANAGEMENT FOR 2018-19

MANAGEMENT SUMMARY

8. Controls noted to be in place and working well, based on the sample testing conducted, included:
- Investments were made with eligible counterparties (per Annex 2 to the Investment Strategy for 2018/19).
 - Investments were correctly approved by the Director of Finance or Chief Accountant.
 - Investments were consistent with credit limits for individual counterparties.
 - Repayments of investments due to be repaid in 2018/19 (including interest) were recorded on Oracle.
 - Quarterly Treasury Management performance reports were received by the Executive, Resources and Contracts PDS Committee during 2018/19.
- However, we would like to bring to management attention the following issue:
- The Quarter 3 reconciliation between Treasury records of investments and Oracle was incomplete and had not yet been signed off.

SIGNIFICANT FINDINGS (PRIORITY 1)

9. There were no priority one recommendations raised as part of this audit.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. 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

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

REVIEW OF TREASURY MANAGEMENT FOR 2018-19

DETAILED FINDINGS

APPENDIX A

No.	Findings	Risk	Recommendation
1.	<p><u>Quarterly Treasury Reconciliations</u></p> <p>The Quarter 3 reconciliation between the balance of investments on Oracle and the balance according to Treasury records was incomplete, as there was a reconciliation difference of £2,800,000 which was unexplained. The reconciliation had not yet been reviewed and signed off by the Senior Accountant.</p>	<p>Where Treasury reconciliations are not completed and reviewed in a timely manner, there is an increased risk that transactional errors may not be detected and rectified, which could result in management being unable to take the necessary mitigating actions to rectify.</p>	<p>Quarterly reconciliations between Treasury records and Oracle should be completed within two weeks of the end of the quarter and reviewed by the Senior Accountant.</p> <p>Each reconciliation statement should include the following version history details:</p> <ul style="list-style-type: none"> - Name of preparing officer; - Date prepared; - Name of reviewing officer; and - Date reviewed. <p>(Priority 2)</p>

REVIEW OF TREASURY MANAGEMENT FOR 2018-19

APPENDIX B

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1.	<p>Quarterly reconciliations between Treasury records and Oracle should be completed within two weeks of the end of the quarter and reviewed by the Senior Accountant.</p> <p>Each reconciliation statement should include the following version history details:</p> <ul style="list-style-type: none"> - Name of preparing officer; - Date prepared; - Name of reviewing officer; and - Date reviewed. 	2*	Agreed	Capital Accountant	Immediate

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.