



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

TREASURY MANAGEMENT 2019-20

Issued to: Tracey Pearson, Chief Accountant
Katherine Ball, Principal Accountant
Peter Turner, Director of Finance

Prepared by: Assistant Manager (Audit contractor on behalf of London Borough of Bromley) and Audit Manager
(Audit contractor on behalf of London Borough of Bromley)

Reviewed by: Head of Audit and Assurance

Date of Issue: 19 March 2020

Report No.: CEX/03/2019/AU

INTRODUCTION

1. This report sets out the results of our internal audit of Treasury Management. The audit was carried out as part of the work specified in the 2019-2020 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The audit looked to review the arrangements in place for oversight and control over Treasury Management activities which impact on the reliability of records, integrity of information and compliance with relevant regulations.
3. The Technical and Control Team (Financial Services) is responsible for the oversight and management of the Council's Treasury function. The key objectives of Treasury Management are to manage the Council's cash flow effectively and invest surplus monies in low-risk counterparties or instruments commensurate with the Council's low risk appetite. As at 9th March 2020 the Council had current investments amounting to £343.6 million. The Council has no external borrowings.
4. We would like to thank all staff contacted during this review for their help and co-operation.

AUDIT SCOPE

5. The scope of the audit was outlined in the Terms of Reference issued in February 2020.
6. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.
7. The following were considered to be the key risks inherent to the Treasury Management process:
 - Where investments are not monitored by the Council, there may be no knowledge of when existing investments mature or when new investments need to be considered and as a result the Council may miss investment opportunities and lose money.
 - Where appropriate forecasting is not prepared by the Council at regular intervals, it may not be possible to determine if adequate funds are available at the correct time. Therefore, it may not be possible to determine if surplus funds are available

when an opportunity rises. The Council may invest money when they have insufficient funds which will result in reputational and financial damage.

- Where full details of each loan taken out are not held, there may be problems in the general management of this area. If authorisation is not obtained within delegated limits, any permission given to invest will fall outside the Council's scheme of delegation. Therefore, there is a risk the Council's funds may be misappropriated.
- Where there is an inadequate segregation in duties, opportunities to commit fraud may not be adequately reduced.
- Where loans are not reconciled to the general ledger, any differences may not be identified and investigated. The Council's investments may be put at risk and the overall impact on the organisation may be financial loss.

AUDIT OPINION

8. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Substantial Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	0	0

SUMMARY OF FINDINGS

9. Controls noted to be in place and working effectively, based on the audit testing conducted, included:
- A Treasury Management Strategy and Investment Strategy for 2019/20 were formally approved by the Executive, Resources and Contracts PDS (Policy, Development & Scrutiny) Committee on 7th February 2019, and then approved by the Full Council on 25th February 2019.
 - Treasury staff have access to a 'Treasury and Banking Procedures' document which has been recently updated.
 - The Principal Accountant responsible for Treasury activities receives daily updates from the Council's Treasury Advisor.
 - Quarterly Treasury Management meetings are attended by the Principal Accountant, Chief Accountant and Director of Finance.
 - Testing of a sample of 10 investments (five fixed term investments and five money market fund investments) established that:
 - the investments were made with approved counterparties (per Annex 2 to the Investment Strategy for 2019-20).
 - a confirmation sheet from the relevant broker was retained for each investment.
 - total current investments with each counterparty as at 10th March 2020 did not exceed the limit for the counterparty (per Annex 2 to the Investment Strategy for 2019-20).
 - the CHAPS Request Form was signed by the person who entered the transaction on CHAPS, and also signed by the two people who approved the transaction on CHAPS. In each case the approvers were authorised persons according to the 'Summary List of Authorisers for on-line banking' incorporated in the 'Treasury and Banking Procedures' document.
 - Testing of the sample of fixed term investments established that they were approved in advance by either the Director of Finance or, in his absence, Chief Accountant.
 - Full details of current investments are recorded in an 'Investment and Borrowing Portfolio' Excel workbook, which includes a ledger spreadsheet for each money market fund used by the Council.

- The Principal Accountant maintains a 'Daily Balance' spreadsheet which shows daily movements (new investments and investments maturing) and the end-of-day balance for total investments.
- Testing of two repayments of investments maturing in 2019/20 established that the principal sums repaid and interests received were correctly recorded in the Authority's accounts.
- The Principal Finance Officer carries out a formal reconciliation of the total balance of investments shown in the Authority's accounts with Treasury records for each quarter. These are independently reviewed and certified by the Principal Accountant. Due to staff vacancies, reconciliations for the first three quarters of 2019/20 were carried out by the Senior Accountant (technical & control) and certified by an independent reviewer (another Senior Accountant) and supporting documents for the reconciliations were available in Excel workbooks.
- The Principal Accountant responsible for Treasury activities reconciles the balances on the 'Counterparty List', 'Investment and Borrowing Portfolio' and 'Daily Balance' spreadsheet at the end of each day. On 10th March 2020 each record had a balance of £343.6 million for current investments.
- The Chief Accountant submitted a 'Quarter 2 Performance and Mid-Year Review Report' on Treasury Management activities for 2019/20 to the Executive, Resources and Contracts PDS Committee on 20th November 2019. The report stated that no key changes to the Treasury Management Strategy for 2019/20 were required.
- The Chief Accountant submitted a 'Quarter 3 Performance Report' relating to Treasury Management activities to the Executive, Resources and Contracts PDS Committee on 5th February 2020. The performance report for Quarter 1 has been discontinued following a decision made by Council on 10th December 2018.
- The Chief Accountant submitted an annual report on Treasury Management activities for 2018/19 to the Executive, Resources and Contracts PDS Committee on 3rd July 2019.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. There were no recommendations arising from our work.

TREASURY MANAGEMENT 2019-20

DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
-----------	----------------	-------------	--	----------------------------	---

There are no recommendations arising from our work.

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.