

Final Internal Audit Report

Capital Budgeting and Treasury Management

September 2022

Distribution: Corporate Director Resources & S151 Officer
Interim Director of Finance (Deputy S151 Officer)
Interim Head of Corporate Finance

Assurance Level	Issues Identified	
No Assurance	Priority 1	0
	Priority 2	0
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Detailed Report

3. Actions and Key Findings/Rational	n/a
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1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

Executive Summary

1. Introduction

- 1.1. The treasury management function in a local authority is responsible for the ongoing monitoring and forecasting of monetary assets of the organisation. The Local Government Act 2003 provides a framework for the capital finance function of local authorities and provides them the power to borrow within affordable limits. It also provides them the power to invest surplus funds to generate a return.
- 1.2. London Borough of Croydon (the 'Council') has a Treasury Management Strategy in place dated March 2021 according to which the amount of borrowing increased in recent years with further borrowing planned for future years. The large increase in borrowings was for four purposes: Revolving Investment Fund; Growth Zone; Asset Investment Strategy; and General Capital Programme.
- 1.3. On 23 October 2020, London Borough of Croydon's (the 'Council') external auditor, Grant Thornton, issued a Report in the Public Interest (RIPI) concerning the Council's financial position and related governance arrangements. In line with the statutory framework for the RIPI, the Council held an Extraordinary Council meeting on 19 November 2020 to discuss the report and the proposed action plan.
- 1.4. The report stated that there has been little evidence of challenge by Members in meetings (Full Council or Cabinet) on the deliverability of these schemes or the impact of each scheme on the long-term financial position of the Council.
- 1.5. It also stated that there has been no evidence of challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remained sound before agreeing further borrowing. Such schemes should have risk assessments which are updated regularly to reflect changes in market conditions, though no such risk assessments were undertaken.
- 1.6. Included in the RIPI action plan were two recommendations directly linked to the Council's treasury management, both of which were reported as 'complete' during the 12 April 2021 update to the General Purposes and Audit Committee:
 - 1.6.1. R14 - The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

- 1.6.2. R15 – The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term implications of matters reported within the Treasury Management Strategy.
- 1.7. The fieldwork for this review could not be completed as the required evidence was not made available to us despite several attempts to engage with the auditee.
- 1.8. The audit was a part of the agreed Internal Audit Plan for 2021/22. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key issues

- 2.1. Due to a lack of engagement from relevant Council auditees and no evidence being provided, we have not been able to conduct the review as planned to the agreed scope at Appendix 1.

Rather than prolong the audit any further and in order to conclude the 2021/22 Internal Audit Plan and to provide the Annual Head of Internal Audit Opinion for the year, we are therefore providing a No Assurance opinion on this area.

3. Response from the Corporate Director of Resources and s151 Officer

- 3.1 It is unfortunate that this 2021/22 Internal Audit was unable to be completed due to insufficient engagement from the Resources Directorate. In the circumstances, as the Corporate Director responsible, I have had to accept the 'No Assurance' outcome. I have asked the Internal Audit team to immediately commence a 2022/23 Internal Audit of Capital Budgeting and Treasury Management and will ensure that the appropriate managers and staff now responsible for these areas engage in this new audit.

AUDIT TERMS OF REFERENCE

Capital Budgeting and Treasury Management

1. INTRODUCTION

- 1.1 The treasury management function is responsible for the ongoing monitoring and forecasting of monetary assets of the Council. The Local Government Act 2003 provides a framework for the capital finance function of local authorities and provides them the power to borrow within affordable limits. It also provides them the power to invest surplus funds to generate a return.
- 1.2 Looking at the Council's Treasury Management Strategies, the amount of borrowing increased in recent years with further borrowing planned for future years. The large increase in borrowings was for four purposes: Revolving Investment Fund; Growth Zone; Asset Investment Strategy; and General Capital Programme.
- 1.3 On 23 October 2020, London Borough of Croydon's (the 'Council') external auditor, Grant Thornton, issued a Report in the Public Interest (RIPI) concerning the Council's financial position and related governance arrangements. In line with the statutory framework for the RIPI, the Council held an Extraordinary Council meeting on 19 November 2020 to discuss the report and the proposed action plan.
- 1.4 The report stated that there has been little evidence of challenge by Members in meetings (Full Council or Cabinet) on the deliverability of these schemes or the impact of each scheme on the long-term financial position of the Council.
- 1.5 It also stated that there has been no evidence of challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remained sound before agreeing further borrowing. Such schemes should have risk assessments which are updated regularly to reflect changes in market conditions, though no such risk assessments were undertaken.
- 1.6 Included in the RIPI action plan were two recommendations directly linked to the Council's treasury management, both of which were reported as 'complete' during the 12 April 2021 update to the General Purposes and Audit Committee:
 - 1.6.1 *R14 - The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.*
 - 1.6.2 *R15 – The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term implications of matters reported within the Treasury Management Strategy.*

2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE

3.1 This audit included the following areas (and issues raised):





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Treasury management strategy, policies and procedures	0	0	0
Review of ongoing investments in various schemes (including achievement of intended benefits and any risk assessments undertaken);	0	0	0
Strategies to reduce the ongoing cost of borrowing (including approval mechanisms for investment and borrowing);	0	0	0
Provision of treasury management training to Members;	0	0	0
Management reports and reporting to Members;	0	0	0
Capital strategy and capital budgets; and	0	0	0
Ongoing performance monitoring of capital projects.	0	0	0
Total	0	0	0

Appendix 2

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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