



Final Internal Audit Report

Treasury Management

May 2017

Distribution: Executive Director Resources (Final Only)
 Director of Finance Investment and Risk
 Head of Pensions and Treasury

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	2
	Priority 3	0

Status of Our Reports

This report ('Report') was prepared by Mazars Public Sector Internal Audit Limited at the request of the 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 work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, we 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 the London Borough of Croydon and to the fullest extent permitted by law, Mazars Public Sector Internal Audit Limited 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, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

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

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Executive Summary

1. Introduction

- 1.1 The Council has adopted a Treasury Policy Statement which sets out the basis on which treasury activities are conducted. There is an authorised list of counterparties for investments. Records of investments, borrowings and cash flow are maintained on the Logotech Public Sector Treasury Management System. CIPFA published a Treasury Management Code in 2011, which should also be complied with.
- 1.2 This audit is part of the agreed Internal Audit Plan for 2016-17.

2. Key Issues

Priority 2 Recommendations

The Treasury Management manual had not been evidenced as reviewed and included out of date references and job titles **(Rec 1)**.

The 'Monthly Monitoring of Treasury Activities' reconciliations for April and May 2016 had been reconciled and checked by the same officer **(Rec 2)**.

3. Actions and Key Findings/Rationale

Area 1: Policies, Procedures and Legislation		Detailed Finding/Rational						
Priority	Recommendation 1							
2	The Treasury Management manual should be updated and evidenced with a date of review. Going forward, the manual should be reviewed on at least an annual basis.	<p>A Treasury Management manual is maintained on SharePoint and is readily accessible to all members of the Treasury team. This details specific treasury procedures, as well as roles and responsibilities for all staff.</p> <p>Examination of the Treasury Management manual noted that this was not dated and did not evidence any review. Furthermore, the Manual part '3. Separation Duties, Structure and Individual Responsibilities' makes reference to outdated staff titles and to staff that no longer work in the Section. Part '5. Absence cover' will also require review.</p> <p>It was also noted that the list of the Council's approved brokers had not been included within the manual.</p> <p>Where the Treasury Management manual is not regularly reviewed and, where appropriate updated, there is an increased risk that the manual is out of date, resulting in staff adhering to outdated working practices.</p>						
Management Response								
	The team will schedule time to review and revise the manual. An initial view of the document suggests that key staff changes need to be reflected. This review will be completed by the end of Q1 2017.	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of Pensions and Treasury</td> <td>31 October 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of Pensions and Treasury	31 October 2017
Agreed/Disagreed	Responsible Officer	Deadline						
Agreed	Head of Pensions and Treasury	31 October 2017						

Area 5: System Reconciliations			
Priority	Recommendation 2	Detailed Finding/Rational	
2	All 'Monthly Monitoring of Treasury Activities' reconciliations should be carried out by a Treasury Officer and be evidenced as independently checked.	'Monthly Monitoring of Treasury Activities' reconciliations is conducted, reconciling the cashbook and Oracle. Examination of the 'Monthly Monitoring of Treasury Activities' reconciliations for April to August 2016 confirmed that these had been conducted monthly; however, the reconciliations for April and May 2016 had been conducted and also signed as checked by the Treasury Manager. Where reconciliations are not independently checked and authorised, there is a risk that errors and omissions remain undetected and are not rectified in a timely manner.	
Management Response		Agreed/Disagreed	Responsible Officer
This recommendation has been adopted.		Agreed	Head of Pensions and Treasury
		Deadline	Immediately

TERMS OF REFERENCE

Treasury Management

1. INTRODUCTION

- 1.1 The Council has adopted a Treasury Policy Statement which sets out the basis on which treasury activities are conducted. There is an authorised list of counterparties for investments. Records of investments, borrowings and cash flow are maintained on the Logotech Public Sector Treasury Management System. CIPFA published a Treasury Management Code in 2011, which should also be complied with.
- 1.2 This audit is part of the Internal Audit Plan for 2016-17 as agreed by the General Purposes and Audit Committee.

2. OBJECTIVES AND METHODOLOGY

- 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 area included in the scope:
- Document and evaluate the risks and key controls for each process;
 - Undertake sufficient testing of controls operating, on a sample basis; and
 - Reach a conclusion on the effectiveness of the controls operating and report on findings.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Policies, Procedures and Legislation	0	1	0
Cash Flow Forecasting	0	0	0
Investments	0	0	0
Borrowings	0	0	0
System Reconciliations	0	1	0
Reporting	0	0	0
IT Security	0	0	0
Prudential Indicators	0	0	0
Risk Register	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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 recommendations 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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