

# Final Internal Audit Report

## Treasury Management (Restricted Scope)

### May 2018

**Distribution:** Executive Director of Resources and s151 Officer (Final report only)  
 Director of Finance Investment and Risk  
 Head of Pensions and Treasury  
 Pension Fund Investment Manager

| Assurance Level | Recommendations Made |   |
|-----------------|----------------------|---|
| Full Assurance  | Priority 1           | 0 |
|                 | Priority 2           | 0 |
|                 | Priority 3           | 0 |

#### Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Public Sector Internal Audit Ltd. 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 in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

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## **1. Introduction**

- 1.1 The Council has a Treasury Strategy, which defines treasury management activities as 'the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.2 The Treasury Strategy incorporates a Treasury Management Strategy (covering capital expenditure and financing, debt repayment and the Council's borrowing requirement) and an Annual Investment Strategy.
- 1.3 The Annual Investment Strategy includes investment principles and a summary of permitted investments. An Authorised Lending List (approved counterparties consisting of UK and overseas banks and other approved organisations such as building societies and local authorities) is appended to the strategy.
- 1.4 The General Purposes and Audit Committee receives a mid-year treasury management report in December and an annual treasury report in the following September.
- 1.5 At 31<sup>st</sup> January 2018, the Council had temporary investments amounting to £61.7 million, short-term loans of £120.0m and long-term loans totalling £896.1 million.
- 1.6 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

## **2. Key Issues**

- 2.1 There were no issues arising from the audit. Testing established that the two recommendations raised at the previous audit (2016/17) have been implemented.

**3. Key Issues**

3.1 There were no key issues.

## 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. An authorised list of counterparties for investments is maintained by the service and all 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 being undertaken as part of the agreed Internal Audit Plan for 2017/18.

#### 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 examined the Council's arrangements in relation to Treasury Management, and included the following areas (and recommendations raised):

| Audit Area             | Recommendations Made |                        |                     |
|------------------------|----------------------|------------------------|---------------------|
|                        | Priority 1<br>(High) | Priority 2<br>(Medium) | Priority 3<br>(Low) |
| Investments            | 0                    | 0                      | 0                   |
| System Reconciliations | 0                    | 0                      | 0                   |
| Reporting              | 0                    | 0                      | 0                   |

## DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk.                    |
|  | Limited Assurance     | There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.   |
|  | No Assurance          | Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage. |

Priorities assigned to recommendations are based on the following criteria:

|                                |   |
|--------------------------------|---|
| <b>Priority 1<br/>(High)</b>   | Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.   |
| <b>Priority 2<br/>(Medium)</b> | Control weakness that represent an exposure to risk and require timely action.  |
| <b>Priority 3<br/>(Low)</b>    | Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice. |

## 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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