

AUDIT REPORT 19'016

TREASURY MANAGEMENT

EXECUTIVE SUMMARY

The annual audit plan provides for a review of Treasury Management arrangements. The review forms part of the yearly audit coverage of core council systems. The scope of the audit considers how the council's Treasury Management Practices (TMPs) conform to the current CIPFA Code of Practice on Treasury Management published in 2017 (the Code).

Treasury Management is defined in the Code as 'the management of the organisation's borrowing, 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.'

Although not mandatory, Scottish local authorities are required to *have regard* to the Code; accordingly, the council has formally adopted recommended clauses on treasury management within its Financial Regulations.

These cover:

- Preparation of a treasury management policy statement and a suite of TMPs (12 in all);
- Reporting arrangements on treasury management including requirements for an annual strategy and plan in advance of each financial year, periodic in year reporting and an annual report after each year end;
- Provision of a clear statement as to the respective responsibilities for implementation and monitoring of treasury management policy and practice (with Policy and Resources Committee); and for execution and administration of treasury management decisions (with the Head of Financial Services).

The audit looked at the practical application of these clauses by reviewing policy documentation including each of the TMPs and confirming their application through sample testing of transactions. Compliance levels were high; in particular strong 'segregation of duties' controls were evident around the processing of high value transactions that take place on a daily basis, either to meet the council's cash flow requirements or for capital financing.

The main findings of the audit were:

- TMPs although recently updated could be refreshed to be more succinct and still comply with the Code guidance. In particular there is some duplication across TMPs, and reference is made on occasion to practices the council does not adopt e.g. relating to foreign exchange or investments where capital

is at risk. A glossary of terms also would be a useful addition to aid the understanding of TMPs by interested parties.

- There has been no recent training for elected members on treasury management. CIPFA guidance on this notes that those charged with governance have a personal responsibility to ensure that they have the appropriate skills and training for their role. It is also the responsibility of the authority to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively.
- The Code of Practice refers to elected member scrutiny of treasury management arrangements. This function is in addition to current practice which provides for reports on treasury management to be presented to Policy and Resources Committee. The council is supported by external advisers in aspects of this work and it is subject to external and internal audit review. Management should consider whether current oversight of treasury management arrangements remains appropriate.
- A reflection of the small number of staff involved in the treasury management process is a greater emphasis on recording approvals for transactions without also recording the basis for selection of the counterparties or the impact on the treasury portfolio. This is of less significance for short term funding decisions that require flexibility within the constraints of the treasury management policy but where capital financing is involved, the basis for the borrowing decisions could be recorded more fully.

Moray Council

Internal Audit Section

Recommendations: Treasury Management

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Evaluate the effectiveness of the Council's application of Treasury Management Practices (TMPs) using CIPFA guidance as a reference point.						
6.1	It is recommended that the Treasury Management Practices be updated to remove duplication so far as is practicable and ensure the narrative is amended to take account of observations raised within the report covering: <ul style="list-style-type: none"> Deletion of issues not applicable to council processes revised procedures on market reports and sign-off of weekly report sheets tender arrangements for advisory services. 	Medium	Yes	Agreed, TMPs to be reviewed	Principal Accountant	1 September 2019

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No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
6.2	A more formal reporting and authorisation framework should be considered in support of borrowing decisions, in particular for those relating to longer term loans for capital financing.	Medium	Yes		Assistant FMS and Banking Manager	Will be implemented immediately
6.3	Training needs of elected members should be considered to ensure they are suitably equipped to fulfil their scrutiny and management oversight roles relative to treasury management.	Medium	Yes		Head of Finance	1 September 2019