

**TREASURY MANAGEMENT ASSURANCE REPORT**

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**1. INTRODUCTION**

- 1.1 This report sets out information around the arrangements in place relating to management controls and risk for treasury management. Its purpose is to provide assurance to the Audit Committee that appropriate arrangements are in place.

**2. RECOMMENDATIONS**

- 2.1 The treasury management assurance report is noted.

**3. DETAIL**

- 3.1 Treasury Management is a complex area of the Council's activities with the potential for significant financial consequences and as a result there are key risk and management control issues. Recognising this and the Audit Committee's overall interest in management controls and risk this report has been prepared to give assurance to the Audit Committee that there are appropriate arrangements in place for managing the Council's treasury activities.

- 3.2 Treasury management is defined as:

"The management of the local authority'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. "

- 3.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24 June 2010. The primary requirements of the Code tailored to show how they are met in Argyll and Bute are as follows:

- a) The Council will create and maintain, as the cornerstones for effective treasury management:
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and

control those activities.

- b) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after the end of the financial year, in the form prescribed in its TMPs.
- c) The Council has responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Head of Strategic Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management.
- d) The Council nominates the Performance Review and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- e) The Council nominates the Policy Lead for Strategic Finance as the member responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **Management Arrangements**

- 3.4 The Audit Committee should be able to take assurance that the Council has appropriate management arrangements in place for its treasury activities based on the following:
- 3.5 Regulatory: The Council has adopted and complied with the Code of Practice and a review is carried out each year to ensure we continue to meet the requirements of the Code. The following TMPs are in place and reviewed annually: The TMPs can be revised with the agreement of the Head of Strategic Finance.
  - TMP 1 Treasury risk management
  - TMP 2 Best value and performance measurement
  - TMP 3 Decision-making and analysis
  - TMP 4 Approved instruments, methods and techniques
  - TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
  - TMP 6 Reporting requirements and management information arrangements
  - TMP 7 Budgeting, accounting and audit arrangements
  - TMP 8 Cash and cash flow management
  - TMP 9 Money laundering
  - TMP 10 Staff training and qualifications
  - TMP 11 Use of external service providers
  - TMP 12 Corporate governance
- 3.6 Management: TMP 5 sets lines of responsibility, accountability and delegation in relation to treasury activities.
- 3.7 Reporting: The Council meets and exceeds the requirement for reporting on treasury management by
  - Preparing an annual treasury and investment strategy (submitted to

Council 20 March 2014)

- Submitting an annual report on treasury and investment activities (submitted to Council on 26 June 2014)
- Submitting a quarterly report on treasury activities to the Council as at end of June, September and December. These will be submitted 2 monthly to Policy and Resource Committee and quarterly to PRS Committee going forward.

- 3.8 Member Involvement: The Council Leader and Policy Lead for Strategic Finance is the nominated lead member for treasury management and receives copies of all reports on treasury management for scrutiny.
- 3.9 Training: Training requirements for officers are reviewed at quarterly review meetings with the treasury advisors. Officers also attend external training seminars arranged by the treasury advisors.
- 3.10 Internal Audit: Treasury activities are subject to regular review by internal and external audit. During 2013-14 an internal audit of 10 days was undertaken and there were two recommendations. One of these have been addressed. One is due to be completed by 30 September 2014. A copy of the action plan is attached as Appendix 1.
- 3.11 External Audit: The external audit carried out a preliminary systems review of treasury management during 2013-14 to confirm that the stated controls were in place. There were no recommendations from the review.
- 3.12 Advisory Support: The Council is supported by Capita Asset Services as its Treasury Advisors. Capita Asset Services are part of the Capita group of companies. It is the largest provider of treasury advice to Councils in the UK. The Council reappointed Capita Asset Services in March 2012 for a period of 3 years following a tendering exercise.
- 3.13 A Compliance Evidence Delivery Review (CEDR) has been carried out internally based on a model developed by Capita Asset Services to identify areas for improvement. An action plan to address the areas for improvement will have been prepared by the date of the Audit Committee.

### **Key Risks**

- 3.14 The section below outlines in summary terms how some of the key risks are managed:
- 3.15 Transactional Risks: Segregation of duties and in particular separation of initiator and approver roles and setting limits for individuals in terms of their delegated authority are key controls to transaction risks. There are regular reconciliation and cross checking of treasury records to act as a management/supervisory control.
- 3.16 Strategic Risks: There are quarterly reviews with the treasury advisors and review of economic and market data in between to assess the ongoing relevance of the agreed strategy.
- 3.17 Interest Rate Risk: Interest rate and market data is monitored daily and

assessed in terms of any action the Council needs to consider or take. Triggers are set to prompt formal consideration of when to drawdown borrowing or reschedule debt etc.

- 3.18 **Borrowing Risks:** The borrowing portfolio is reviewed to avoid over exposure to too many loans maturing in any one period. There are also limits to balance the mix between fixed and variable rate loans. All borrowings are in sterling so there is no exchange rate exposure.
- 3.19 **Investment Risks:** The risk of counter parties is reviewed with the treasury advisors and investments are made only within agreed policy. This sets down approved counter parties and agreed limits on amount and duration of investment. All investments are in sterling so there is no exchange rate exposure. The Council complies with the Scottish Government investment regulations. Changes and potential changes in counter parties credit status is monitored in order that action can be taken where required.

#### **4. CONCLUSION**

- 4.1 The report outlines the management arrangements and audit activities in place relating to the Councils treasury function to provide assurance to the Audit Committee that the risks and controls related to the Council's treasury activities are properly managed.

#### **5. IMPLICATIONS**

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|-----|--------------------|-------|
| 5.1 | Policy –           | None. |
| 5.2 | Financial -        | None  |
| 5.3 | Legal -            | None. |
| 5.4 | HR -               | None. |
| 5.5 | Equalities -       | None. |
| 5.6 | Risk -             | None. |
| 5.7 | Customer Service - | None. |

#### **Bruce West, Head of Strategic Finance**

For further information please contact Bruce West, Head of Strategic Finance 01546-604151.

Appendix 1 – Audit Report Action Plan



## APPENDIX 1

## ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
<b>1. Treasury Management Practices 2013/14 document</b>		<b>High/ Medium or Low</b>		
The Treasury Management Practices 2013/14 document would benefit from some adjustment to layout as it is disjointed and in places difficult to read due to formatting issues.	Detail may be missed by the reader due to poor presentation.	Low	<b>Review the presentation of the Treasury Management Practices taking into account the template provided by the treasury management advisors and the ease of updating following any changes.</b>	<b>Finance Manager – Corporate Support 30 September 2014</b>  <b>Can we make sure this is complete by the date of Audit Committee 26 September.</b>
<b>2. Prudential Indicator Calculations</b>		<b>High/ Medium or Low</b>		
The indicator calculations for different reports were calculated at different times using figures available at that time, leading to slightly different actual figures within different reports. Thereby the actual figures for set years can differ in reports.	Confusion as to the accuracy of figures if they differ from one report to the next.	Low	<b>References to the sources of the figures will be provided and where appropriate copies of the source documents will be retained to allow the numbers to be verified.</b>	<b>Finance Manager – Corporate Support 30 June 2014</b>  <b>This has been completed</b>