

AUDIT ASSURANCE ON TREASURY MANAGEMENT

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 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 Lead Councillor for Finance as the member responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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:

3.4.1 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

3.4.2 Management: TMP 5 sets lines of responsibility, accountability and delegation in relation to treasury activities.

3.4.3 Reporting: The Council meets and exceeds the requirement to report to treasury management by

- Preparing an annual treasury and investment strategy (submitted to Council 21 March 2013)
- Submitting an annual report on treasury and investment activities (submitted to Council on 27 June 2013)

- Submitting a quarterly report on treasury activities to the Council as at end of June, September and December.

- 3.4.4 Member Involvement: The Lead Councillor for Finance is the nominated lead member for treasury management and receives copies of all reports on treasury management for scrutiny.
- 3.4.5 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.
- 3.4.6 Internal Audit: Treasury activities are subject to regular review by internal and external audit. The Internal Audit Plan for 2013-14 includes 20 days for Internal Audit of Treasury Management. The audit is scheduled to take place in January 2014. During 2012-13 an internal audit of 10 days was undertaken and there were four recommendations. Two of these have been addressed. A copy of the action plan is attached as Appendix 1.
- 3.4.7 External Audit: The external audit has placed reliance on the work of Internal Audit and did not separately review treasury management during 2012-13.
- 3.4.8 Advisory Support: The Council is supported by Sector Treasury Services as its Treasury Advisors. Sector Treasury 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 Sector Treasury Services in March 2012 for a period of 3 years following a tendering exercise.
- 3.5 The section below outlines in summary terms how some of the key risks are managed:
- 3.5.1 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.
- 3.5.2 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.
- 3.5.3 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.
- 3.5.4 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.
- 3.5.5 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. This could be used as the basis for an annual report to the Audit Committee to ensure it has sufficient information to be satisfied that risks and controls related to the Council's treasury activities are properly managed.

For further information please contact Bruce West, Head of Strategic Finance 01546-604220

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28 August 2013

APPENDIX 1

TREASURY MANAGEMENT ACTION PLAN 2012-13

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The Treasury Management Practices (TMP) document has been updated and re-issued August 2012 but includes a number of tables and references which are not complete.	Medium	The TMP document should be reviewed and revised to ensure all tables and references are appropriate and complete.	Finance Manager, Corporate Support	30/4/2013 Now complete
2	The Council's Constitution includes Treasury Management regulations within Part D, Financial Regulations, although this document requires review and update to reflect recent changes within the Council.	Medium	The Financial Regulations should be updated to reflect changes to Council committee roles and responsibilities implemented during 2012.	Head of Strategic Finance	31/5/2013 Wording for revised Financial Regulations agreed and prepared but awaiting submission of updated constitution documents to Council.
3	Segregation of duties and a range of documents and tasks are currently included in draft operational guidance notes, but these are not yet comprehensive and complete to ensure consistency and accuracy.	Low	Treasury Management operational procedures and documents should be reviewed to ensure they are comprehensive, appropriate and efficient.	Finance Manager, Corporate Support	31/3/2013 Now complete
4	Steps are currently being taken to extend the range of users of the Logotech Public Sector Treasury Management System (PSTMS) and more fully utilise its functionality but operating	Medium	In association with the planned developments in the use of Logotech, system control procedures should be enhanced to include all end-to-end processes including the	Finance Manager, Corporate Support	30/4/2013 Now Complete

	procedures and controls are not documented.		authorisation and amendment of system users, standing data and system security back-up.		
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