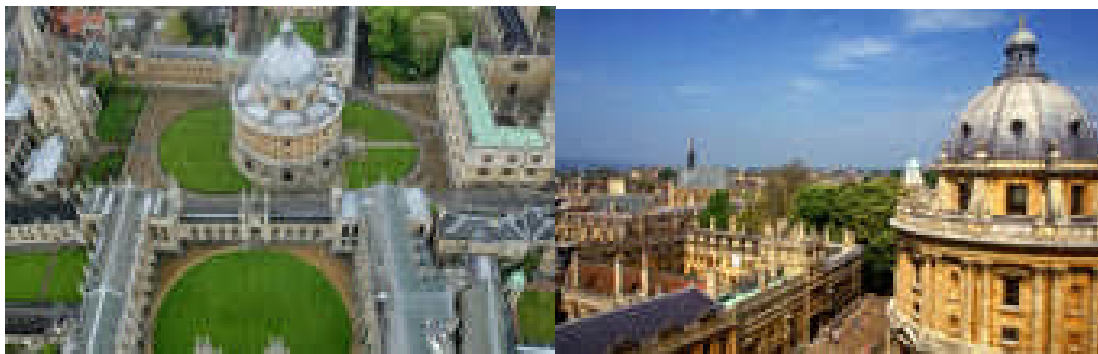


Treasury Management

Internal Audit Final Report 09_10 1.10



Assurance rating this review	Moderate Assurance
-------------------------------------	--------------------

Distribution List

Chief Executive - Peter Sloman
Heads of Finance - Penny Gardener and Sarah Fogden
Chief Accountant - Anna Winship
Interim Executive Finance Director – Nigel Pursey
Finance Assistant - Sheena Sievert



Contents

Background and Scope.....	3
Our Opinion & Assurance Statement.....	5
Executive Summary.....	6
Compliance Summary.....	7
Limitations and Responsibilities.....	8
Findings and Recommendations.....	9
Follow up of Prior Year Recommendations.....	13
Appendix 1. Terms of Reference.....	14
Appendix 2. Assurance Ratings.....	17



Background and scope

Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the Audit and Governance Committee.

This report has been prepared solely for Oxford City Council (“the Council”) in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

This report is intended to inform management of the results of our review of Treasury Management. This report reflects our findings over the controls and processes in place as at the time of our internal audit fieldwork which took place during October 2009.

The Authority has a dedicated Treasury Management officer within Finance. The Council regularly deals their surplus cash and invests funds with third parties. As at 31 March 2009, the Council held £29m in investments and had £2m borrowings on balance sheet. The Council had £4.5 million invested with failed Icelandic banks but put structured plans in place to reinforce investment policies going forward and to recovery elements of these funds.

Approach and scope

Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with Anna Winship (Chief Accountant) Sarah Fogden and Penny Gardener (Heads of Finance), we undertook a limited scope audit of the Treasury Management arrangements currently in place at the Council

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.



Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Anna Winship – Chief Accountant
Dave Swann – Technical Officer
Debbie Williams – Assistant Financial Accountant

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of Treasury Management at the Council.

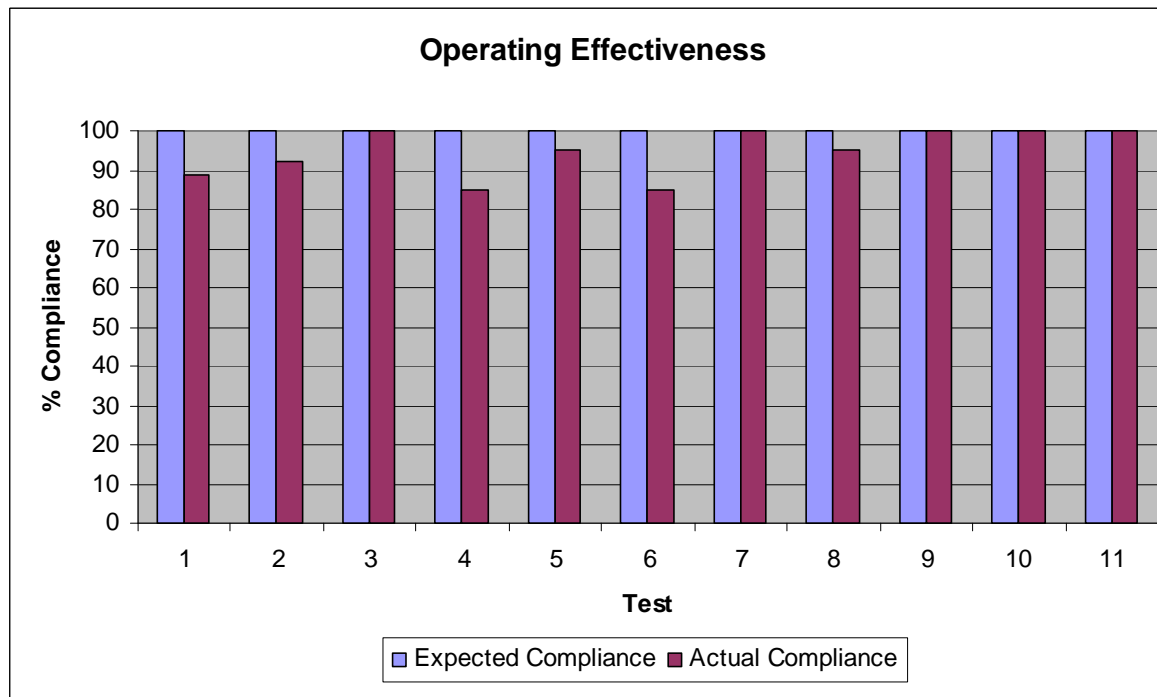
Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the Authority's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Executive Summary

<p>Department: Finance</p> <p>Audit Owner: Anna Winship – Chief Accountant</p> <p>Date of last review: n/a</p>	<p>Overall Opinion: Moderate Assurance</p> <p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the Treasury Management, function. However, either their impact would be less than significant or they are unlikely to occur.</p>	<p>Direction of Travel</p> <p>No previous review has been conducted by PwC. Issues raised by the previous internal auditor have been followed up as indicated below.</p>	<p>Number of Control Design issues identified</p> <p>0 Critical 0 High 3 Medium 0 Low</p>	<p>Number of Controls Operating in Practice issues identified</p> <p>0 Critical 0 High 2 Medium 1 Low</p>																			
<p>Follow up from prior year</p> <table border="1"> <thead> <tr> <th>Rating</th> <th>Implemented or no longer relevant</th> <th>Outstanding or Partially implemented</th> </tr> </thead> <tbody> <tr> <td>Critical</td> <td>0</td> <td>0</td> </tr> <tr> <td>High</td> <td>0</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>0</td> <td>0</td> </tr> <tr> <td>Low</td> <td>1</td> <td>2</td> </tr> </tbody> </table>			Rating	Implemented or no longer relevant	Outstanding or Partially implemented	Critical	0	0	High	0	0	Medium	0	0	Low	1	2	<p>Other Considerations</p> <table border="1"> <tr> <td> <p>Use of Resources-related</p> <p>The use of good cash flow forecasting will enable effective financial planning (KLOE 1.1)</p> </td> <td> <p>Corporate Plan- related</p> <p>None noted</p> </td> </tr> <tr> <td> <p>VFM-related</p> <p>Bank overdraft charges may be incurred unnecessarily if overdrafts are not monitored.</p> </td> <td> <p>Financial Reporting related</p> <p>None noted</p> </td> </tr> </table>		<p>Use of Resources-related</p> <p>The use of good cash flow forecasting will enable effective financial planning (KLOE 1.1)</p>	<p>Corporate Plan- related</p> <p>None noted</p>	<p>VFM-related</p> <p>Bank overdraft charges may be incurred unnecessarily if overdrafts are not monitored.</p>	<p>Financial Reporting related</p> <p>None noted</p>
Rating	Implemented or no longer relevant	Outstanding or Partially implemented																					
Critical	0	0																					
High	0	0																					
Medium	0	0																					
Low	1	2																					
<p>Use of Resources-related</p> <p>The use of good cash flow forecasting will enable effective financial planning (KLOE 1.1)</p>	<p>Corporate Plan- related</p> <p>None noted</p>																						
<p>VFM-related</p> <p>Bank overdraft charges may be incurred unnecessarily if overdrafts are not monitored.</p>	<p>Financial Reporting related</p> <p>None noted</p>																						
<p>Scope of the Review</p> <p>To review the design and effectiveness of the Council's Treasury Management Procedures.</p>																							

Compliance Summary



Tests Performed:

1. Management Reports produced in line with timetable
2. Inter-bank transactions signed and dated by a member of staff with appropriate authorisation limits
3. Cash flow forecasts produced in line with specified frequency.
4. Third party documentation retained for investments made
5. CHAPS forms for investments authorised by a member of staff with appropriate authorisation limits
6. Investment loan tickets signed by two members of staff with appropriate authorisation limits
7. Treasury Management reconciliations performed on a monthly basis
8. Interest calculations reviewed for accuracy.
9. Borrowing reconciliations produced on an annual basis
10. Users of the Financial Director online banking currently employed by Oxford City Council
11. Bank reconciliations performed on a monthly basis,



Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Treasury Management, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Treasury Management is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control design						
1	Cash flow assumptions are not reviewed. Budgetary control may not be robust.	The Council prepares a rolling cash flow forecast which is updated on a daily basis. Whilst this is operating effectively, there is no comparison made against initial budgets.	● Medium	Actual cash flows should be compared to original budgets on a periodic basis. All variances should be investigated and revised assumptions used for future cash flow setting.	Agreed A monthly comparison of budgeted cashflows to actual will be performed and reviewed. This will allow analysis of assumptions for cashflows used in subsequent years.	Anna Winship / Sheena Sievert 31st December 2009
2	Overdraft limits may be exceeded and interest incurred unnecessarily.	The Council does not perform regular monitoring of overdrafts and limits. At the time of audit, 2 of the Council's bank accounts were overdrawn.	● Medium	Investigations should be undertaken in order to identify in what instances overdrafts are used. Action points should be put in place to avoid unnecessary use of the facility. Overdraft limits should be reviewed on a six monthly basis to ensure that they are reasonable and sufficient.	Agreed The cashflow forecast is produced on a net basis and therefore individual overdrafts are not reviewed. Bank balances will be reviewed on a daily basis to ensure that the use of overdrafts is minimised.	Anna Winship 31st December 2009

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
3	Bank balances may be inaccurate or incomplete.	The Council does not perform monthly bank reconciliations for their 'Instant Access' account. It was noted, however, that this account is no longer in use.	● Medium	The Instant Access account should be closed.	Agreed The Instant Access account is not reconciled because it has not been used for a number of years. Agreed that this will be closed.	Anna Winship / Sheena Sievert 31st December 2009
Operating Effectiveness						
4	Procedure notes may not reflect current working practices leading to an increased risk of error.	Financial Director (the Councils online banking facility) and Treasury Management procedure notes have not been updated since September 2007. The Council does not possess a Financial Director manual explaining how to use the system.	● Low	Procedure notes should be reviewed and updated to reflect any changes in working practices.	Agreed A Manual will be requested from the Co-op and used to review procedure notes for Financial Director and Treasury Management processes.	Anna Winship 31st December 2009

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	Inappropriate and unauthorised investments may be made. Council funds may be exposed to higher risk.	<p>The Council's procedure notes stipulate that all investments should be authorised by 2 individuals. All supporting documentation should be retained on file and CHAPS forms signed before payment.</p> <p>During the testing of 20 investments, the following exceptions were noted:</p> <ul style="list-style-type: none"> - In 3/20 cases, third party documentation was not retained to validate investments - 1/20 CHAPS forms had not been authorised - 3/20 investments had not been authorised by 2 officers 	<p>●</p> <p>Medium</p>	<p>The Council should ensure that third party documentation confirming investments is retained on file.</p> <p>All investments and accompanying CHAPS forms should be signed by an authorised officer.</p>	<p>Agreed</p> <p>It is acknowledged that in the cases noted the controls did not operate effectively. In the future the stated controls will be applied.</p>	<p>Anna Winship</p> <p>With immediate effect</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
6	Staff may have inappropriate access rights to the Council's banking information.	<p>There are currently a number of users who have access to the Financial Director (FD) system who no longer work at the Council.</p> <p>In addition, the Council does not maintain a user access list stipulating user's FD permissions.</p>	<p>● Medium</p>	<p>The Council should enquire with Financial Director to ascertain whether the functionality of the system would be affected if old users were removed. Former employees should be removed as a matter of urgency.</p> <p>A formal user list should be created, detailing the access rights for each user. This should be reviewed on an annual basis.</p>	<p>Agreed</p> <p>Access lists will be updated with permissions.</p>	<p>Dave Swann</p> <p>31st December 2009</p>

Follow up of prior year recommendations

Recommendation		Risk Rating	Response to recommendation	Action by	Target date for completion	Follow up 2008/09
1	The Treasury Management Manual is updated to reflect the revised strategy.	● Low	Agreed.	Chief Technical Accountant.	March 2009	Partially implemented See Issue 4 above.
2	The 'other information' box on the loan card should be used to briefly note the rationale for the choice of investment which is selected, with this being signed off by the second officer as evidence of review of investment decisions.	● Low	Agreed.	Chief Technical Accountant.	March 2009	Implemented.
3	The loan card should always be signed to confirm that the interest is correct.	● Low	Agreed.	Chief Technical Accountant	March 2009	Partially Implemented Issue raised in Minor Issues report.

Appendix 1 - Terms of Reference

Objectives and deliverables

Objectives

Our objective is to undertake a review of Treasury Management to ensure an adequate level of controls exists and compliance with council policy in respect of cash flow management, investments and borrowings.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over Treasury Management and the level of assurance we can place on the control environment.

Our scope and approach

Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- Policies and procedures in place over Corporate Treasury Activities;
- Management information and reporting on Treasury Activities;
- Cash flow management;
- Lending and investments;
- Borrowing arrangements;
- Regular independently reviewed bank reconciliations;
- Controls over payments (cheques and electronic transfers); and
- Banking arrangements in place.

We will discuss our findings with the Chief Accountant and Finance Officer (Treasury Management) to develop recommendations and action plans. A draft report will be issued to the Head of Finance and other nominated officers for review and to document management responses.



Limitation of scope

The scope of our work will be limited to those areas identified in the terms of reference.

Stakeholders and responsibilities

Role	Contacts	Responsibilities
Finance Officer Chief Accountant	Sheena Sievert Anna Winship	<ul style="list-style-type: none"> ▪ Review draft terms of reference ▪ Review and meet to discuss issues arising and develop management responses and action plan ▪ Review draft report. ▪ Implement agreed recommendations and ensure ongoing compliance.
Heads of Finance Interim Executive Finance Director	Penny Gardner Sarah Fogden Nigel Pursey	<ul style="list-style-type: none"> ▪ Receive agreed terms of reference ▪ Receive draft and final reports.
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> ▪ Receive final report



Our team and timetable

Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	Charlotte Bilisland

Timetable

Steps	Date
TOR approval	September 2009
Fieldwork commencement	5 th October 2009
Fieldwork completed	T + 2 weeks
Draft report of findings issued	T + 4 weeks
Receipt of Management response	T + 6 weeks
Final report of findings issued	T + 7 weeks

Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

Appendix 2 - Assurance ratings

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>



©2009 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.