



**ORKNEY**  
ISLANDS COUNCIL

## INTERNAL AUDIT

### Treasury Management

### Audit Report

2015/16

**Draft Report Issue Date :** 22 March 2016  
**Final Report Issue Date :** 25 May 2016

**Distribution :**  
Chief Executive  
Head of Finance  
Corporate Finance Senior Manager  
External Audit – Audit Scotland

### Contents

Executive Summary	1
Background	2
Audit Scope	2
Audit Findings	3
Action Plan	5

**EXECUTIVE SUMMARY**

The main aims of the Council's treasury management function are to ensure that cash flow is adequately planned, with cash being available when it's needed, and to fund the Council's capital plans. These aims need to be met within the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Regulations.

Our audit found that :-

- The Council is complying with the requirements of borrowing and treasury management rules and regulations.
- Treasury management transactions are carried out in accordance with the Council's statutory powers and approved policy and strategy.
- Treasury management transactions are correctly authorised, recorded and monitored.
- Cash Flow forecasting is carried out on a daily basis to ensure adequate funds are held in the bank account and any surplus funds invested.
- Working practices are well established and subject to supervisory checks.
- Elected Members are offered training in treasury management issues.

However, our audit also found that:-

- Council approval for the Annual Investment Strategy and Annual Investment Report was outwith the deadlines required by Scottish Government regulations.
- The report includes recommendations which have arisen from the audit. The numbers of recommendations are set out in the table below under each of the priority headings. The priority headings assist management in assessing the significance of the issues raised.

Total	High	Medium
4	0	4

- Responsible officers will be required to update progress on these agreed actions via Aspireview.
- The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

## BACKGROUND

The Council defines its treasury management activities as 'The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

The Council has, through their Financial Regulations, adopted the CIPFA Code of Practice on Treasury Management in the Public Services.

Local authorities' treasury and investment management activities are prescribed by statute; in Scotland the sources of their powers are the Local Government in Scotland Act 2003. Essentially a local authority may borrow or invest for any purpose relevant to its functions, under any enactment, and 'for the purpose of the prudent management of its financial affairs'.

Under the 2003 Scotland Act, a local authority is required to determine and keep under review the maximum amount that it can afford to allocate to capital expenditure.

This audit shall review both the procedures surrounding borrowing and loan transactions, and the investment of funds.

During March 2016 the Council was testing a new treasury management system ('Treasury Live') from Capita Asset Services, the Council's external treasury management advisors. This system has been designed for Local Authority treasury practitioners and to reflect CIPFA's recommended best practice in treasury risk management. The system integrates recording, monitoring and reporting functionality.

## AUDIT SCOPE

This audit was carried out as part of the internal audit plan for 2015/16, and has been planned and timed to allow the Council's external auditors to place reliance on the work completed as part of their 2015/16 audit.

The objectives of the audit are to confirm that: -

- 1 Borrowing and lending transactions are in accordance with statutory powers and approved policy and strategy;
- 2 Investment, annual borrowing requirements and daily balances are properly estimated;
- 3 Borrowing, lending and investment transactions are properly controlled;
- 4 Investment income, loan repayments and interest are received/paid on the due dates and in respect of valid treasury loans and investments;
- 5 Deposits and interest are recalled/repaid on the due dates; and
- 6 Treasury management transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (e.g. registers).

The Audit Scotland National Audit Report 'Borrowing and Treasury Management in Councils' was also reviewed to ascertain if any the recommendations outlined in the report are applicable to the Council.

The audit focused on the financial year 2015/16.

**Audit Findings: Medium Priority**

- 1.1 The Local Government Investments (Scotland) Regulations 2010 set out the requirement for a local authority to obtain the consent of Scottish Ministers to make investments. The consent is provided by the Scottish Government Finance Circular 5/2010, 'The Investment of Money by Scottish Local Authorities' (the Consent) and sets out the requirements attached to the Consent when local authorities make investments.
- 1.2 The production of an Annual Investment Strategy and an Annual Investment Report are central to the Consent. The requirement for local authorities to produce an annual strategy and annual report is also reflected in the CIPFA Treasury Code.
- 1.3 Local authorities are required to prepare an Annual Investment Strategy and have it approved by Council prior to the start of the financial year. The Council did produce an Annual Investment Strategy, along with a Treasury Management Strategy Statement, for 2015/16 but these were not approved by Council until 28 April 2015.
- 1.4 The Annual Investment Strategy and Treasury Management Strategy Statement should be approved by Council before the start of the financial year.

***Recommendation 1***

- 1.5 The Consent requires the Council to produce an Annual Investment Report within six months of the financial year end. The Council produced an Annual Investment Report for the year ended 31 March 2015 combined with a mid-year update for 2015/16, but this was not approved by Council until 22 December 2015. In order to meet this requirement, the Annual Investment Report should be reported by 30 September, and the mid-year update reported separately.
- 1.6 In its audit report 'Borrowing and Treasury Management in Councils' issued in March 2015, Audit Scotland recommend that councillors are provided with mid-year reports by the end of December. Therefore in respect of the mid-year report, this recommendation was met.
- 1.7 The Annual Investment Report should be presented separately from the mid-year report and approved by Council within six months of the financial year end.

***Recommendation 2***

- 1.8 CIPFA recommends that organisations create and maintain suitable Treasury Management Practices (TMPs). One of these TMPs relates to training. It is important that both staff involved in the day to day operation of treasury management and those charged with scrutiny and governance receive adequate training to allow them to fulfil their responsibilities.
- 1.9 Our audit found that a number of training events related to treasury management had been set up for Elected Members during 2015/16 and that all Elected Members of the Investments sub-committee had attended at least one of these training events.
- 1.10 These events were also attended by officers involved in treasury management operations. The spreadsheet system set up to record attendance at these events only listed Elected Members and not officers. The attendance record should include officers' attendance.

***Recommendation 3***

- 1.11 Records of loans, borrowings, deposits and day to day treasury management transactions are held on spreadsheets. Although access to the area where the spreadsheets are held is restricted to a group of finance staff, officers not involved in treasury management can access and have the ability to amend the spreadsheets which can contain complicated formulae.

- 1.12 As mentioned in the Background section, the Finance Service are currently testing a new integrated treasury management system called 'Treasury Live'. There is no indication at this stage as to which if any spreadsheets may need to be kept. However, it is expected to improve reporting, increase security and provide better audit trails. The intention is that during March the new system will be run in parallel with the current system at least until the end of April 2016.
- 1.13 Whilst transactions are being recorded on spreadsheets, access to these should be controlled.

***Recommendation 4***

	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
	<b>General</b>			
1	The Annual Investment Strategy and Treasury Management Strategy Statement should be approved by Council before the start of the financial year.  <b>Priority: Medium</b>	Head of Finance	Agreed. Previous target was missed due to competing priorities. Process of preparing strategy statement to be commenced earlier in year.	March 2017
2	The Annual Investment Report should be presented separately from the mid-year report and approved by Council within six months of the financial year end.  <b>Priority: Medium</b>	Head of Finance	Agreed. Previous target was missed due to competing priorities. Process of preparing annual and mid-year report to be commenced earlier in year.	September 2016
3	Officer treasury management training should be recorded in a similar way to that of Elected Members.  <b>Priority: Medium</b>	Head of Finance	Agreed. Model developed to record elected member training to be applied to officer training.	September 2016
4	Whilst transactions are being recorded on spreadsheets, access to these should be controlled.  <b>Priority: Medium</b>	Head of Finance	Agreed. Treasury Live system currently being trialled with a view to replacing some working papers. Although there is no risk to funds held, measures will be taken to control access to remaining spreadsheet working papers.	May 2016

Priority	Assessment
High	<ul style="list-style-type: none"> <li>• Key control absent or inadequate;</li> <li>• Serious breach of regulations;</li> <li>• Significantly impairs overall system of internal control;</li> <li>• No progress made on implementing control;</li> <li>• Requires urgent management attention.</li> </ul>
Medium	<ul style="list-style-type: none"> <li>• Element of control is missing or only partial in nature;</li> <li>• Weakness does not impair overall reliability of the system;</li> <li>• Recommendation considered important in contributing towards improvement in internal controls;</li> <li>• Management action required within a reasonable timescale.</li> </ul>

**Note:**

It should be recognised that where recommendations in the action plan are not implemented there may be an increased risk of a control failure. It should be noted however that it is the responsibility of management to determine the extent of the internal control system appropriate to their area of operation.