

Dacorum Borough Council - Internal Audit Final Report

Treasury Management

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Key dates:

Date of fieldwork: November 2013

Date of draft report: December 2013

Receipt of responses: December 2013

Date of final report: January 2014

This report has been prepared on the basis of the limitations set out in Appendix C.

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1. Executive summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council's systems of internal control in respect of Treasury Management.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Treasury Management, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas; Policies, Procedures and Legislation; Treasury Transactions and Records; Cash Flow Forecasting; Investments; Borrowings; System Reconciliations; Management Reporting and Follow up of previous recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC's internal controls operating over Treasury Management found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

| Evaluation Assessment | Testing Assessment |
|-----------------------|--------------------|
| Full | Full |

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Treasury Management is shown in Section 3.

1.4. Key findings

We have raised no recommendations as a result of our fieldwork.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance over the adequacy of the systems of control in respect of Treasury Management, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- *Policy, Procedures and Legislation*
The Treasury function is effectively managed and that statutory obligations and CIPFA guidance is complied with. All staff act prudently and consistently in compliance with the treasury management framework and investment strategy, which is kept under continual review and revised when required in line with regulations and guidance.
- *Treasury Transactions and Records*
Reliability, integrity, confidentiality and security of the treasury management system and records are maintained through the reliable system and its interface to the main accounting system.
- *Cash Flow Forecasting*
Cash flow information is completely, accurately, validly and timely produced and secured to allow for effective monitoring and decision making in line with the investment strategy and legislative requirements.
- *Investments*
Available funds are completely, accurately, validly and timely placed with fund managers/ institutions/ the DMO in line with the investment strategy and legislative requirements.
- *Borrowings*
Cost effective loans are completely, accurately, validly and timely received from financial institutions/ the DMO in line with the investment strategy and legislative requirements. Borrowings are authorised and accurately recorded and that the Authority's cash flow position is maximised.

- *System Reconciliations*

The Authority's records are accurate and complete and reconcile with cash / bank documentation.

- *Management Reporting*

















To ensure that treasury management information regarding investments and borrowing is completely, accurately, validly and timely produced and secured to allow for effective monitoring and decision making in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability in line with management and legislative requirements.

- *Follow-up Previous Audit Recommendations*

To ensure that recommendations raised in the previous audit report have been implemented.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.





| Control Objectives Assessed | Design of Controls | Operation of Controls | Recommendations Raised |
|--|---|---|-------------------------------|
| <i>Policy, Procedures and Legislation</i> |  |  | |
| <i>Treasury Transactions and Records</i> |  |  | |
| <i>Cash Flow Forecasting</i> |  |  | |
| <i>Investments</i> |  |  | |
| <i>Borrowing</i> |  |  | |
| <i>System Reconciliations</i> |  |  | |
| <i>Management Reporting</i> |  |  | |
| <i>Follow Up of Previous Recommendations</i> |  |  | |

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

| Level | Symbol | Evaluation Assessment | Testing Assessment |
|--------------------|---|--|---|
| Full |  | There is a sound system of internal control designed to achieve the system objectives. | The controls are being consistently applied. |
| Substantial |  | Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. | There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. |
| Limited |  | Weaknesses in the system of internal control design are such as to put the system objectives at risk. | The level of non-compliance puts the system objectives at risk. |
| Nil |  | Control is generally weak leaving the system open to significant error or abuse. | Significant non-compliance with basic controls leaves the system open to error or abuse. |

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

| Level | Definition |
|---------------------------------------|--|
| Priority 1 | Recommendations which are fundamental to the system and upon which the organisation should take immediate action. |
| Priority 2 | Recommendations which, although not fundamental to the system, provide scope for improvements to be made. |
| Priority 3 | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. |
| System Improvement Opportunity | Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system. |

Appendix B – Staff interviewed

The following personnel were consulted:

- Richard Baker - Team Leader, Regulatory and Financial Accounting
- Tracy Claridge - Assistant Accountant

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

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