



Treasury Management Review Assignment Report 2021/2 (Final)

Allerdale Borough Council

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Contents

- 1 Executive Summary
- 2 Engagement Objectives and Scope
- 3 Detailed Findings and Recommendations

[Appendix A: Assurance Definitions and Risk Classifications](#)

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Key Dates

Report Stage	Date
Discussion Document Issued	July 2022
Discussion Meeting	July 2022
Final Draft Report Issued	July 2022
Client Approval Received	July 2022
Final Report Issued	July 2022

Report Distribution

Name	Title
Sharon Sewell	Chief Officer Place & Governance, Monitoring Officer
Michael Roper	Strategic Advisor Tier 1 – Assurance, Risk & Audit
Barry Lennox	Senior Manager – Finance (Deputy S151 Officer)
Catherine Nicholson	S151 Officer

Audit Team

Name	Contact Details	
Conor Joel-Welsh	Conor.joel-welsh@miaa.nhs.uk	07554 227503
Adrian Poll	Adrian.poll@miaa.nhs.uk	07798 580335
Louise Cobain	Louise.cobain@miaa.nhs.uk	07795 564916

Acknowledgement and Further Information

MIAA would like to thank all staff for their co-operation and assistance in completing this review. This report has been prepared as commissioned by the organisation, and is for your sole use. If you have any queries regarding this review please contact the Audit Manager. To discuss any other issues then please contact the Director. MIAA would be grateful if you could complete a short survey using the link below to provide us with valuable feedback to support us in continuing to provide the best service to you.

https://www.surveymonkey.com/r/MIAA_Client_Feedback_Survey

1 Executive Summary

1.1 Objective

The overall objective of the review has been to provide assurance that the Treasury Management Function is operating effectively to manage the cash flow requirements of the Council.

1.2 Opinion

High Assurance	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
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1.3 Key Findings

Overall, there was a strong system of internal control to ensure that the cash flow requirements of the Council are operating effectively.

We confirmed that the Authority has produced the appropriate documents that are required such as the Treasury Management Strategy Statement and Mid-Year Treasury Report which have been subject to adequate scrutiny at Committee and Full Council level.

The Authority has in place sufficient controls to ensure that cash flow is monitored on a daily basis and used to inform borrowing and investment decisions. In addition, monthly reconciliations of bank activity are undertaken.

Sample testing confirmed that there is a segregation of duties between the requester and approver of investments and that each investment had been approved by an appropriate officer.

The Authority’s cash flow spreadsheet has a section for explanatory notes when the variance for the day is greater than £200k. We identified 5 days throughout the year where this section had not been completed.

The following provides a summary of the key themes.

Sub Objective	Key Themes
Cash Flow Planning	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • A daily cash flow spreadsheet is maintained outlining all cash in and out of the Authority. • Bank information is available in real time via the Authority’s online account. The bank signatories list is up to date. • Bank reconciliations are undertaken on a monthly basis. <p>Areas for noting:</p>

Sub Objective	Key Themes
	<ul style="list-style-type: none"> Explanatory notes are required for any variance of £200k or more. We identified 5 dates throughout 2021/22 that did not have explanatory notes where required. (Recommendation 1 – Low)
Borrowing & Lending Transactions	<p>Areas of good practice:</p> <ul style="list-style-type: none"> We confirmed that the Authority had not undertaken any borrowing in 2021/22. Sample testing on investments confirmed the following: <ul style="list-style-type: none"> There was a segregation of duties between the preparer, checker and authoriser of an investment. Each investment had received appropriate approval. For each investment, a check had been undertaken to confirm that bank statement was accurate following completion of the investment. <p>Areas for noting:</p> <ul style="list-style-type: none"> None identified.
Audit Committee	<p>Areas of good practice:</p> <ul style="list-style-type: none"> The Treasury Management Strategy Statement and Investment Strategy was presented to the Committee in February 2021. The strategy outlined the Authority’s proposed activity and the authorised borrowing limit. The Annual review was presented in September 2021 and provided an overview of borrowing and investment rates and strategies for 2020/21. Meeting minutes demonstrated that there queries from the Committee were discussed with the Senior Manager – Finance (Deputy S151 Officer). <p>Areas for noting:</p> <ul style="list-style-type: none"> None identified.
Reporting to Council	<p>Areas of good practice:</p> <ul style="list-style-type: none"> The Annual Treasury Report was presented in September 2021 to the Audit Committee and Full Council. It provided an overview of borrowing and investment rates and strategies for 2020/21.

Sub Objective	Key Themes
	<ul style="list-style-type: none"><li data-bbox="592 367 1414 472">• The Mid-Year Report was presented to the Audit Committee in November 2021 and Full Council in December 2021. Revised Prudential Indicators were approved. <p data-bbox="544 533 762 566">Areas for noting:</p> <ul style="list-style-type: none"><li data-bbox="592 584 847 618">• None identified.

1.4 Recommendation Summary

The table below summarises the prioritisation of recommendations in respect of this review.

Critical	High	Medium	Low	Total
0	0	0	1	1

2 Engagement Objectives and Scope (Terms of Reference)

2.1 Objective

The overall objective of the review has been to provide assurance that the Treasury Management Function is operating effectively to manage the cash flow requirements of the Council.

The following sub objectives were identified:

- Cash flow planning, including assessment of borrowing/investment requirements, is adequate to ensure that the cash requirements for both service activity and the Capital Strategy are met.
- Borrowing and lending transactions are made in accordance with the Treasury Management Strategy Statement (TMSS) and on due dates.
- The Audit Committee is effectively undertaking its role in relation to scrutiny of treasury management activity.
- The Council has received the mid-year Treasury Management report for 2021/22 and the Annual Treasury Report for 2020/21.

2.2 Scope

The scope of this review focused on the objectives described above and was limited to the controls in operation at the Council.

2.3 Approach

The following approach was adopted to enable us to evaluate potential risks, issues with controls and recommend improvements:

- Discussions with key members of staff to ascertain the nature of the processes in operation
- Desktop review of a sample of investments made by the Authority.
- Desktop review of Committee papers and minutes, Treasury Management Strategy Statement and Cash Flow documentation.

3 Detailed Findings and Recommendations

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Explanatory Notes

Risk Rating: Low

Operating effectiveness

Key Finding – Explanatory notes are required for any variance of £200k or more. We identified 5 dates throughout 2021/22 that did not have explanatory notes where required.

Specific Risk – Significant balances do not undergo an appropriate level of scrutiny.

Recommendation – The Authority should ensure that explanatory notes are provided for all variances greater than £200k, as outlined within the Cash Flow spreadsheet.

Management Response – The recommendation is noted. However, no changes are required to existing procedures.

Responsible Officer – Senior Manager – Finance

Implementation Date – N/A

Follow-up

A follow-up exercise will be undertaken during 2022/23 to evaluate progress made in respect of issues raised. This will include obtaining documentary evidence to demonstrate that actions agreed as part of this review have been implemented.

Appendix A: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.

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 organisation'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 could 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 organisation 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.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

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