

Title: **Internal Audit Reports**

Lead Member: **Cllr Eaton - Chair of Audit Committee**

Reporting Officer: **Ian Jamieson - Head of Finance**

Purpose

To consider the following Internal Audit reports:

- 1 Treasury Management
- 2 Review of 2006/07 financial statements

Background

KPMG provide the internal audit service to the Council. The work has been carried out in accordance with the Internal Audit plan approved by Corporate Management Team and the Audit Committee. The plan is designed to allow an opinion to be given on the adequacy and effectiveness of the Council's risk management, control and governance processes.

Key Issues

Each internal audit assignment is risk rated as either good, satisfactory, weak or unacceptable. All recommendations are prioritised as high, medium or low. The results from the three audits are summarised in the table below:

	Risk	High	Medium	Low
Treasury Management	Good	0	0	0
accepted				
Review of financial statements	No rating as review	0	0	4
accepted		0	0	4

Effect on strategies and codes

The internal audit opinion supports the 'sound financial management' principle.

Risk Management implications

These are contained within the report.

Financial and performance implications

There are no financial implications.

Legal and human rights implications

There are no direct legal or human rights implications.

Next steps

Recommendations will be implemented as detailed in the individual internal audit report action plans. The 2007/08 internal audit work will review progress on implementation.

Recommendations

The Audit Committee:

- Reviews the internal audit reports
- Reviews progress of actions taken to implement internal audit recommendations.

Background Papers: Final Accounts Working Papers – Room 35



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2006/07

West Wiltshire District Council
Treasury Management

DRAFT: 01 May 2007

**Overall Report
Rating:**

Good

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Status of Report

Discussion draft issued:

01 May 2007

Management Responses Received:

Final Report Issued:

Presented to Audit
Committee

Distribution

To (for action)

Ian Jamieson – Head of Finance

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1. Executive summary

Introduction

As part of internal audit's review of the general control environment within the Council a review of Treasury Management was undertaken. This audit was completed as part of the agreed internal audit plan for 2006/2007. The objective of the audit was to provide management with information as to the adequacy and effectiveness of the financial control environment in place which ensures objectives are achieved and risks adequately managed. This approach included:

- Determining the key risks impacting on the achievement of the objective;
- Identifying the controls in place to mitigate these risks;
- Assessing the design of these controls; and
- Reviewing the operation of these controls.

Context

The Council's treasury management function is carried out in-house with specific advice and information relating to investment decisions provided by Butlers, a specialist consultant.

Treasury management information is maintained in Agresso, the Council's main accounting system, this is supported by the use of Excel spreadsheets designed in house to manage cash flow.

The Finance department has recently undergone some staffing changes, with the Financial Accountant, Treasury Officer and Accounts Technician all being appointed in the current financial year

The Council currently has £5m on deposit in fixed investments, and £3.6m invested in short term deposits. Although the Council currently has no outstanding loans the finance department expect that the Council will be required to borrow approximately £1.5m to cover the transitional period between financial years, during which no Council Tax is received.

Acknowledgements

We would like to take this opportunity to thank your staff for their significant assistance and co-operation during our work.



1. Executive summary - continued

Conclusion

From the work performed on the Treasury Management systems, we consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved. As a result, we have graded this area as Good.

The main findings of our review are highlighted below. We have not made any recommendations to address areas of control weakness.

The review identified the following areas of good practice:

Areas of good practice

- ✓ A Treasury Management Strategy is prepared annually;
- ✓ Cash flow monitoring is undertaken on a daily basis;
- ✓ Defined limits are in place for external borrowing;
- ✓ Detailed creditworthiness standards are established
- ✓ Variable interest rate exposure limits are defined;
- ✓ Investment income is monitored on a daily basis; and
- ✓ Treasury Management performance is reported to Members and the Corporate Management Team.

Appendix A: Summary of work undertaken and risks reviewed

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed ¹	Management ₂ assessment
Treasury Management			
• Weekly Cash flow monitoring not undertaken.	• The cash flow forecasting spreadsheet was reviewed to ensure that it was updated on at least a weekly basis.	Yes	N/A
• There are no limits to external borrowing.	• Treasury management policy was reviewed to ensure that there is a limit in place.	Yes	N/A
• There are no creditworthiness standards for investment, and there is no compliance with these standards.	• Policy documents were reviewed to ensure that creditworthiness standards were in place. • Investment that had been placed on deposit or returned during the year were reviewed for compliance with these standards.	Yes	N/A
• Reconciliations are not conducted on an accurate and timely basis.	• A schedule of reconciliations was reviewed to establish the reconciliations conducted by the Council. • Reconciliations were reviewed to ensure they are completed and reviewed in a timely and accurate fashion.	Yes	N/A
• There are no limits on exposure to variable interest rates.	• The Council's investment portfolio was reviewed to establish its current exposure.	Yes	N/A

- Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing
- Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).

Appendix A: Summary of work undertaken and risks reviewed - continued

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed ¹	Management ₂ assessment
<ul style="list-style-type: none"> There are no limits on the types of investments that can be entered into. 	<ul style="list-style-type: none"> Policy documents were reviewed to gain an understanding of the limits in place. Investment that had been placed on deposit or returned during the year were reviewed for compliance with these the Council's standards. 	Yes	N/A
<ul style="list-style-type: none"> Monthly budget monitoring is not undertaken. 	<ul style="list-style-type: none"> For two months it was confirmed that appropriate budget monitoring had been completed. 	Yes	N/A
<ul style="list-style-type: none"> Compliance of borrowings made from the Council are not monitored. 	<ul style="list-style-type: none"> Daily investment schedules were reviewed to ensure that interest from investments was monitored and recorded appropriately. 	Yes	N/A
<ul style="list-style-type: none"> The Council do not comply with approved borrowing policy. 	<ul style="list-style-type: none"> Long term investments for the financial year were reviewed to ensure compliance with borrowing policy. The use of the current account overdraft was reviewed to assess whether it was used appropriately. 	Yes	N/A
<ul style="list-style-type: none"> The Council's Treasury Management policy is not compliant with best practice. 	<ul style="list-style-type: none"> Treasury management policy was reviewed to ensure it complied with CIPFA standards. 	Yes	N/A

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▪ Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).

Appendix A: Summary of work undertaken and risks reviewed - continued

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed ¹	Management ₂ assessment
<ul style="list-style-type: none"> Income from investment is not recorded correctly. 	<ul style="list-style-type: none"> Investment that had been placed on deposit or returned during the year were reviewed to ensure payments had been made in a timely and accurate manner. 	Yes	N/A
<ul style="list-style-type: none"> Treasury Management policy and Treasury performance is not reported appropriately. 	<ul style="list-style-type: none"> The policies associated with Treasury Management reviewed for appropriateness. Treasury Management reporting information was reviewed to ensure it was adequate and appropriate. 	Yes	N/A

- Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing
- Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).