

Additional papers 1



Audit, Governance & Standards Committee

Thu 14 Apr
2022
7.00 pm

Council Chamber
Town Hall
Redditch



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Audit, Governance & Standards

Thursday, 14th April, 2022

7.00 pm

Committee Room 2 Town Hall

Agenda

Membership:

Cllrs:

Juliet Brunner (Vice-Chair)
Salman Akbar
Tom Baker-Price
Luke Court

Julian Grubb
Emma Marshall
Timothy Pearman
David Thain

10. Internal Audit Progress Report (Pages 1 - 8)

This additional papers pack contains an updated version of the Light Touch Treasury Management Audit 2021/22 (Appendix 3 of the Internal Audit Progress Report).

Worcestershire Internal Audit Shared Service



Final Internal Audit Report

Light touch Treasury Management Audit 2021/22

Date 5th January 2022

Distribution:

To: Financial Services Manager

CC: Head of Financial and Customer Services
Executive Director of Resources (Section 151 Officer)
Chief Executive



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1. Introduction

- 1.1 The audit of the Light touch Treasury Management Audit was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Redditch Borough Council for 2021/22 which was approved by the Governance and Standards Committee on 29th July 2021. The audit was a light touch risk based systems audit of the Treasury Management system as operated by Redditch Borough Council.
- 1.2 This area of review is a back-office function and therefore underpins all of the Strategic Purposes
- 1.3 The service risks relevant to this review:
- Fin 2 Poor Treasury Management
- 1.4 There is a potential for fraud in this area with the transfer of funds fraudulently to personal or third party bank accounts.



1.5 This review was undertaken during the month of December 2021

2 Audit Scope and objective

2.1 A full audit was undertaken in 2020/21. No concerns were raised so this year a light touch audit has been undertaken to provide assurance that controls are still in place and operating effectively.

2.2 The review covered authorisation on investment and borrowings, compliance with the Treasury Management Strategy in relation to Institutions invested in and the limits invested, and the interest received and paid. In addition to this the 2020/21 audit findings were also followed up.

2.3 This review covered processes in place at the time of the audit.

3 Audit Opinion and Executive Summary

3.1 From the audit work carried out we have given an opinion of **significant assurance** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the "Definition of Audit Opinion Levels of Assurance" table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.

3.2 We have given an opinion of **significant assurance** in this area because there is a generally sound system of internal control in place but that our testing has identified an isolated weakness in the design of controls and / or inconsistent application of controls in one area.

3.3 The review found the following areas of the system were working well:

- Management approval had been obtained for the Investments/Borrowing
- Ledger shows the money being paid out and back in.
- Investments were made in line with the Counterparties lists and were within investment limits

3.4 The review found the following areas of the system where controls could be strengthened:

	Priority (see Appendix B)	Section Recommendation number	4
Reconciliation and Borrowing Sign off	Medium	1	

4 Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity. The definitions for high, medium and low priority are set out in the “Definition of Priority of Recommendations” table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Issues brought forward from previous audit					
1	M	<p>Reconciliation and Borrowing Sign off (Follow up from the 2020/21 Audit)</p> <p>The Treasury Management is undertaken by several officers on a day to day basis and although there is an authorisation of transfer of funds on investments there is no formally established authorisation of borrowings. A discussion does take place with the Head of Finance and Customer Services, and there is a period of grace whereby an agreement to borrow can be cancelled but there is no formal record of the decision made, and reconciliations although undertaken are not signed off by Management except at the year end.</p> <p>Therefore, there is no official monitoring to ensure that monies that should have been received are received.</p>	<p>Risk of financial loss borrowings are agreed when they are not required, or the interest rate is not a good deal for the Council</p>	<p>As a minimum and in order to ensure that the process does not suffer undue delay the Treasury Management reconciliation should be reviewed and signed off by Management on a quarterly basis as part of the quarterly reporting to Members.</p> <p>This will ensure that all monies that should have been received have been</p>	<p>Responsible Manager: Financial Services Manager</p> <p>Agreed that this is a sensible approach.</p> <p>Implementation date: By end of June 22</p>

		The implementation of a new system and the turnover of staff has resulted in the resources being reallocated to high risk areas.			
New matters arising					
There have been no areas of control issues or risks highlighted by this light touch review that require reporting.					

5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms with the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and are able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented in order to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

APPENDIX A

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 to 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

APPENDIX B

Definition of Priority of Recommendations

Priority	Definition
H	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
M	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.
L	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.