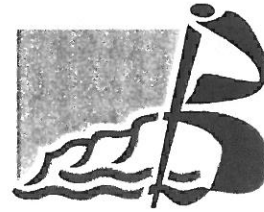


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**Bridgend & Vale
Internal Audit Shared
Service**

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**Internal Audit Report
Treasury Management**

**BCBC
Performance
Finance
March 2012**

To: Janet Smith & Mary Newbold
Cc: David MacGregor & Ness Young
From: Internal Audit
Auditor: David Barraclough
Date : 4th April 2012
Audit Ref: AA040

1. Introduction

- 1.1 An audit review of Treasury Management was undertaken as part of the 20011/12 annual Internal Audit Plan.
- 1.2 This report sets out the findings of the review and makes recommendations, where it is felt that improvements in financial and non-financial administration could be made.
- 1.3 Treasury Management is the Authority's handling of financial matters through the effective management of its cash flows, its banking, money market and capital market transactions and the complex strategies, policies, and procedures of corporate finance.
- 1.4 This audit was conducted using a Control Risk Self Assessment (CRSA) Questionnaire. The questionnaire was formulated from CIPFA Matrices to be completed by the Treasury Management team in collaboration with the auditor. Using a CRSA allows the Auditor to determine if the section is complying with CIPFA benchmarks and it allows the Section to self assess its controls in relation to risk management. In addition to the CRSA, the functions of the Section were documented; key controls were identified and testing undertaken. The audit findings are based on discussions with staff, observations, and the results of sample testing.

2. Objectives & Scope of the Audit

- 2.1 The objectives of the audit were:
 - Issue and complete the CRSA for Treasury Management with the relevant officer highlighting any recent changes to the processes and procedures.
 - Ensure adequate controls are applied.
 - In discussion with the relevant officer(s) agree an area of testing and discuss area and level of testing with the SGA
 - Undertake testing in order to give assurance that associated risks are effectively managed.
 - Undertake a reconciliation of the Council's bank statements to the Treasury Management records

3. **Strengths & Weaknesses**

- 3.1 During the audit strengths and areas of good practice were identified in all areas tested
- 3.2 The Auditor is pleased to report that no key issues were identified during the Audit which need to be addressed:

4. **Audit Opinion**

- 4.1 Based on an assessment of the strengths and weakness of the areas examined, and through testing it has been concluded that the effectiveness of the internal control environment is considered to be sound and therefore **substantial assurance** can be placed upon the management of risks. This overall opinion is supported by the identification of a well controlled system where only minor recommendations may have been made where it is considered that the action required is desirable and should result in enhanced control or improved value for money.

5. **Acknowledgement**

- 5.1 A number of staff gave us their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

6. Findings and Recommendation

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results.

The **recommendations** column is categorised on the following basis:

- Fundamental - action that is considered imperative to ensure that the organisation is not exposed to high risks;
- Significant - action that is considered necessary to avoid exposure to significant risks;
- Merits Attention - action that is considered desirable and should result in enhanced control.

6.1 Control Risk Self Assessment of Treasury Management

| Ref | Possible Risk | Key Findings / Conclusions | Recommendation | Categorisation |
|-------|---|---|----------------|----------------|
| 6.1.1 | That potential risks have not been considered by the Treasury Management Team and controls are not in place resulting in unauthorised activity or poor performance. | The CRSA was issued and fully completed. The return indicated 100% positive responses which indicate that the controls in place are reasonable. The Auditor chose 2 areas to test; these were delegation/authorisation of transactions and the online banking system controls which use an electronic token to gain access. | None | N/A |

6.2 Testing – Authorised Delegation and Segregation of Duties

| Ref | Possible Risk | Key Findings / Conclusions | Recommendation | Categorisation |
|-------|--|--|----------------|----------------|
| 6.2.1 | The system is left open to manipulation and abuse and transactions are not correctly authorised. Controls are ineffective or are not used by staff | The Auditor reviewed the delegated authority and authorisations at key points in the process. It was found that there was appropriate delegation of duties and the transactions sampled complied with the delegations stated in the current Treasury Policy Statement. | None | N/A |

6.3 Testing – On-Line Banking / Electronic Tokens

| Ref | Possible Risk | Key Findings / Conclusions | Recommendation | Categorisation |
|-------|--|--|----------------|----------------|
| 6.3.1 | The system is left open to manipulation and abuse and transactions are not correctly authorised. | The Auditor found that 16 tokens have been activated and issued to named staff whilst the remaining 2 tokens are not activated and are securely stored. Each user requires an individual ID and a 10 digit passcode generated by the token as well as a personalised PIN. Only the Bank can reset the passcodes. Therefore the Auditor can conclude that good controls are in place. | None | N/A |

6.4 Testing – Reconciliation of Bank Statements

| Ref | Possible Risk | Key Findings / Conclusions | Recommendation | Categorisation |
|-------|---|--|----------------|----------------|
| 6.4.1 | Internal controls, reporting and checking systems are in place to prevent fraud and to ensure Investment and borrowing transactions are legitimate and appropriate. | The Auditor found that regular reconciliations are undertaken at different stages of the process ie) daily, monthly by the appropriate staff with adequate segregation of duties in place. | None | N/A |

7. Management Implementation Plan

No recommendations were made as a result of this audit