



**HILLINGDON**  
LONDON

# **FINAL AUDIT REPORT**

**TREASURY MANAGEMENT AUDIT 2008/2009**

**Auditor:**

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### **ACKNOWLEDGEMENTS**

Internal Audit would like to thank the Investment Manager, Pension Fund Accountant, Accounts assistant and all other officers contacted during the course of this review for their co-operation and assistance during the audit.

## 1. INTRODUCTION

1.1. This Treasury Management (TM) audit was undertaken to provide management with an assurance that the processes and controls relating to loans and investment of surplus funds within the Capital and Treasury Management section are adequate and effective. The audit brief, which provided the objectives, methodology and scope, was issued on 2<sup>nd</sup> October 2008.

1.2. Furthermore, the audit was to evaluate whether monies placed with the Icelandic banks were made in accordance with the London Borough of Hillingdon's operating framework.

## 2. EXECUTIVE SUMMARY

2.1. Overall Audit's view is that we are able to give **Satisfactory Assurance** that the controls in place to for **Treasury Management** are effective. A definition of the assurance level and risk categories is available on the [intranet](#) in the internal audit pages.

2.2. The following areas were reviewed and found to be operating satisfactorily:

- The Council has a Treasury Management Strategy Statement and Annual Investment Strategy 2008/09, a Treasury Management Policy and Treasury Management Practices that are detailed and properly documented. They have been determined and approved by appointed committee /Investment panel and are reviewed periodically.
- There is adequate separation of duties in the Treasury Management's day-to-day operations.
- Reconciliations relating to both investments and loans are adequately and regularly carried out.
- Investments and electronic transfers/payments are properly authorised, checked and monitored.
- A detailed, up to date Loan Register is maintained with access restricted.
- Adequate Fidelity insurance cover is in place for all treasury members of staff.
- The Council's External Treasury Management Advisers/consultants complied with their contract of engagement and there performance was satisfactory.
- The deposits made with the Icelandic Banks complied with the London Borough of Hillingdon's Investment Framework.

2.3. The areas of concern resulting from the audit were:

- The daily Cash Flow statements and monthly reconciliations of investment/loan records do not indicate who prepared them.

- It is difficult to determine the names of signatories that had signed “The Payment Transit Forms” because names were not printed against their signatures.
- Files containing important Treasury Management documents such as daily cash flow statements and dealing forms are left on the desk overnight.
- An approved procedure for collection of unpaid investments is not in place.

2.4. Detailed audit findings are set out from section three onwards. Recommendations in respect of each area are set out in *italics* and **bold** at the end of each section and a rationale follows each recommendation. The recommendations are also brought together in Appendix A.

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**3. TREASURY MANAGEMENT PRACTICE, PROCEDURES AND STRATEGY**

3.1. The Council has a Treasury Management Strategy Statement and Annual Investment Strategy 2008/09, a Treasury Management Policy and Treasury Management Practices that are detailed and properly documented. The Treasury Management Strategy Statement and Annual Investment Strategy was approved by the Council on 28 February 2008 and are reviewed periodically.

3.2. The procedures and Treasury Management Practices provide for adequate separation of duties.

**4. COUNTER PARTY LIST AND DAILY CASH FLOW**

4.1. There is a comprehensive and adequately approved Counter Party List, which contains the names and limits of each institution where the Council can invest its fund. This record is updated regularly.

4.2. The daily Cash Flow is satisfactorily computed, reviewed and signed by the Treasury Manager. However, it is not signed by the preparer.

**Recommendation**

**1) The preparer of the daily Cash Flow statements should print and sign their name as evidence of who prepared the statements.**

**Rationale**

*It would be difficult to identify who prepared the statements if there were any queries at a later date. There is also no audit trail.*

**5. RECORDS AND MONITORING OF INVESTMENT**

5.1. Investments are properly and accurately recorded in the appropriate treasury books.

5.2. Access to the Electronic Investment Register is restricted and the register is satisfactorily maintained.

5.3. There are manual procedures in place to monitor investment maturity, but the Logotech system, used for investment and loan management, does not alert the TM Team of loan repayments and investment maturity dates in advance. Although there are compensating controls in place by using the daily diary, it would be good practice to have an electronic alert. However, at the moment, the logotech system cannot be configured to do this

**6. RECONCILIATIONS**

6.1. The Council's main accounting records are regularly reconciled to the investment register and the register is reconciled with financial institutions' statements.

6.2. A senior officer reviews and signs the reconciliations statements, but they are not signed by the preparer.

**Recommendation**

**2) The preparer of the reconciliations statements should print and sign their name as evidence of who prepared the reconciliation statements.**

**Rationale**

*It would be difficult to identify who prepared the statements if there were any queries at a later date. There is also no audit trail.*

**7. ELECTRONIC TRANSFERS OF FUNDS**

7.1. The controls that are in place for the electronic transfer of fund are satisfactory with transfers and payments being checked, authorised and monitored.

7.2. A regularly updated signatory list is in place.

7.3. Signatories on Payment Transit Forms were confirmed to the signatory list, but it was difficult, in some instances, to determine the signatory's name from just looking at the Payment Transit Form.

**Recommendation**

**3) It is recommended that signatories signing the Payment Transit Forms should print their names against their signature**

**Rationale**

*It would be difficult to identify who authorise the Payment Transit Forms if there were any queries at a later date.*

**8. FIDELITY GUARANTEE INSURANCE**

8.1. The Fidelity Guarantee Insurance Policy in place is adequate.

**9. SECURITY OF INFORMATION AND DOCUMENTS**

9.1. Access to the TM's electronic information and registers is restricted by login ID's and passwords, and non-use of the system is monitored so that ID's can be disabled.

9.2. The Council has a robust data retention policy accessible to all staff on Horizon.

9.3. Files containing hard copies of some sensitive information such as cash flow statements and reconciliations are kept in unlocked drawers.

**Recommendation**

**4) Files containing Treasury Management day-to-day information should be kept in lockable cabinets or scanned into the system.**

**Rationale**

*Information may fraudulently be used to misappropriate monies or information may be used to embarrass the Council.*

**10. LOANS**

10.1. A detailed Loan Register is in place and the Loan Procedure is detailed, clear, and fit for purpose and there are controls in place to ensure that risky loans are not taken.

**11. ICELANDIC BANK INVESTMENTS**

11.1. The Council's TM operating framework is sound, robust and satisfactory.

11.2. The deposits that were made with the Heritable Bank Plc and Landsbanki in August and September 2008, totalling £20 million, were made in accordance with the London Borough of Hillingdon's TM Operation Framework.

11.3. The Council's External Treasury Management Advisers/consultants complied with their contract of engagement and their performance was satisfactory.

11.4. The response of the TM Team of reporting to the Chief Executive, Chair of the Audit Committee and Leader on the funds, completing claim forms and stopping further investments in all Icelandic banks, was satisfactory.

11.5. However, there is no laid down procedure in the Annual Treasury Practice that indicates step by step action to be taken in case of non payment of deposits when matured.

**Recommendation**

**5) It is recommended that unpaid investment recovery procedures should be put in place.**

**Rationale**

*Lack of procedures may result in the Council losing monies.*

APPENDIX A – ACTION PLAN

Rec No.	Recommendation	Rationale	Risk category	Management response (including statement of agreement/disagreement)	Person responsible and time scale
1	<b><i>The preparer of the daily Cash Flow statements should print and sign their name as evidence of who prepared the statements.</i></b>	<i>It would be difficult to identify who prepared the statements if there were any queries at a later date. There is also no audit trail.</i>	Low	Agreed: Procedures will be updated to include details of the person preparing the daily cash flow statement.	31/03/09
2	<b><i>The preparer of the reconciliations statements should print and sign their name as evidence of who prepared the reconciliation statements.</i></b>	<i>It would be difficult to identify who prepared the statements if there were any queries at a later date. There is also no audit trail.</i>	Medium	Agreed: The preparer of monthly reconciliations will state and sign their name.	31/03/09
3	<b><i>It is recommended that signatories signing the Payment transit Form should print their</i></b>	<i>It would be difficult to identify who authorise the Payment Transit</i>	Medium	Agreed: A template will be created and transposed onto the payment	31/03/09

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<b>Rec No.</b>	<b>Recommendation</b>	<b>Rationale</b>	<b>Risk category</b>	<b>Management response (including statement of agreement/disagreement)</b>	<b>Person responsible and time scale</b>
	<b><i>names against their signature</i></b>	<i>Form if there were any queries at a later date.</i>		<b>document. It will incorporate the names of signatories to facilitate the simplification and verification of the signing process. Sample signatures will be provided to those involved in the final payment approval stage to allow validation.</b>	
<b>4</b>	<b><i>Files containing Treasury Management day-to-day information should be kept in lockable cabinets or scanned into the system.</i></b>	<i>Information may fraudulently be used to misappropriate monies or information may be used to embarrass the Council.</i>	<b>Medium</b>	<b>Agreed: The current Daily Cash Flow folder will be locked away overnight.</b>	<b>31/03/09</b>
<b>5</b>	<b><i>It is recommended that unpaid investment recovery procedures should be put in place.</i></b>	<i>Lack of procedures may result in the Council losing monies</i>	<b>High</b>	<b>Agreed: Procedures relating to unpaid investments will be included within the next update to the Treasury Management Practices</b>	<b>30/04/09</b>

**COMPILED BY:** \_\_\_\_\_  
(Auditor)

**SIGNED AS AGREED:** \_\_\_\_\_

**DESIGNATION:** \_\_\_\_\_

**DATE:** \_\_\_\_\_