

# Audit Committee

Item No 7

<b>Report title:</b>	<b>Governance, Control and Risk Management of Treasury Management</b>
<b>Date of meeting:</b>	<b>22 September 2016</b>
<b>Responsible Chief Officer:</b>	<b>Executive Director of Finance</b>
<b>Strategic impact</b>  Treasury management in local authorities is extremely well regulated. Specific policy and operational guidance on governance, control and risk management is contained within professional codes of practice, with overarching statutory and regulatory guidance drafted by the Government.  This report concludes that the County Council's Treasury Management operations are fully compliant with the statutory and regulatory framework and recognised best practice.	

## Executive summary

### Recommendation:

The Audit Committee is requested to consider and comment on this report which provides assurance to the Committee as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury Management.

## 1. Proposal (or options)

### 1.1 Recommendation:

The Audit Committee is requested to consider and comment on this report which provides assurance to the Committee as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury.

### 1.2 The Investment Manager has been consulted in the preparation of this report.

## 2. Evidence

2.1 The County Council's treasury management operations form an important part of the overall financial management of the authority. These operations comply with statutory and regulatory requirements, including appropriate Member scrutiny and reporting.

2.2 This report provides assurance to the Committee as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury Management.

2.3 During financial year 2015-16, the County Council met the reporting requirements of the CIPFA Treasury Management Code by receiving:

- an annual treasury strategy in advance of the year (County Council 16 February 2015)
- a mid-year treasury update report (County Council 14 December 2015)
- annual report following the year-end describing activity (County Council 25 July 2016).

To aid transparency these reports were presented to Policy and Resources Committee and Council as agenda items in their own right, rather than as appendices to other financial reports.

- 2.4 The County Council has integrated the governance requirements of the CIPFA Treasury Management Code and the Government's Investment Guidelines into a single report. 'The Annual Investment and Treasury Strategy 2015-16' was presented to Policy and Resources and then Council in February 2015 at the same time as the County Council's annual budget proposals. Prior to consideration by Policy and Resources, the Strategy was examined in detail by the Treasury Management Panel.
- 2.5 The Annual Strategy report provided economic forecasts, the criteria for choosing investment counterparties, monetary limits and deposit periods, the strategy for long term borrowing, treasury management prudential indicators and leasing activity.
- 2.6 A mid-year monitoring report on treasury activities was also produced for Policy and Resources Committee and Council.
- 2.7 After financial year-end, an annual report was produced. The 'Annual Treasury Management Report 2015-16' was presented to the Policy and Resources Committee and the County Council in July 2016.
- 2.8 The Annual Report reviewed treasury activities undertaken in the previous 12 months (April 2015 to March 2016) and contained details of performance against key treasury management indicators and budgets. It also provided confirmation that all monies invested during the year was in accordance with the approved investment criteria.
- 2.9 In addition, throughout 2015-16, Policy and Resources Committee and the Treasury Management Panel received regular treasury management performance monitoring reports. These reports provided performance information in relation to key treasury management indicators such as cash not invested at the end of each working day, investment return and interest earned to date.
- 2.10 During the 2015-16, the Treasury Management Panel provided robust scrutiny of treasury activity. Reports to Policy and Resources Committee were amended where appropriate to incorporate comments or views expressed by the Panel, with other action being pursued by officers and reported back to Panel members. There are no outstanding actions/recommendations from meetings of the Panel during 2015-16.

- 2.11 Following the collapse of the Icelandic Banks in 2008, the then Audit Commission undertook a national audit of local authority treasury management operations. Over 450 local authorities (including Norfolk) participated in the audit which resulted in the publication of the report 'Risk and Return'. External auditors were asked to incorporate the reports findings and recommendation in their audit programmes.
- 2.12 The County Council's external auditor (Ernst & Young) views Norfolk's Treasury Management activities as 'key processes' and will therefore perform 'walk through' tests and sample transaction testing of key controls in order to inform their annual audit of the Statement of Accounts. In addition, they will also seek independent verification of investment and debt balances.
- 2.13 In order to assist and support Ernst & Young's audit of the annual Statement of Accounts, Norfolk Audit Services (NAS) undertake detailed testing of key controls on a sample of transactions when undertaking annual audits.
- 2.14 Transaction auditing of key controls is supplemented by a triennial full internal audit review. A full audit was undertaken during July/August 2016 which included transaction samples from both 2015-16 and 2016-17. The final report was issued on 23<sup>rd</sup> August with an acceptable audit opinion.
- 2.15 Audits will also be undertaken if significant changes to systems or processes are identified.

### **3. Financial Implications**

- 3.1. The expenditure falls within the parameters of the Annual Budget agreed by the Council.

## **4. Issues, risks and innovation**

- 4.1. Under section 17 of the Crime and Disorder Act 1998, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 4.2. Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.
- 4.3. **Other resource implications**  
  
There were no other resource implications arising from this report.
- 4.4. **Legal implications**  
  
There were no legal implications arising from this report.

#### **4.5. Risk implications**

This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

The Finance Management Team is responsible for maintaining a departmental risk register. There are currently no "High" risks identified relating to Treasury Management.

#### **4.6. Equality implications**

There were no equality implications arising from this report.

#### **4.7. Human rights implications**

There were no human rights implications arising from this report.

#### **4.8. Environmental implications**

There were no environmental implications arising from this report.

#### **4.9. Health and safety**

There were no health and safety issues arising from this report.

### **5. Background**

- 5.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) defines treasury management activities as:

'the management of a Council's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.

- 5.2. Treasury management in local authorities is extremely well regulated. Specific policy and operational guidance is contained in professional codes of practice, with overarching statutory and regulatory guidance drafted by the Government.

- 5.3. This framework of regulation and codes of practice provides the basis for the governance and reporting of treasury management activities in local authorities.

- 5.4. Statutory and regulatory guidance is provided by the Local Government Act 2003 and the Government's Investment Guidelines 2010 (Revised). Codes of best practice include the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and the Prudential Code. The Council adheres to all these in the way it manages its treasury services.

5.5. CIPFA's Code of Practice for Treasury Management in the Public Services (the Code) recommends the adoption of four key clauses as part of financial regulations and procedures. CIPFA's latest version of the Code was released in November 2011. The specific clauses and policy statements remained unchanged from the 2009 Code which the County Council adopted in February 2010 as part of its financial regulations and procedures. Two of the clauses relate to governance and reporting arrangements, as follows:

- that the County Council delegates responsibility for the implementation of its treasury management policies and practices to the Council's Cabinet (now Policy and Resources Committee), and for the execution and administration of treasury management decisions to the Council's Executive Director of Finance.
- that the County Council receives reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

5.6. Complementary to the CIPFA Treasury Management Code, the Government's Investment Guidelines requires the full Council to approve an Annual Investment Strategy.

5.7. Following the collapse of the Icelandic banks in October 2008, The County Council's then Cabinet Scrutiny considered the governance and reporting arrangements in respect of treasury management. In December 2008, the then Cabinet approved the establishment of a cross-party Member Panel (Treasury Management Panel) with specific responsibilities for Treasury Management. The Panel's responsibilities included:

- Monitor recovery of the Council's Icelandic investments.
- Consider and comment on the draft Annual Investment and Treasury Strategy prior to its submission to the then Cabinet (now Policy and Resources Committee) and full Council.
- Receive detailed reports on the Council's treasury management activity, including reports on any proposed changes to the criteria for "high" credit rated institutions in which investments are made and the lending limits assigned to different counterparties.
- Receive presentations and reports from the Council's external Treasury Management advisers.
- Consider the draft Treasury Management Annual Report and Mid-Year Monitoring Report prior to their submission to the then Cabinet (now Policy and Resources Committee) and full Council.

5.8. In addition, the Audit Committee's Terms of Reference state that it is responsible for 'considering the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensuring that they meet best practice.'

- 5.9. The Council's Financial Regulation and Procedures have specific sections dedicated to Treasury Management (sections 4.7 and 7 respectively). They set out the key controls and specific responsibilities of the Statutory Finance Officer (Executive Director of Finance) and the other Chief Officers with regard to Treasury Management. The regulations and procedures are reviewed and updated annually.

### **Officer Contact**

If you have any questions about matters contained or want to see copies of any assessments, eg. equality impact assessment, please get in touch with:

If you have any questions about matters contained in this paper please get in touch with:

**Officer Name:** Glenn Cossey - Chief Investment Manager

**Tel No:** 01603 228978

**Email address:** [glenn.cossey@norfolk.gov.uk](mailto:glenn.cossey@norfolk.gov.uk)



If you need this Agenda in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.