

ANNEX B

# AUDIT AND RISK MANAGEMENT

## INTERNAL AUDIT REPORT

# BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

## Treasury Management

April 2014





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### Audit Control:

<b>Closing meeting:</b>	27 March 2014
<b>Draft report:</b>	27 March 2014
<b>Management responses:</b>	7 April 2014
<b>SMB Sign Off:</b>	25 April 2014
<b>Final report:</b>	25 April 2014

<b>Auditors:</b>	Rebekah Ibberson	Principal Auditor
	Maggie Gibb	Risk & Insurance Manager
<b>Report Distribution:</b>		
Draft Report	Mark Hemming	Technical Accountant
	Jacqui May	Head of Finance
	David Skinner	Director of Finance and Assets
Final Report as above plus:		Chief Fire Officer Chair, Bucks and Milton Keynes Fire Authority Ernst & Young



## 1. Executive Summary

### 1.1 Overall Audit Opinion

In our opinion **Substantial** assurance can be provided that relevant risks are effectively identified, managed and controlled.

### 1.2 The overall audit assurance is made up of three supporting judgements:

- a) Our assurance on the adequacy of the risk management techniques employed within the auditable area is **substantial**. This relates to the extent to which relevant risks have been identified, monitored and managed.
- b) Our assurance on the adequacy of the existing control framework to reduce identified risks to an acceptable level is **substantial**.
- c) Our assurance on the adequacy of compliance with the existing control framework is **substantial**.

### 1.3 The Fire Authority took over the management of Treasury from Buckinghamshire County Council for 2013/14. For 2013/14 onwards, the Authority is now investing in its own name and bears the risk of any counterparty failure. The volume of treasury management transactions is low and risks are managed in accordance with the strategy and with advice from external treasury management advisers.

### 1.4 In addition to the findings summarised below, we also found the following example of good practice:

- Comprehensive Treasury Management process notes have been developed to support the Treasury Management function.
- Electronic sign off processes creating a virtual paperless Treasury Management environment.
- The Treasury Management Practice document and Treasury Management Policy is in line with the CIPFA Treasury Management Code of Practice 2011.

### 1.5 Recommendations summary:

In order to provide an assurance on the extent to which the risks identified are managed, our review focussed on the main business objectives within the Treasury Management System.

Progress in implementing these recommendations will be tracked and reported to the Overview & Audit Committee.



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Area	Risk	Recommendations		
		High	Medium	Low
Policies, Procedures & Regulations	The Financial Regulations and Instructions do not reflect the in-house Treasury Management function.		1	
Cash Flow Forecasting	Investments may be made in error.		1	
Investments	Investments are made without the appropriate authority.			1
<b>TOTAL</b>		0	2	1

The detailed findings are summarised in Section 3 of this report. All findings have been discussed with the Technical Accountant who have agreed the recommendations and produced an action plan to implement them.

- 1.7 There were no aspects of this audit which were considered to have value for money implications for the Authority or which indicated instances of over control. Any relevant findings will have been included in the findings and recommendations section of this report.



## **2. Background**

- 2.1 The audit review of Treasury Management formed part of the agreed audit programme for 2013/14. The review was carried out during quarter 4.
- 2.2 The Treasury Management area was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Authority's corporate objectives. The Authority's objective for the area is to ensure that key controls are in place to ensure financial governance. The objective of our audit was to evaluate the area with a view to delivering assurance as to the adequacy of the design of the internal control system and its application in practice. A summary of the scope of this review can be seen in Appendix A.
- 2.3 There have been no previous audits in this area.



### 3. Recommendations and Action Plan

The control description column details the actual controls that should be established to mitigate identified risk. The Findings & Consequences column details the results of analysis and tests carried out.

The priority of the findings and recommendations are as follows:

- High** immediate action is required to ensure that the objectives for the area under review are met.
- Medium** action is required within six months to avoid exposure to significant risks in achieving the objectives for the area under review.
- Low** action advised within 9 months to enhance control or improve operational efficiency.

	Control description	Findings & Consequences	Recommendation	Priority	Management Response and Action Plan
<b>Key Risk Area</b>		<b>Policies, Procedures and Regulations</b>			
1	Financial Regulations, Financial Instructions and Treasury Management Policies/documents are: <ul style="list-style-type: none"> <li>• reviewed on a regular basis</li> <li>• approved</li> <li>• comprehensive and cover all financial systems</li> <li>• available to all staff</li> </ul>	The Financial Instructions do not include the Treasury Management function, and the Financial Regulations refers to the Treasury Management SLA with Bucks County Council and requires updating to reflect the in-house treasury management function.  The Treasury Management Practice document provided for review is a draft document.  The counter-fraud and corruption policy available on the BMKFRS website is dated 16.12.05 and not the current version dated November 2013.	The Financial Instructions and Financial Regulations are updated to reflect the in-house treasury management function.  The Treasury Management Practice document is updated with the final version.  The counter-fraud policy on the BMKFRS website is updated with the current version.	M	<b>Recommendation Agreed: Y</b>  <b>Response:</b> The Financial Regulations have been updated to accommodate the changes and were presented to the Overview and Audit Committee on 12 March 2014 for forwarding on to the next scheduled CFA meeting in June 2014.  The Financial Instructions will be reorganised into a more user-friendly format and once authorised by the CFO and DoF&A, will be published on the I-Drive. This is a large area of work we intend to do as part of our



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	Control description	Findings & Consequences	Recommendation	Priority	Management Response and Action Plan
		<p>Where the financial regulations, instructions and policy documents are not reviewed and updated and made available, there is a risk that they may be out-of-date which may result in inconsistent practices and non-compliance.</p>			<p>streamlining processes and each chapter will be dealt with separately over the coming months.</p> <p>The Treasury Management Practice document was approved by the Overview and Audit Committee on 25 September 2013. The draft marking will be removed.</p> <p>The Counter-fraud and Corruption Policy will be updated on the website to reflect the latest approved version.</p> <p><b>Who to be actioned by:</b> Head of Finance</p> <p><b>When to be actioned by:</b> September 2014</p>
	<b>Key Risk Area</b>	<b>Cash Flow Forecasting</b>			
2	Investment and borrowing is undertaken by reference to the projected cash position.	<p>From review of the Treasury Action Logs we noted 6/25 where the available to invest figure did not correlate to the investments made/funds called for the day. It was confirmed that the closing bank balance figure is utilised and reviewed against the cash flow spread</p>	<p>The Treasury Action Log is reviewed to ensure that the available to invest figure is accurate.</p> <p>Where an investment/call for funds decision is made which is not in line with the available to invest figure, in view of the following day's</p>	M	<p><b>Recommendation Agreed:</b> Y</p> <p><b>Response:</b> The available to invest figure was only ever intended to provide a guideline figure based on the available bank balance. The actual amount invested will be adjusted to take into account known future cash flows.</p>



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	<b>Control description</b>	<b>Findings &amp; Consequences</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response and Action Plan</b>
		<p>sheet in order to make decisions about investments/funds called.</p> <p>Where the treasury action log does not accurately record the available to invest figure or record the decision-making process, there is a risk that investment decisions may be made in error or do not provide an adequate audit trail.</p>	<p>cash flow commitments, this should be recorded on the treasury action log to provide an audit trail of decisions made.</p>		<p>The Action Log will be updated to include a field to record the rationale for varying the investment/call for funds from the suggested figure.</p> <p><b>Who to be actioned by:</b> Technical Accountant</p> <p><b>When to be actioned by:</b> April 2014</p>
<b>Key Risk Area</b>		<b>Investments</b>			
3	<p>Counter-parties are required to obtain permission from an appropriate member of Finance.</p>	<p>From review of three investments made to the Public Sector Deposit Fund (CCLA) MMF we noted one subscription form on file which had only been authorised by one signatory and not two.</p> <p>Where investments are made which are not approved by two signatories there is a risk that investments are made without the appropriate authority.</p>	<p>CCLA subscription forms are signed by two authorised signatories.</p>	L	<p><b>Recommendation Agreed: Y</b></p> <p><b>Response:</b> An additional signatory will be added to reduce the risk that insufficient authorised signatories are available to complete the forms.</p> <p><b>Who to be actioned by:</b> Technical Accountant</p> <p><b>When to be actioned by:</b> April 2014</p>



## **Appendix A**

### **AUDIT SCOPE AND FRAMEWORK**

#### **4. Specific Audit Scope**

- 4.1 We have evaluated the area against the following identified risks which we agreed with management:

##### Area 1: Policies, Procedures and Regulations

- Treasury Management strategy may not be approved, or may not be in line with recommended practices and legislation.

##### Area 2: Transactions and Records

- Transactions may not be appropriately authorised.
- The integrity and reliability of the treasury management system is compromised due to inadequate access controls.

##### Area 3: Cash Flow Forecasting

- Information received by Treasury Management to enable effective cash flow forecasting to take place is insufficient, inaccurate or not prompt.
- Ineffective cash flow management may result in inappropriate lending's and borrowings or penalty charges.

##### Area 4: Investments

- Loss or misappropriation of funds via error or fraudulent activity.
- Loss of funds due to failure of an institution we have invested in.
- Underachievement of returns.

##### Area 5: Borrowings

- Risk of misappropriation of funds via fraudulent activity, re repayment of a borrowing.
- Borrowing may not be obtained at competitive rates leading to higher than expected charges which would have a negative impact on the Authority's finances.
- Interest on borrowings may not be paid accurately or on time.
- If a large proportion of the Authority's debt needs to be refinanced at one time and this coincides with a period of high interest rates this would have a negative effect on the Authority's finances.

##### Area 6: Financial and Performance Management

- Performance is not monitored effectively leading to poor decision making
- Lack of reporting and monitoring of Treasury Management activity



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4.2 Following preliminary risk assessments, the following processes were not included within the scope of this review.

- None identified

**5. Audit Methodology and Opinions**

- a. The audit was undertaken using a risk-based methodology in a manner compliant with the CIPFA Code of Practice. The audit approach was developed with reference to the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope. Where we consider that a risk is not being adequately managed, we have made recommendations that, when implemented, should help to ensure that the system objective is achieved in future and risks are reduced to an acceptable level.
- b. The matters raised in this report are only those, which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the risks that exist or all improvements that might be made.
- c. Each audit will result in an overall ‘audit assurance’. A detailed summary will be provided to the Overview and Audit Committee for all ‘limited’ assurance opinion reports. The range of audit opinions is outlined below:

<b>ASSURANCE</b>	<b>SUBSTANTIAL</b>	<b>REASONABLE</b>	<b>LIMITED</b>
<b>Adequacy of risk management techniques employed within the area.</b>	Thorough processes have been used to identify risks. Action being taken will result in risks being mitigated to acceptable levels. No more monitoring is necessary than is currently undertaken.	The action being taken will result key risks being mitigated to acceptable levels. Some additional monitoring is required.	No action is being taken, OR insufficient action is being taken to mitigate risks. Major improvements are required to the monitoring of risks and controls.
<b>Adequacy of the existing control framework to reduce identified risks to an acceptable level.</b>	Controls are in place to give assurance that the system’s risks will be mitigated.	Most controls are in place to give assurance that the system’s key risks will be managed but there are some weaknesses.	The control framework does not mitigate risk effectively. Key risks are not identified or addressed.
<b>Adequacy of compliance with the existing control framework.</b>	The control framework is generally complied with. Emerging risks are identified and addressed in a timely manner.	Compliance with the control framework mitigates risk to acceptable levels, except for the risks noted.	Compliance is poor so risks are not being mitigated to acceptable levels and it is probable that some objectives will not be, OR are not being achieved.

- d. The responsibility for a sound system of internal control rests with management. Internal audit procedures are designed to focus on areas identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.



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