



Internal Audit

FINAL

PCC Cumbria & Cumbria Constabulary

Assurance Review of Treasury Management and Banking

2022/23

March 2023

Executive Summary

OVERALL ASSESSMENT



ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

In the PCC's treasury management activities, administered by the Financial Services Team, that an investment counterparty defaults on repayment of a loan.

SCOPE

The review considered the arrangements for controlling the investment and borrowing arrangements; compliance with the organisation's overall policy; banking arrangements; reconciliations and the reporting to committee. The scope of the review did not include consideration of the appropriateness of any individual financial institution or broker or of individual investment decisions made by the organisation.

KEY STRATEGIC FINDINGS



The treasury and banking arrangements are directed by appropriate and up to date policies and procedures that have been developed in accordance with the CIPFA codes of practice.



The bank reconciliations tested for May and July 2022 were not reviewed until five to seven weeks following their completion.



Daily cashflow forecasts are produced to aid the investment decision making process.



All investments made were in line with the requirements of the Treasury Management Strategy Statement.

GOOD PRACTICE IDENTIFIED



Regular reporting is provided to the Joint Audit Committee on the treasury activities of the Commissioner. This includes a dashboard and supporting commentary.

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	1	0

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	<p>A review of the bank reconciliations undertaken for March, May, July, September and October 2022 for the Main Fund, Police Property Act account and Investment Interest ledgers showed that, whilst the accounts had been reconciled within a short period of the month end, a number of these had not been reviewed by another officer until the following month or no evidence was held to demonstrate that a review had taken place. These were:</p> <ul style="list-style-type: none"> • May 2022 - Main Account reconciled on 2nd June, Investment Interest reconciled 21st June, both were reviewed on 25th July. • July 2022 - Main Account reconciled on 2nd August, Investment Interest reconciled 15th August, both reviewed on 7th September. • Police Property Act Accounts for May and October - a review of these accounts has not been documented. 	It be ensured that bank reconciliations are promptly reviewed following these being completed and documented as an audit trail.	3	<p><i>The findings of the audit are accepted. I am pleased to note that the auditors found that the bank reconciliation had been completed on a timely basis, whilst it is disappointing that the control measure of an independent review was not always as prompt as it could be. Having said that, I feel confident that if a problem had been identified with a bank reconciliation it would have been brought to the Financial Services Manager's attention straight away.</i></p> <p>Specific <i>The importance of the independent review has been reinforced with the Financial Services Team and efforts will be made to ensure that the independent review of bank reconciliations will be carried out on a timely basis from now on (within 2 weeks of reconciliation).</i></p> <p>Measurable <i>Through the sign off of the existing bank reconciliation control sheet.</i></p>	31/12/22	Financial Services Manager

PRIORITY GRADINGS

1 **URGENT** Fundamental control issue on which action should be taken immediately.

2 **IMPORTANT** Control issue on which action should be taken at the earliest opportunity.

3 **ROUTINE** Control issue on which action should be taken.

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
					<p>Achievable Yes, this action reinforces the existing agreed process.</p> <p>Realistic Yes, the instruction to all relevant staff has already been issued.</p> <p>Timely Yes, this action was completed by 31/12/2022. The instruction has been provided that all future reconciliations must be countersigned by the Manager within 2 weeks of completion.</p>		

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	Control issue on which action should be taken.
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Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
No operational effectiveness matters were identified.				

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Assignment Engagement Details

TIAA Auditors	Title	Contact Email	Telephone
David Robinson	Audit Manager	David.Robinson@tiaa.co.uk	07766553339
Andrew McCulloch	Director of Audit	Andrew.McCulloch@tiaa.co.uk	07980787926

Exit Meeting Date	18 th November 2022
Attendees	Lorraine Holme, Financial Services Manager Angela Evans, Financial Services Officer Michelle Bellis, Deputy Chief Finance Officer

Director/Commander Comment	<p>I am pleased to note the audit findings that processes and controls in relation to treasury management and banking are operating effectively and as designed, in what is an inherently risky activity.</p> <p>Bank reconciliation is a fundamental requirement of good financial management and whilst I accept that any problems would have been highlighted to management, the recommendation to undertake more prompt review will be acted upon. As the action has already been completed, I see no reason to escalate the risks identified.</p> <p>Roger Marshall, Joint Chief Financial Officer</p>
Considered for Risk Escalation	No

Findings



Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	-	-
RM	Risk Mitigation The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	Compliance Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Partially in place	1	-

Other Findings



The treasury management and banking arrangements are set out in the Financial Regulations, which were last reviewed and approved by the Joint Audit Committee in March 2021. Further details of the required controls and responsibilities of management and officers, in addition to those relating to the Joint Audit Committee, are contained in the Financial Rules, which were also reviewed in March 2021.

The Borrowing, Treasury Management, Investment and MRP Strategy 2022/23 was presented to the Joint Audit Committee in March 2022 having previously been approved by the Commissioner in February 2022. This comprehensive document, developed in accordance with the CIPFA codes of practice, sets out the requirements and required reporting in relation to cash flow forecasting, interest rate forecasting, the investment strategy and references the associated Treasury Management Practices, prudential indicators and counterparty investment rules.



The Strategy is supported by a set of Treasury Management Practices (TMP) that are reviewed annually. These are in relation to the following areas: Risk management; Performance measurement; Decision making and analysis; Approved instruments, methods and techniques; Organisation, clarity, segregation of responsibilities and dealing arrangements; Reporting requirements and management information arrangements; Budgeting, accounting and audit arrangements; Cash and cash flow management; Money laundering; Training and qualifications; Use of external service providers; and Corporate governance.



The risk of "In the PCC's treasury management activities, administered by the Financial Services Team an investment counterparty defaults on repayment of a loan" has been recorded within the Finance Risk Register. The general controls in relation to this risk are referenced in the Treasury Management Strategy Statement, however further details are recorded in TMP 1 Risk Management. These include the specific controls in relation to risks concerning liquidity, interest rates, counterparties, refinancing, fraud and the market value of investments.

Other Findings

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Cash flow forecasts are produced showing daily balances up to the end of the 2022/23 financial year. This utilises actual, known funding and expenditure information where available and estimates based on historical data. These include payroll, Inland Revenue and pension payments, and precept and Home Office grant receipts. The daily balances inform the investment decision making with deposits and withdrawals being actioned accordingly. An outline forecast for 2023/24 has been produced with longer term cash requirements contained in the Medium-Term Financial Forecast to 2026/27 and the Capital Programme to 2032.
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In relation to placing funds into the interest-bearing NatWest account, this is generally undertaken on a Friday following the weekly creditor payments batch being paid. Discussions with the Financial Services Officer identified that, due to the very low interest rates offered on this account, this has rarely been utilised. Investments into the Money Market Funds have, however continued. Transactions are processed through the ICD Portal. Appropriate segregation of duties is in place whereby the Financial Services Officer is able to execute a deal, and this generates emails to the other users of the portal, who are the Financial Services Manager and another Financial Services Officer. The actual payment to the investment fund is then set up by the Financial Services Officer using a payment template that will only allow the payment to be made to an approved institution. A series of further checks and approvals are subsequently undertaken prior to the payment being authorised by an officer in line with the bank mandate.

A sample of current investments was selected for testing and confirmation was received to demonstrate that these had been appropriately authorised.
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Confirmation was received from the Deputy Chief Finance Officer, supported by an examination of the internal reporting and the published Statement of Accounts 2021/22, that there is no external debt. In March 2022 the Commissioner borrowed from the local authority for a short term until the Pension Grant of approximately £20M was received from the Home Office.
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A review of the Treasury Management Activities report for 2022/23 quarter two showed that the following investments were in place: Category one (banks unsecured) - £8,510,676; Category three (Government) - £7,621,885; Category five (pooled funds) - £5,900,000. It was confirmed that the individual investments with each institution were in accordance with the Counterparty Groupings and Associated Limits schedule contained within the Treasury Management Strategy Statement 2022/23.
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There are a total of seven bank accounts operated by the PCC. These include a range of current and interest-bearing deposit accounts. Details of these, and the balances as at 15th November 2022 are as follows:

 - Main Fund - current account £63,667.
 - Liquidity Select Overnight (interest bearing for short term deposits) - £10,000.
 - Business Continuity Current Account (used in the event of a business continuity incident with cards held by select staff) - £nil.
 - Police Property Act Fund (for holding balances of funds awarded by the courts to the PCC. The PCC is permitted to distribute these funds to local groups and organisations) - £20,836.
 - CHIS Bank Current Account - £6,855.
 - Seized Cash Current Account - £2,989.
 - Liquidity Select Seized Cash - £87,978.

Confirmation was received from NatWest Bank that the authorised signatories for these accounts are the Deputy Chief Finance Officer, Head of Central Services, Director of Legal Services, Director of Corporate Support, Joint Chief Finance Officer, Chief Executive and the Deputy Chief Executive.
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A number of the performance indicators contained within the 2022/23 quarter two Treasury Management Activities report were verified against the source data contained within the cashflow spreadsheets. These included the average daily balance, investment balance at 30/09/22 and the days in credit/overdrawn.



Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In place	-	-
S	Sustainability The impact on the organisation's sustainability agenda has been considered.	Out of scope	-	-
R	Resilience Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	-	-

Other Findings



Quarterly Treasury Management Activities reports are provided to the Commissioner’s Public Accountability Conference and the Joint Audit Committee. These provided the Commissioner and Members with:

- A snapshot of the investment balance as at the end of the quarter and the average daily balance;
- The investment interest budget and forecast;
- A schedule showing the values invested;
- Performance data showing the number of days the bank accounts were in credit and overdrawn; and
- Commentary confirming compliance with the Treasury and Prudential Indicators. Further commentary is provided in relation to each of these Indicators.



The quarter four Treasury Management Activities Report, presented to the Commissioner’s Public Accountability Conference and the Joint Audit Committee in June 2022, also contains the Annual Report for 2021/22. This incorporated additional detail and commentary than the standard quarterly reports including charts and comparisons to the previous year where relevant.



There are a number of staff in place within the Financial Services Team, including Financial Service Officers and Assistants, who are able to undertake treasury and banking activities. This provides resilience in times of staff absence.

EXPLANATORY INFORMATION

Appendix A

Scope and Limitations of the Review

- The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

- The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Effectiveness of arrangements

- The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

- The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

- We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

- The table below sets out the history of this report.

Stage	Issued	Response Received
Audit Planning Memorandum:	7 th November 2022	10 th November 2022
Discussion Draft Report:	28 th November 2022	1 st December 2022
Draft Report:	5 th December 2022	9 th December 2022
Final Report:	12 th December 2022	
Revised Final Report:	10 th March 2023	

AUDIT PLANNING MEMORANDUM

Appendix B

Client:	PCC Cumbria & Cumbria Constabulary		
Review:	Treasury Management and Banking		
Type of Review:	Assurance	Audit Lead:	David Robinson

Outline scope (per Annual Plan):	The review considers the arrangements for controlling the investment and borrowing arrangements; compliance with the organisation’s overall policy; banking arrangements; reconciliations and the reporting to committee. The scope of the review does not include consideration of the appropriateness of any individual financial institution or broker or of individual investment decisions made by the organisation.
Detailed scope will consider:	<p>The review will set out to provide assurance to JAC that the organisation has robust controls in relation to the treasury management and banking arrangements, including:</p> <ul style="list-style-type: none"> • Policy and Procedures are up to date and clearly define the process for the treasury management arrangements; • Appropriate segregation of duties is in place; • Investments and loans are appropriately authorised; • Cash Flow is monitored; • Loan covenant compliance is monitored and reported upon. • Relevant Committees are presented with Treasury Management activity reports.

Planned Start Date:	14/11/2022	Exit Meeting Date:	18/11/2022	Exit Meeting to be held with:	Deputy Chief Finance Officer, Financial Services Manager, Financial Services Officer
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SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	Y/N (if Y then please provide brief details separately)
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N

Michelle Bellis – Dep CFO

Angela Evans – Financial Services Officer

Lorraine Holme FS Manager

Exit meeting all 3 -18/11/22