

**West
Waste**

INTERNAL AUDIT

Final Assurance Report 2020/21

Treasury Management

3rd June 2021

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

High Risk	0
Medium Risk	3
Low Risk	2
Notable Practice	0

Review Sponsor:

Emma Beal

Managing Director, West London Waste Authority

Final Report Distribution:

Ian O' Donnell

Treasurer, West London Waste Authority

Jay Patel

Finance Director, West London Waste Authority

Sapna Dhanani

Finance Manager, West London Waste Authority

Xenab Khan

Finance Project Manager, West London Waste Authority

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1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 2020/21 annual IA plan. **The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks surrounding Treasury Management:**
- If there is an inadequate control framework, including lack of policies, procedures and segregation of duties, inconsistent practices may arise impacting the reliability and accuracy of financial records, leading to weakened internal controls and potential fraudulent activities and asset misappropriation, resulting in legal, financial, operational and reputational consequences for the Authority;
 - If regular and accurate reconciliations are not undertaken to ensure that records match actual transactions made, a false position would be shown in reports outlining WLWA's investments and borrowing resulting in legal, financial, operational and reputational consequences for the Authority; and
 - If governance arrangements surrounding treasury management are inadequate there is a risk of poor governance and risk management, and a lack of accountability and oversight of treasury activities which could lead to the Authority not fulfilling their statutory obligations, resulting in legal, operational and financial consequences for the Authority.

2. Background

- 2.1 Treasury Management is the management of an organisation's investments and cash flows which includes banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- 2.2 The Prudential Framework under the Local Government Act 2003, consisting of the Prudential Code and Treasury Management Code, is used to support local strategic planning to ensure that capital investment plans are affordable, prudent and sustainable. In addition, the Treasury Management Code sets out the duty to determine affordable borrowing, the need for capital and the power to invest. Guidance is also provided via the Treasury Management Policy Statement which aims to protect the Authority from market-related risks by monitoring economic indicators
- 2.3 Treasury management includes undertaking a range of activities for the management of capital, funding and market risk. In practice, this means actively monitoring and managing banking transactions to ensure capital is available to pay for debts as they fall due, while minimising borrowing costs, ensuring an acceptable balance is struck between security and return for any investments held.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for Treasury Management. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**. An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment of WLWA
Policies and procedures	Limited Assurance – There is an overarching Financial Regulations document in place, dated 2016 and provides strategic and operational risks around treasury management, fraud and corruption.

<p>Policies and procedures (cont'd)</p>	<p>The regulation establishes reporting arrangements in compliance with CIPFA's Treasury Management in the Public Services Code of Practice. It sets the control environment for treasury management activities, specifying the responsibilities of different officers in the Authority. The Financial Regulations were found to be readily available to all staff via the Authority's intranet, promoting good business continuity and staff awareness of overarching controls and rules surrounding financial transactions. However, the Financial Regulations have not been reviewed since July 2016, which is contrary to the Regulations itself, which states that <i>"the Treasurer is responsible for ensuring that finance regulations are reviewed every two years"</i> (p.11). Without regular review, there is a risk of the Authority's policies and practices failing to reflect current legislative requirements, sound governance and best practice.</p> <p>Supporting procedural guidance was found to be in place for fixed-term placements, differing to more general, temporary placements of funds which are supported by the completion of pre-defined templates. Funds are placed with the London Borough of Ealing, with whom the Authority has a service level agreement. No other procedure notes were provided to outline end-to-end treasury management processes.</p> <p>Whilst it was found that an Anti-Bribery and Counter Fraud Policy is in place as required by the Authority's Financial Regulations and is available to all staff via the Authority's intranet, this has not been updated since 2015. Testing also noted that there is no Counterparty Policy in place, as per the CIPFA Treasury Management Code – Treasury Management Practice 1 (TMP1).</p>
<p>Roles and responsibilities</p>	<p>Substantial Assurance – Job descriptions (JDs) for the 4 primary financial roles detailed the control responsibilities of each role. The Authority's Financial Regulations also clearly document roles and responsibilities for treasury management activities. Testing of officer JDs in relation to the treasury management process found clear controls and segregation of duties for the accountability and processing of financial transactions, with a clear link between management and operational roles being demonstrated.</p> <p>All JDs were also found to be in adherence to the Treasury Management Code 2017 Allocation of Responsibilities. Sample testing also identified clear segregations of duties between officers processing and approving investments, disinvestments and borrowings, demonstrating strong controls for the placement of the Authority's funds.</p>
<p>Record keeping, reconciliations and reporting</p>	<p>Reasonable Assurance – The Treasury Placement Register 2020 was obtained showing investments and disinvestments between May 2019 and February 2020. No funds have been invested or disinvested since then. All transactions on the Placement Register were supported by documentation in the form completed Treasury Management Forms (TMFs) or correspondence showing an instruction to place funds for a fixed term, in line with the agreed process with the London Borough of Ealing.</p> <p>We were advised by the Finance Project Manager that investments and disinvestments are agreed with the Finance Director and signed by 2 signatories. However, a potential weakness was identified where the 3 transactions which were supported by a completed TMF did not contain supporting details of the rationale and approval behind the decision to place the funds, although there was clear evidence that each transaction was approved by 2 bank signatories and this was documented on the TMFs.</p>

Record keeping, reconciliations and reporting (cont'd)	Testing also assessed 1 loan agreement from 2018 which found that the agreement to borrow funds from the Public Works Loans Board (PWLB) had been appropriately approved at an Authority meeting and was supported by sufficient documentation.
Management Information	<p>Reasonable Assurance – Review of minutes from Authority meetings found that these were being carried out quarterly and considered risks and opportunities facing the Authority, in addition to updates on capital plans and treasury management activities. The updates were not provided regularly to support consideration of the Authority’s approach to treasury management (TM) and placement of funds to support its strategic and operational objectives.</p> <p>Chief Officer meetings were also reviewed. Whilst meetings were found to be occurring on a regular basis, formal minutes could only be obtained for 1 meeting. The remaining 2 meetings reviewed were supported by brief notes. There was consideration of the Authority’s budget position as well as risks and how these could affect the ability to deliver services effectively. More regular, concise TM updates would promote greater oversight and direction for the management of the Authority’s funds.</p> <p>Minutes could not be obtained for Finance meetings. Discussion with officers found that although meetings have been taking place, there are no minutes available to document any discussions around treasury management activities and outcomes of decisions made.</p>

3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

4. Detailed Findings and Conclusions

4.1 Policies and procedures

4.1.1 The Authority has a Service Level Agreement (SLA) in place with the London Borough of Ealing for the purposes of placing investments. The SLA contains a pre-defined list of counterparties and the terms and limits for placing funds with each. However, TMP1 of the Treasury Management Code 2017 requires an organisation to maintain a counterparty policy to identify and manage credit and counterparty risks in respect of organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

4.1.2 Testing identified that the Authority does not have a specific counterparty policy in place to manage credit and counterparty risks in accordance with TMP1, although it is acknowledged that the Authority takes a low risk approach towards managing its funds. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).

4.1.3 The organisation’s overarching Financial Regulations informs and guides key aspects of the treasury management process. This was found to be readily available to all WLWA officers via the staff intranet. However, the document had not been reviewed or updated since July 2016. Further, the Regulations were found to be brief when outlining which key recommendations of CIPFA’s Treasury Management Code of Practice have been adopted and with whom the responsibilities for the control of risk lie. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.1.4 The Financial Regulations state that the Treasurer is responsible for the development and maintenance of a counter-fraud and anti-corruption policy. Whilst this policy was found to be in place and accessible to all staff via the Authority's intranet, the document was last updated in October 2015. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.1.5 Supporting procedural guidance was found to be in place for fixed-term placements of funds with the London Borough of Ealing. However, there was no evidence of wider procedural guidance to support the Authority's treasury management objectives and outline end-to-end processes, including officers' responsibilities for processing and approving transactions, the approved institutions for placing funds, accounting codes to use, and templates to complete. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).

4.2 Roles and responsibilities

4.2.1 Roles and responsibilities were found to be clearly defined for the Authority's financial processes, including oversight of treasury management functions from transaction processing to overall accountability. These responsibilities were captured in the JDs for each of the 4 key financial positions. Testing of job descriptions also identified a clear segregation of duties amongst the key roles. Clear segregation between processing and authorisation of investments, disinvestments and borrowings was also found during sample testing.

4.3 Record keeping, reconciliations and reporting

4.3.1 We tested a sample of 5 transactions from the Treasury Placement Register in the 2019/20 financial year, which was the last period where treasury placements were made. 2 transactions were recorded as investments and 3 as disinvestments. Discussions with the Finance Project Manager identified that investments and disinvestments are agreed with the Finance Director, followed by 2 bank signatories. Testing found the following:

- 3/3 (100%) Treasury Management Forms had no print name, signature or date on the form to confirm the rationale and approval of the transaction, resulting in a lack of accountability.

We have raised a recommendation designed to strengthen controls in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix B**).

4.3.2 The Authority's Financial Regulations do not specify that treasury transactions should be agreed and signed by separate officers. Consideration should therefore be given to implementing this in documented procedural guidance in a bid to reinforce clear segregation of duties throughout the process of placing funds. We consider this to be good practice to strengthen controls (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).

4.4 Management information

4.4.1 A sample of 3 Authority meetings minutes were reviewed and it was found that meetings take place approximately every quarter, with reports and minutes published publicly. Testing identified the following:

- 2/3 (66%) meetings considered borrowings and/or investments;
- 2/3 (66%) meetings discussed potential financial opportunities and/or risks to the authority;
- 1/3 (33%) meetings highlighted key industry developments;

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- 1/3 (33%) meetings included treasury management on the agenda;
 - 1/3 (33%) meetings referenced the capital plan; and
 - 1/3 (33%) meetings provided an update regarding compliance with Prudential Indicators.
- 4.4.2 A further sample of 3 Chief Officer meetings which took place between September 2020-January 2021 were also reviewed and found to provide a high-level overview of finance functions, including budget monitoring. The following was found:
- 2/3 (66%) meetings were not formally minuted;
 - 2/3 (66%) meetings only recorded brief notes which were emailed to relevant staff after the meeting; and
 - There was no evidence that treasury management updates were provided during any of these meetings, although budget monitoring and potential risks which may affect the Authority, e.g. Brexit and Covid-19, were discussed along with the potential implications such risks may have on the overall running of services.
- 4.4.3 Finance team meeting minutes could not be reviewed despite being requested. Discussions with the Finance Project Manager found that although meetings have been taking place on a weekly basis for at least the past year, there are no minutes available for them.
- 4.4.4 We have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

5. Acknowledgement

- 5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Finance Project Manager, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Sonal Patel
Senior Internal Auditor

This audit was reviewed by: Nick Cutbill, CIA
Principal Internal Auditor

Thank you,




Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	Management should review and update the Financial Regulations and Anti-Bribery and Counter Fraud Policy to ensure that these are fit for purpose and promote good governance over treasury management activities (para refs 4.1.3 and 4.1.4).	<i>If policies relating to the Treasury Management function do not align with relevant statutory guidance and are not up to date, there is a risk of non-compliance and incorrect working practices occurring resulting in legal, financial, operational and reputational consequences for the Authority.</i>	MEDIUM ●	TREAT	WLWA will review and update the Financial Regulations and Anti-Bribery and Counter Fraud Policy and ensure compliance with these accordingly. This will be part of an already planned policy review to be undertaken later in the year.	Finance Manager Sapna Dhanani 31 st January 2022
2	Management should ensure that the rationale for placing investments and disinvestments is clearly specified and recorded for each transaction on a completed Treasury Management Form (para ref 4.3.1).	<i>If there is no clear rationale for the placement and withdrawal of funds, and this is not clearly documented on a Treasury Management Form, there is a risk that funds may not be placed in accordance with the Authority's risk appetite and strategic direction, leading to failure to achieve corporate objectives and resulting in financial, strategic and reputational consequences for the Authority.</i>	MEDIUM ●	TREAT	Future Treasury Management Forms to have a brief explanation/rationale and approval of investments of funds.	Finance Project Manager Xenab Khan 30 th September 2021

APPENDIX A (cont'd)

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
3	Management should ensure that regular updates are provided on treasury management activities at team, Chief Officer and Authority meetings, with minutes recorded and retained to show evidence of decisions made for the placement of funds and direction of treasury activities (para ref 4.4.1, 4.4.2, 4.4.3 and 4.4.4).	<i>If proper recording arrangements surrounding treasury management are inadequate, there is a risk of poor governance and risk management, and a lack of accountability and oversight of treasury activities which could lead to the Authority not fulfilling their statutory obligations, resulting in legal, operational and financial consequences for the Authority.</i>	MEDIUM 	TREAT	Will record all minutes from meetings and retain accordingly with decisions made.	Finance Manager Sapna Dhanani 30 th September 2021

*Please select appropriate Risk Response - for Risk Response definitions refer to [Appendix C](#).

Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
4	Management should consider implementing a Counterparty Policy, which is maintained and available in a shared location, as per CIPFA's Treasury Management Code 2017 (para ref. 4.1.2).	<i>If a formal Counterparty Policy is not in place, there is a risk that the Authority may enter into a financial arrangement with organisations outside of its risk appetite and without reflecting a prudent attitude, leading to increased likelihood of defaults on contractual obligations and transactions, resulting in financial, strategic and operational consequences for the Authority.</i>	<p>LOW</p> <p>●</p>
5	Management should consider implementing procedural guidance for the handling of treasury management functions, which are kept up to date and held in a shared location (para ref. 4.1.5 and 4.3.2).	<i>If financial procedures are not in place, regularly reviewed and properly version controlled there is a risk that working practices are inconsistent amongst officers, leading to the inaccurate or incorrect processing and approval of treasury placements, leading to a lack of accountability over the placement of funds, resulting in financial, legal, operational and reputational consequences for the Authority.</i>	<p>LOW</p> <p>●</p>

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Authority's objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Authority's objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Authority's objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the Authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the Authority and the reporting of financial management; and
 - the performance management of the Authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

RISK RESPONSE DEFINITIONS

Risk Response	Definition
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
HIGH ●	The recommendation relates to a significant threat or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Authority. In particular an adverse impact on the Department's reputation, adherence to Authority policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Authority as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Authority. The practice should be shared with others.