

AUDIT COMMITTEE – 23 SEPTEMBER 2009

THE ROLE OF THE AUDIT COMMITTEE IN TREASURY MANAGEMENT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. The purpose of this report is to draw to the attention of the Audit Committee two reports recently published regarding the governance of treasury management within local authorities, produced as a result of public concerns raised following the collapse of Icelandic banks.
2. Both reports identify the need for an Audit Committee to have a key role in scrutinising the treasury management functions. This report sets out their recommendations and the Audit Committee needs to consider how it wishes to take these forward.
3. The Audit Commission report also makes it clear that local authorities can expect to have their treasury management function given closer attention by the external auditors as part of the annual use of resources assessment in the future. This will incorporate reviewing the implementation of the Audit Commission recommendations, and therefore include the role of the Audit Committee within treasury management process.

Background

4. In October 2008, the collapse of Icelandic banks highlighted the extent to which large sums of public monies are being invested within international financial institutions. Public concern was heightened when it was identified that a number of UK local authorities had investments with Icelandic bank at the time of the collapse, and were at risk of non repayment.
5. In response to the public concern, the Communities & Local Government Committee, and the Audit Commission, have undertaken separate reviews looking at treasury management practices in local authorities.
6. In March 2009, the Audit Commission published its report called 'Risk and Return'; and, in June 2009 the Communities & Local Government Committee published their report into 'Local Authority Investments'. The following are hyperlinks to the full reports available on the intranet:

Communities and Local Government Committee - Local Authority Investments

<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmcomloc/164/16402.htm>

Audit Commission report – Risk and Return

<http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/26032009riskandreturn2.pdf>

Key Recommendations of the Reviews

7. The following are the key recommendations for local authorities identified within the Audit Commission report 'Risk and Return':

Local authorities should:

- Set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has:
 - appetite and capability to be able to manage risk by placing funds with financial institutions; or
 - no appetite and/or insufficient capability to manage the risk of placing funds in the market, and should instead place funds with the UK government's Debt Management Office;
- Ensure that treasury management policies:
 - follow the revised CIPFA code of practice;
 - are scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority; and
 - are monitored regularly;
- Ensure elected members receive regular updates on the full range of risks being run;
- Ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice;
- Train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function;
- Ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing money ahead of need, may reduce risks;
- Use the fullest range of information before deciding where to deposit funds;
- Be clear about the role of external advisers, and recognise that local authorities remain accountable for decisions made; and
- Look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.

8. The following are the key conclusions relating to an Audit Committee identified within the Communities and Local Government Committee report - Local Authority Investments:

Scrutiny of the treasury management function

- We endorse the Minister's suggestion and recommendations by CIPFA and the Audit Commission that all local authorities should have an Audit Committee with specific responsibility for the scrutiny of the treasury management function. Guidance to local authorities to that effect should be given through appropriate amendment to the CIPFA Codes. (Paragraph 68)
- Members of audit committees need to take their responsibilities for that scrutiny seriously and need to ensure that they are properly trained. The CIPFA Treasury Management Code of Practice should make explicit the need for specific training in treasury management to be undertaken by those councillors with responsibility for overseeing treasury management arrangements, and the Audit Committee should be charged with ensuring that it is available and with monitoring its adequacy. (Paragraph 69)
- Guidance from CIPFA notes that it is open to an authority to appoint someone other than an elected member and from outside the authority either to serve on or to chair the audit committee. The co-option of external members to audit committees in this manner offers an additional opportunity to local authorities to enhance the expertise available to the authority in the scrutiny of its treasury management function, and we encourage all local authorities to consider taking advantage of it. (Paragraph 70)
- Whether a local authority has an Audit Committee or not, elected members should ensure that they pay proper attention to scrutiny of the Annual Investment Strategy (AIS), and of the decisions which are taken under it. We recommend that CIPFA, in reviewing its Codes, consider what further guidance is necessary to local authorities to ensure that elected members are given—and take—appropriate opportunities to scrutinise their AIS. We also recommend that CIPFA develop and include in its revised Codes more rigorous requirements for reporting to elected members on decisions taken by officials under the AIS. (Paragraph 71)

RECOMMENDATION

9. **The Committee is RECOMMENDED to**
- (a) **RECOMMEND Council to amend the Committee's terms of reference to include specifically the role of scrutinising and monitoring treasury management policies in accordance with the Audit Commission recommendation;**
 - (b) **dedicate the development session before the next Audit Committee to training in treasury management;**
 - (c) **request officers report back to the next committee meeting with a self assessment and action plan for implementing the recommendations set out in the Audit Commission report; and,**

- (d) consider future reporting requirements with regard to its role in scrutinising and monitoring treasury management policies.**

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Assistant Chief Executive & Chief Finance Officer

Background papers: Audit Commission – Risk and Return, March 2009
 Communities and Local Government Committee – Local
 Authority Investments, June 2009

Contact Officer: Ian Dyson, Assistant Head of Finance (Audit),
 Tel: 01865 323875

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