



Hinckley and Bosworth Borough Council: Internal Audit Final Report Treasury Management (03.2024/25)

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Debrief Meeting: 01/11/2024

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Your One Page Summary

Audit Objective: assess the design and effectiveness of the control framework for managing treasury activities

Audit rationale

Why the Audit is in Your 2024/25 Plan

Covering the adequacy and effectiveness of controls over the Treasury Management arrangements.

Your Strategic Risk

S.11 – Failure to successfully deliver the Medium-Term Financial Strategy.

Your Strategic / Tactical Objective

N/A – No specific strategic / tactical objective.

Summary of our opinion

Moderate Opinion

See Appendix A1 for definitions



Summary of Recommendations

High Priority	-
Medium Priority	1
Low Priority	3

Actions agreed by you	100%
Overall completion	July 2025

Summary of findings

Examples of good practice

- ✓ Investment into counterparties in line with the criteria set out within the Treasury Management strategy approved in February 2024.
- ✓ Adherence to the 5% limit for the use of non-specified investment instruments for the financial year 2024-25
- ✓ For a sample of five investments completed in 2024-25, segregation of duties was maintained between raising, approving, and authorising the payment of an investment recommendation.

Highest Priority Findings

- Absence of documented authorisation limits
- Absence of the reconciliation process within the Treasury Management Procedure notes
- Discrepancy between the Q3 Quarterly Treasury Report and supporting calculation
- Non-compliance with the reporting arrangements noted within the Treasury Management Strategy.

Key root causes

- Lack of consideration towards documenting authorisation limits.
- Responsibility for the production of procedural guidance has not been assigned.
- Human error
- Lack of assigned ownership for overseeing the reporting requirements.

01 Summary Action Plan

Below is a high-level summary of the actions that are intended to support your management of this risk area. Further detail about our findings, which have been discussed with management, are provided in our detailed action plan (see 03 Detailed Action Plan).

Ref	Recommendation	Priority	Responsible Person	Due Date
1	The Council should ensure delegated authorisation limits set for staff members involved in processing treasury transactions are documented within an appropriate strategy or procedural guidance.	Medium	Ilyas Bham Accountancy Manger (Deputy S151 Officer)	1 July 2025
2	The Finance Officer should update the Treasury Management Procedure notes to reflect the monthly reconciliation process.	Low	Ilyas Bham Accountancy Manger (Deputy S151 Officer)	1 July 2025
3	The Council should consider the introduction of a secondary review process to ensure the data presented within the quarterly treasury reports aligns to the supporting working paper.	Low	Ilyas Bham Accountancy Manger (Deputy S151 Officer)	1 July 2025
4	<ol style="list-style-type: none"> 1. The practice of producing quarterly treasury reports to be presented to the Finance and Scrutiny Committee should be added to the reporting requirements listed within the Treasury Management and Prudential Indicators report 2. As per the reporting requirements, the Council should ensure that an Annual Treasury Report is produced for the current financial year following its completion. 	Low	Ilyas Bham Accountancy Manger (Deputy S151 Officer)	1 July 2025

02 Value for Money and Sector Comparison

Within each of our reports, we summarise any observations we have made about the effectiveness, efficiency and economy of your operations. This is to support our portfolio of public and social sector organisations with value for money considerations. We also summarise how you compare to similar organisations, which is intended to bring you the benefit of our insight.

Value for Money



The Council's approach to treasury management activities is well structured and established within its key Treasury Management documents. The Council benefits from a compact and experienced Finance team which facilitates treasury operations at the organisation. In-house expertise is complemented, where necessary, by external treasury advisor, the Link Group. Both internal and external expertise will help the Council to ensure efficient cashflow management, risk mitigation and overall financial resilience. Value for money is primarily achieved by adopting a flexible approach in which enables an organisation to capitalise on time-limited investment opportunities. During our audit we observed the Council make efforts to maximise returns on their investments in counterparties through regular monitoring of competitive market rates, and investing in accordance with the criteria approved by the Councillors.

Throughout this audit, we observed the presence of robust internal controls and compliance measures, highlighting the transparency and accountability embedded within the treasury management operations at the Council. However, our review highlighted an absence of documented procedures to guide and support officers charged with the responsibility to undertake key activities. We have raised a recommendation in relation to this in Section 03.

Sector Comparison



Effective treasury management ensures that funding is secured on a cost-effective basis, and that cash and secured facilities are in place for ongoing activities. Difficulties can arise due to failures in anticipating potential margin calls at an early enough stage and not having sufficient facilities available to meet them, as well as having insufficient liquidity in place to respond to sensitivities around cash management. In order to mitigate against these risks, we commonly see organisations undertake regular liquidity position monitoring against a range of investment performance indicators and/or risk benchmarks. It was noted that the Council is in line with peers, whereby quarterly treasury reports are presented to the Finance and Scrutiny Committee, assessing the Council's position against the overdraft limits, liquid short-term deposits, and weighted average life.

The use of financial consultants in relation to treasury operations is common, however the degree of reliance on them varies significantly between organisations. External expertise can bring additional knowledge and experience to such a dynamic and sometimes complex area and can help demonstrate that treasury risk has been robustly considered. The Council primarily engages with the Link Group for advice on various aspects of treasury management, such as options for financing available, but have also engaged Imperial Treasury Advisors to provide interest rate forecasting to allowing the Council to select the option which best aligns to the Council's approved counterparty criteria and strategic objectives.

03 Detailed Action Plan

We have identified areas where there is scope to improve the control environment. Our detailed findings are provided below. Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

1 Absence of documented authorisation limits			
Finding(s) and Risk		Recommendation(s)	
<p>Councils commonly maintain a set of Delegated Authorisation Limits to specify the value up to which a post-holder may authorise transactions falling within the scope of their delegated authorities and role description.</p> <p>During our testing of recent investments, we attempted to confirm that the initial investment recommendation and payment made through HSBC net were authorised in line with the documented authorisation limits.</p> <p>Although we were able to confirm that there was a segregation of duties maintained throughout the stages of investments, it was shared that the Council do not maintain a documented scheme of delegation of authorisation limits. Therefore, we were unable to ascertain whether the authorisations were in line with expectations.</p> <p>It was noted that workflows have been built into HSBC net whereby staff members have limits as to the value of transactions in which they can authorise, however, these limits are not documented outside of the HSBC net ruleset.</p> <p>Risk and Impact: Treasury transactions of sufficient value are processed by members of staff inappropriately, leading to financial loss and reputational damage.</p>		<p>The Council should ensure delegated authorisation limits set for staff members involved in processing treasury transactions are documented within an appropriate strategy or procedural guidance.</p>	
		Root Cause(s)	
		<p>Lack of consideration towards documenting authorisation limits.</p>	
Management Comments			
<p>Agreed, the limits will be documented in procedural guidance.</p>			
Responsible Person	<p>Ilyas Bham</p> <p>Accountancy Manger (Deputy S151 Officer)</p>	Action Due Date	<p>1 July 2025</p>
		Priority Level	<p>Medium</p>

2 Absence of the reconciliation process within the Treasury Management Procedure notes

Finding(s) and Risk

The Council maintain a set of Treasury Management Procedure notes to guide key processes in day-to-day treasury management.

At the end of each month, the Finance Officer completes a reconciliation between the investment's ledger and the Daily Advances spreadsheet. Where errors or omissions are identified, the Finance Officer investigates the errors using the HSBC payments record. Should rectification be required, the Finance Officer raises a correcting journal to be approved by the Accountancy Manager or Senior Accountant.

For the months, April, June and August 2024, we confirmed that reconciliations were completed, and any discrepancies were appropriately rectified. However, it was noted that the process for conducting reconciliations is not covered within the Treasury Management Procedure notes.

Risk and Impact: Staff are unaware of the approach to conducting reconciliations between the investment's ledger and daily advances tracker, leading to errors and omissions not being identified and rectified.

Recommendation(s)

The Finance Officer should update the Treasury Management Procedure notes to reflect the monthly reconciliation process.

Root Cause(s)

Responsibility for the production of procedural guidance has not been assigned.

Management Comments / Agreed Actions

Agreed, the council will update the Treasury Management Procedure notes to reflect the monthly reconciliation process.

Responsible Person

Ilyas Bham
Accountancy Manger (Deputy S151 Officer)

Action Due Date

1 July 2025

Priority Level

Low

3 Discrepancy between the Q3 Quarterly Treasury Report and supporting calculation

Finding(s) and Risk

Every quarter, a treasury report is produced and presented to the Finance and Scrutiny Committee. The report includes an assessment of the Council's position against risk benchmarks. The purpose of the benchmarking is for officers to monitor the current and trend position, allowing the Council to amend the operational strategy to manage risk as conditions change.

We requested the reports for all four quarters of the 2023-24 financial year, in addition to the working papers/supporting calculations of the risk benchmarks presented within the reports. We reconciled the quarterly treasury reports against the supporting calculations, and noted that in the Q3 report, the workings calculated an average return figure of 4.852%, however the report notes 4.913%. We queried this with the Finance Officer who produces the report, and it was shared that this was an error.

Risk and Impact: Senior Management are misinformed and as a consequence may take inappropriate decisions.

Recommendation(s)

The Council should consider the introduction of a secondary review process to ensure the data presented within the quarterly treasury reports aligns to the supporting working paper.

Root Cause(s)

Human error

Management Comments / Agreed Actions

This was a one off due to human error, so agreed that where practical a second review will be undertaken.

Responsible Person

Ilyas Bham
Accountancy Manger (Deputy S151 Officer)

Action Due Date

1 July 2025

Priority Level

Low

4 Non-compliance with the reporting arrangements noted within the Treasury Management Strategy

Finding(s) and Risk

Section 1.2.2 of the Treasury Management and Prudential Indicators 2023/23 to 2026/27 report covers the treasury management reporting arrangements. The report notes that the Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

Although the report notes that three main treasury reports are to be produced, only two reports are listed; the Treasury Management and Prudential Indicators report (the report these requirements are listed in) and an Annual Treasury Report.

It was shared by the Accountancy Manager that each quarter, a treasury report is provided to the Finance and Scrutiny Committee, however, this is not documented within the reporting requirements. Further, it was advised that an Annual Treasury Report is not currently produced.

Risk and Impact: Senior management are unaware of the financial and liquidity position of the Council and as a consequence may take inappropriate decisions.

Recommendation(s)

1. The practice of producing quarterly treasury reports to be presented to the Finance and Scrutiny Committee should be added to the reporting requirements listed within the Treasury Management and Prudential Indicators report
2. As per the reporting requirements, the Council should ensure that an Annual Treasury Report is produced for the current financial year following its completion.

Root Cause(s)

Lack of assigned ownership for overseeing the reporting requirements.

Management Comments / Agreed Actions

Agreed that quarterly treasury reports to be presented to the Finance and Scrutiny Committee and that an Annual Treasury Report is produced.

Responsible Person	Ilyas Bham	Action Due Date	1 July 2025
	Accountancy Manger (Deputy S151 Officer)	Priority Level	Low

A1 Audit Information

Agreed Audit Objective and Scope

The objectives of our audit were to assess whether Hinckley and Bosworth Borough Council has in place adequate and appropriate policies, procedures and controls in relation to Treasury Management with a view to providing an opinion on the extent to which risks in this area are managed. The audit considered the following risks relating to the area under review:

Treasury Management Strategy

- The Council fails to appropriately manage its cashflow, resulting in the financial loss.

Counterparties

- The Council invests in low return counterparties, this could impact the Council's revenue.
- Inappropriate investments and borrowings take place, this could lead to financial loss for the Council.
- Errors or irregularities in investments, through the use of inappropriate investment instruments or misappropriation of funds will lead to financial loss.
- Where theft/fraud takes place, there is an increased risk that the Council makes inappropriate management decisions arising from incomplete information/data, resulting in financial loss.

Borrowings

- Inappropriate and excessive borrowing costs are incurred by the Council.
- The Council does not have accurate loan records, this could result in the Council being unaware of key details e.g., interest commitment, loan period.

Reconciliations of Loans and Investments

- Errors and omissions are not identified and rectified, this could lead to an increased risk that management make inappropriate decisions.

Management Information

- Liquidity problems are not identified and resolved, which could result in the Council defaulting on its investments.
- Senior Management are unaware of the financial and liquidity position of the Council and as a consequence may take inappropriate decisions.

Scope Limitations

In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. Any testing performed was conducted on a sample basis. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

Definitions of Assurance Levels and Recommendation Priority Levels

Definitions of Assurance Levels	
Substantial Assurance	The framework of governance, risk management and control is adequate and effective.
Moderate Assurance	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited Assurance	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory Assurance	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
High (Priority 1)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Priority 2)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Priority 3)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.	Remedial action should be prioritised and undertaken within an agreed timescale.

Statement of Responsibility

We take responsibility to Hinckley and Bosworth Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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