

# Final Internal Audit Report

## Treasury

### April 2025

Distribution:       Head of Pensions and Treasury  
Pension Accountant  
Pension Fund Investment Manager  
Head of Finance  
Governance Officer (Audit Liaison for Resources)  
Director of Finance & Deputy S151 Officer  
Corporate Director, Resources & S151 Officer

Assurance Level	Issues Identified	
Substantial	Priority 1	0
	Priority 2	0
	Priority 3	3

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

**Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.**

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**1. Introduction**

- 1.1. Under the Local Government Act 2003, Croydon Council (Council) is required to follow the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance (Treasury Management Code) in setting up and approving its treasury management arrangements.
- 1.2. The main objectives of the treasury management function are to ensure that the Council's cash flow is sufficiently planned, with cash being available when needed as well as the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council. The Council's cash flow is monitored monthly via a Cash Forecast Plan which is reviewed by the Head of Pensions and Treasury.
- 1.3. With regards to the Minimum Revenue Provision (MRP), the Council has committed to set aside a minimum of 2% of Capital Financing Requirement (CFR) for MRP.
- 1.4. The Council has appointed Link Group (Link) as its external treasury management consultant, to provide specialist skills and resources for its treasury activities. Link Group inform the Council's list of approved investors for specified and non-specified investments set out in the Council's Annual Treasury Strategy Statement 2024/25. The Council also receive a Suggested Credit List from Link on a weekly basis.
- 1.5. The Annual Treasury Strategy covers the Council's borrowing strategy for 2024/25. This identifies that the Council are currently maintaining an under-borrowed position, where the underlying capital borrowing need (CFR) is not fully funded with loan debt as cash supporting the Council's reserves, balances, and cash flow is used as an interim measure. The Council only borrows long-term from the Public Works Loan Board (PWLb) and short-term from two Local Authorities including Test Borough Council and West Midlands Authority.
- 1.6. The Council performs monthly reconciliations of the general ledger. The Head of Pensions and Treasury (HPT) advised that the reconciliation process involves verifying data between ICD, the Council's finance system, and the spreadsheet of loans and investments.
- 1.7. As set out in the Council's Annual Treasury Strategy Report 2024/25, the Council receives and approves three main reports each year including prudential capital and treasury management indicators and treasury strategy, a mid-year treasury management report, and an annual treasury report. The Council also receives monthly financial management reports which detail Treasury Management and are reported to cabinet.
- 1.8. Whilst our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.

- 1.9. The audit was undertaken as part of the agreed Internal Audit Plan for 2024/25. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## **2. Key Issues**

There were no Priority 1 or Priority 2 findings.

The Priority 3 findings are included under Item 3 below.

### 3. Priority 3 Issues

Agreed action	Findings
<p><b><u>Control Area 2: Reconciliations of Loans and Investments</u></b></p> <p><b><u>Action proposed by management:</u></b> Monthly reconciliation of investments to be prepared by Treasury Officer and emailed to IPFA for checking. Email confirmation of review by IPFA to be provided.</p> <p><b><u>Responsible Officer:</u></b> Pension Fund Accountant</p> <p><b><u>Deadline:</u></b> April 2025</p>	<p><b>Expected Control</b></p> <p>Monthly reconciliations for the value of loans and investments are carried out between ICD (the treasury management system) and Oracle (the general ledger system), and any variances are investigated and resolved. Reconciliations are prepared by one officer and checked by another to ensure adequate segregation of duties.</p> <p><b>Issue/Finding</b></p> <p>The Interim Pension Fund Accountant (IPFA) reported that manual reconciliations of loans and investments are prepared by an officer from the Treasury Management team and then checked by the IPFA. The IPFA stated that while preferably these should be completed monthly, due to the low volume of loans and investments, this has in practice become a year-end process.</p> <p>A spreadsheet of reconciliations for the financial year ending 31 March 2024 was provided, which showed that no variances had been identified. However, the reconciliations sheet provided was not dated, nor had it been signed by either the preparing or reviewing officers.</p> <p><b>Risk</b></p> <p>Where reconciliations are not conducted monthly, there is a risk that variances will not be identified or will be identified at a later-stage when it is more difficult to rectify them.</p>

Agreed action	Findings
	<p>Where reconciliations are not counter-signed by the reviewing the reconciliations, it is not possible to verify that segregation of duties was maintained. If reconciliations are not reviewed, there is a greater risk of errors or discrepancies going unnoticed and unresolved.</p>
<p><b><u>Control Area 4: Cashflow Management</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>Cash Forecast Plan including commentary explaining the key movements in forecast and anticipated PWLB borrowing for the forecast period to be emailed each month to S151 Officer before discussion at regular meeting with HPT.</p> <p><b><u>Responsible Officer:</u></b> Head of Pensions and Treasury</p> <p><b><u>Deadline:</u></b> April 2025</p>	<p><b>Expected Control</b></p> <p>The cash flow position is monitored daily, and evidence of this daily process is documented. Cash flow monitoring sheets are prepared by one officer and signed by another to evidence review.</p> <p><b>Issue/Finding</b></p> <p>The Head of Pensions and Treasury (HPT) advised that cashflow is monitored monthly through a Cash Forecast Plan. The IPFA prepares this plan in an Excel spreadsheet, which is then reviewed by the HPT. A single spreadsheet is used for the whole financial year, with a new tab updated for each month, and the spreadsheet for the 2024/25 financial year was provided for review.</p> <p>However, the HPT advised that review of the monthly cashflow exercise is not a formally documented, as it is conducted verbally during an informal meeting. This means it was not possible to evidence that the cashflow monitoring exercise for the 2024/25 financial year has been subject to review by the HPT.</p> <p><b>Risk</b></p> <p>Where review of cashflow monitoring is not documented, this may lead to inconsistencies in cash flow monitoring and forecasting as verbal reviews may result in misunderstandings or overlooked errors, potentially leading to inaccurate cash flow forecasts.</p>

Agreed action	Findings
<p><b><u>Control Area 6: Management Information</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>Linked to proposed action in control area 4. Commentary and monthly email concerning Cash Forecast Plan to detail proposed action following discussion at the meeting between HPT and S151 Officer.</p> <p><b><u>Responsible Officer:</u></b> Head of Pensions and Treasury</p> <p><b><u>Deadline:</u></b> April 2025</p>	<p><b>Expected Control</b></p> <p>Monthly meetings are held between the HPT and the Section 151 Officer to discuss the treasury management position, as well as key updates from the Council's external financial advisor.</p> <p><b>Issue/Finding</b></p> <p>The HPT advised that they hold meetings with the Section 151 Officer (or Deputy S151 Officer) to discuss the treasury position, but that these meetings are scheduled informally and no minutes or agenda are prepared to evidence what was discussed during the meeting.</p> <p><b>Risk</b></p> <p>Where meetings with the Section 151 Officer are not documented, there is a risk of insufficient oversight of the Treasury Management process, which may lead to inadequate treasury management and financial loss for the Council.</p>

# AUDIT TERMS OF REFERENCE

## Treasury

### 1. INTRODUCTION

- 1.1 Under the Local Government Act 2003, the Council is required to follow the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance (Treasury Management Code) in setting up and approving its treasury management arrangements.
- 1.2 The main objectives of the treasury management function are to ensure that the Council's cash flow is sufficiently planned, with cash being available when needed as well as the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council.
- 1.3 With regards to the Minimum Revenue Provision (MRP), the Council has committed to set aside a minimum of 2% of Capital Financing Requirement (CFR) for MRP if the total MRP charged would be less than 2% of the total CFR.
- 1.4 The Council has appointed Link Group (Link) as its external treasury management consultant, to provide specialist skills and resources for its treasury activities.
- 1.5 This audit was part of the agreed Internal Audit Plan for 2024/25.

### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit for each control / process being considered:
- Walked-through the processes to consider the key controls;
  - Conducted sample testing of the identified key controls, and
  - Reported on these accordingly.

### 3. SCOPE

- 3.1 This audit, focused on Treasury, was undertaken as part of the 2024/25 Internal Audit Plan. The specific scope included the following areas and recommendations:

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0







Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Borrowings and Investments	0	0	0
Reconciliations of Loans and Investment	0	0	1
Cashflow management	0	0	1
Prudential Indicators	0	0	0
Management Information	0	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>

## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives, and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **Statement of Responsibility**

We take responsibility to London Borough of Croydon 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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