Board of Management

Audit Committee

Date of Meeting	Wednesday 14 September 2016
Paper No.	AC1-I
Agenda Item	11.2
Subject of Paper	Internal Audit Report – Treasury Management
FOISA Status	Disclosable
Primary Contact	BDO
Date of production	June 2016
Action	For Discussion and Decision

Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

1. Purpose of report

The purpose of this review is to provide assurance over the controls in place to manage the College’s cash flow management and reporting arrangements and overall banking arrangements.

2. Context and Discussion

As part of the 2015-16 Internal Audit Plan, it was agreed that internal audit would perform a review of the treasury management arrangements in place within the College.

Accurate and reliable cashflow forecasting is essential for the College to manage its cash position and meet its commitments.

The College has ten bank accounts in place which are held with either the Bank of Scotland or the Clydesdale Bank. Cash flow forecasts are prepared on a monthly basis and submitted to the Scottish Funding Council. A cashflow forecast is presented to each Finance Committee and a treasury management report on investment income is produced every six months.

3. Impact and implications

Refer to internal audit report.

City of Glasgow College

INTERNAL AUDIT REPORT

Treasury Management

June 2016

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial

BDO

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REPORT STATUS	
Auditors:	Stephen Pringle
Dates work performed:	31 May 2016 – 3 June 2016
Draft report issued:	21 June 2016
Final report issued:	**28 June 2016**

DISTRIBUTION LIST	
Stuart Thompson	Executive Director Finance
Audit Committee	

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		
Design	●	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	●	The controls that are in place are being consistently applied.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
High ▲	
Medium ■	
Low ●	2
Total number of recommendations: 2	

OVERVIEW

Background

A part of the 2015-16 Internal Audit Plan, it was agreed that internal audit would perform a review of the treasury management arrangements in place within the College. The purpose of our review is to provide assurance over the treasury controls in place in relation to cash flow management and reporting and approval of overall banking arrangements.

The College has a Treasury Management Policy in place which was approved by the Board in November 2015. The policy was developed to provide a control framework to manage the College's treasury activities, including: the management of the College's cash flows, banking, and money market and capital transactions; the effective control of the risks associated with the treasury management activities; and the pursuit of optimum financial performance consistent with those risks. The policy aims to ensure the successful identification, monitoring and control of financial risk. In balancing risk against return, the policy states that the College is more concerned with minimising risks than maximising returns.

The policy states that the College will comply with the Scottish Funding Council rules regarding approval of any secured or unsecured loans that go beyond the general consent levels set out in the financial memorandum and that the Board of Management will approve any secured borrowing. There is no borrowing in place at this time.

EXECUTIVE SUMMARY

OVERVIEW

Responsibilities for treasury management are defined within the policy, with a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies. The Board of Management is responsible for the effective governance of the policy, ensuring that the College borrowing, private financing and partnership arrangements are negotiated, structured and documented, and well managed. The Executive Director Finance is responsible for overseeing treasury management arrangements and ensuring that job descriptions of finance staff clearly state individual responsibilities for treasury management. The Head of Finance is responsible for reviewing the College's cash balances on a daily basis and transferring funds as appropriate, on authority from the Executive Director Finance.

Following ONS reclassification new financial restrictions were applied taking effect from 1st April 2014, including the non-retention of surpluses generated in the year. From this date all College funds have been invested in instant access accounts. Most of the College's cash resources, around £21.7m, were transferred to both the sector umbrella foundation and the College arms length foundation in March 2014. A further transfer of £3.1m was transferred to the College foundation in March 2015.

The College uses two banking providers, Clydesdale Bank and Bank of Scotland. The College currently has six bank accounts with the Clydesdale Bank and five bank accounts with the Bank of Scotland. The Clydesdale Bank accounts which the College has are as follows: a payment account for college payments including payroll; an income account for Scottish Funding Council receipts; a current account for creditor bacs payments, student funds and Riverside Campus transactions; an income account with no activity; an interest bearing account which has offered good interest rates in the past, but which has a nil balance; and an interest bearing account which has approximately £4m held. There is an automatic daily transfer of funds from the current account to interest bearing account by the bank to ensure that there is nil balance in the current account at the end of each day. A manual transfer is also carried out by the Finance Manager to clear the balances on the income and payment accounts at the end of each day, with a transfer to the interest bearing account. The current banking arrangements do not allow this process to be automated. The College holds the following Bank of Scotland accounts: Interest bearing account; two payment accounts; an income account; and a euro account. Bank reconciliations for all accounts are carried out on a monthly basis.

The investment income of the College in 2014-15 was £55k and the projection for 2015-16 is £25k. The starting cash balance for the College at 1st August 2015 was £7.8m and the College is forecasting a cash balance of £5.5m at 31 July 2016.

EXECUTIVE SUMMARY

OVERVIEW

Following the approval of the College budget for the year, which follows confirmation of SFC funding, a cash flow forecast is produced for the year by the Head of Finance and reviewed by the Executive Director Finance. The cash flow forecast is based on the faculties budget for the year, with faculties asked to forecast when they expect to spend their budgets during the year.

A monthly review of the cash flow is undertaken and a revised forecast is prepared by the Head of Finance and reviewed by the Executive Director Finance, prior to being uploaded to the Scottish Funding Council (SFC). The return to SFC identifies cash balances, cash requirements and the current month's SFC grant payments. The monthly cash flow is used to determine the level of funds which will be drawn down by the College from SFC. The College can draw down from the annual grant throughout they year as required, to meet expected expenditure for the month ahead.

A cash flow report is produced for every Finance & Physical Resources Committee. The report states the College's cash balances, and the forecasted cash position at 31 July, along with a graph of budgeted against actual cash flow. The College also produces a six monthly treasury report for submission to the Finance & Physical Resources Committee.

Scope and Approach

The scope of our review was to assess the regularity and robustness of cash flow forecasting within the College including: assumptions used; profiling of income and expenditure; monitoring of cash position; assessing outturn against forecast; review and approval; and reporting. We also assessed the processes for authorisation of cash transfers, and reviewed the bank mandates to ensure all signatories are current.

Our approach was to review the treasury management policy and interview staff to confirm the processes underpinning cash flow forecasting to establish the design of the controls in operation. We then reviewed cash flow forecasts and cash flow reporting to confirm the effectiveness of these controls.

Good Practice

We found that the College has a documented treasury management policy in place which has been appropriately approved and is being adhered to. The College cash flow forecasts have been developed from consultation and reasonable assumptions. Cash flow forecasts are regularly monitored and reviewed, and monthly cash flow forecasts are uploaded to the SFC. Bank transfers between accounts are appropriately approved to ensure that no cash shortages arise. We also confirmed that bank mandates reflect current staffing.

EXECUTIVE SUMMARY

OVERVIEW

Key Findings

Notwithstanding the elements of good practice noted above, we have identified areas for further improvement, including:

- **Bank accounts** – There are 11 bank accounts. We recommend that a review is undertaken to determine whether all these accounts are necessary, as a number of these accounts are rarely used.
- **Profiling of expenditure** – An annual cash flow forecast is produced detailing expected monthly profiles of income and expenditure. This is reviewed and updated each month. The current annual forecast is significantly different from the original cash flow forecast, with budget holders spending more than budgeted in the early months of the academic year. Management reported that this is due to budget holders having more time to plan what they are going to spend this year than in the previous year, following completion of the reorganisation. The College has drawn down higher levels of grant from SFC earlier than budgeted. However, we recognise that the College is allowed to draw down the SFC grant income when required, and has sufficient cash reserves to cover requirements. Spending in the latter half of the year is being tightly managed through budget management processes. Nevertheless, we recommend more detailed profiling of cash flows is incorporated in to the annual planning process, to better understand the timing of spend.

Conclusion

We are able to provide a substantial level of assurance over the design and operational effectiveness of the controls in place in the areas reviewed. However, the College should consider reviewing the number of bank accounts in place and also the methods used to profile expenditure within the annual cash flow forecast.

EXECUTIVE SUMMARY

	RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE
☑	The College treasury management policy may not have been appropriately discussed, documented, approved, adhered to.
☑	The College's cash flow forecasts have not been developed from sound assumptions.
☑	Income and expenditure is not accurately profiled in the cash flow forecasts.
☑	The College's cash flow position is not monitored regularly and at an appropriate level, with planned and actual positions reconciled on a timely basis.
☑	Cash flow forecasts and positions are not subject to an appropriate level of review and approval in an accurate and timely manner.
☑	Inappropriate or unauthorised transfers are made leading to cash shortages.
☑	Bank mandates are out of date or are not updated in a timely manner to reflect changes in key personnel.

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: The College's cash flow position is not monitored regularly and at an appropriate level, with planned and actual positions reconciled on a timely basis.			
Ref.	**Finding**	**Sig.**	**Recommendation**
1	The College maintains close control of all College bank accounts. The College has 11 bank accounts in place, six with the Clydesdale Bank and five with the Bank of Scotland. These include a payment account for college payments including payroll, two other payment accounts, two income accounts, one for Scottish Funding Council receipts and another rarely used, a current account for creditor bacs payments, student funds and Riverside Campus transactions, three interest bearing accounts, and a euro account. There is the risk that resources are not used efficiently as each account has to be monitored and reconciled regularly, though some are rarely used.		We recommend that the college review the bank accounts to determine whether all bank accounts are still required.

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed The College will be moving to the Government Banking Service contract with RBS prior to 31st March 2017 therefore College bank accounts will be rationalised.	***Responsible Officer:*** **Executive Director Finance** ***Implementation Date: 31st*** **March 2017**

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Income and expenditure is not accurately profiled in the cash flow forecasts.			
Ref.	**Finding**	**Sig.**	**Recommendation**
2	An annual cash flow forecast is produced detailing expected monthly profiles of income and expenditure. This is based on prior year spend, adjusted for significant known differences. The current annual forecast is significantly different from the original cash flow forecast, with budget holders spending more than budgeted in the early months of the academic year. Management reported that this is due to budget holders having more time to plan what they are going to spend this year than in the previous year, following completion of the reorganisation. The College has drawn down higher levels of grant from SFC earlier than budgeted. However, we recognise that the College is allowed to draw down the SFC grant income when required, and has sufficient cash reserves to cover requirements. Spending in the latter half of the year is being tightly managed through budget management processes. There is the risk that the timing of expenditure is not sufficiently analysed to allow accurate cash flow forecasting.	●	We recommend that the mechanisms for gathering information on expected expenditure are reviewed in order that more accurate cash flow forecasting information can be produced at the start of each year. This should involve more detailed consultation with budget holders on expected spend profiling. We also recommend that high level commentary on the reasons for changes between budget and actual cash forecast are documented in order to determine whether these variances could have been foreseen, and whether any action can be taken to improve the accuracy of cash flow forecasts in future.

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed In 2015-16 the timing of major capital expenditure did not match the initial estimate however the College had cash reserves and monthly flexibility in claiming variable levels of grant from SFC. We will review the budgeted cashflow based on all available data.	***Responsible Officer:*** **Executive Director Finance** ***Implementation Date: 31st*** **August 2016**

APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Stuart Thompson	Executive Director Finance
Alex Stewart	Head of Finance
Susan Lyons	Finance Manager

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II – DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

BACKGROUND

As part of the 2015-16 Internal Audit Plan, it was agreed that internal audit would perform a review of the treasury management arrangements in place within the College.

Accurate and reliable cashflow forecasting is essential for the College to manage its cash position and meet its commitments.

The College has ten bank accounts in place which are held with either the Bank of Scotland or the Clydesdale Bank. Cash flow forecasts are prepared on a monthly basis and submitted to the Scottish Funding Council. A cashflow forecast is presented to each Finance Committee and a treasury management report on investment income is produced every six months.

PURPOSE OF REVIEW

The purpose of this review is to provide assurance over the controls in place to manage the College's cash flow management and reporting arrangements and overall banking arrangements.

KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through a further planning meeting held with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- The College treasury management policy may not have been appropriately discussed, documented, approved, and adhered to;
- The College's cash flow forecasts have not been developed from sound assumptions
- Income and expenditure is not accurately profiled in the cash flow forecasts
- The College's cash flow position is not monitored regularly and at an appropriate level, with planned and actual positions reconciled on a timely basis
- Cash flow forecasts and positions are not subject to an appropriate level of review and approval in an accurate and timely manner
- Inappropriate or unauthorised transfers are made leading to cash shortages
- Bank mandates are out of date or are not updated in a timely manner to reflect changes in key personnel.

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