

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 May 2015

BY: Depute Chief Executive – Resources and People Services

SUBJECT: Internal Audit Report – Borrowings

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Borrowings.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

- 3.1 A review of Borrowings was undertaken as part of the audit plan for 2014/15.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Borrowings were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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DATE	7 May 2015

EAST LOTHIAN COUNCIL – INTERNAL AUDIT BORROWINGS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Borrowings was undertaken as part of the Audit Plan for 2014/15. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has a Treasury Management Strategy in place – the strategy is prepared in accordance with the CIPFA Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities.
- The Treasury Management Strategy sets out the authorised limits for external debt – the limits are approved by Council on an annual basis.
- The Council has a list of designated officers authorised to arrange borrowings.
- A detailed register is maintained to record all borrowings – the register includes details of the principal sum, interest and repayment terms.
- The loan interest on borrowings is correctly calculated and paid on the due date.
- A temporary loan record is completed for short term borrowings and is properly authorised by the designated Council officer.
- The information submitted to the Scottish Government in the quarterly borrowing and lending returns was accurate and complete.
- Adequate monitoring arrangements are in place to ensure that loans are correctly repaid on the maturity date.
- A formal contract is in place with the Council's external Treasury Management Advisors.

1.3 Areas with Scope for Improvement

- The cash flow forecast used for monitoring the Council's liquidity position is not being regularly updated with the actual bank balances. *Risk – failure to achieve optimum liquidity.*
- There was a lack of evidence to support the reconciliations being undertaken between the loans register and the Council's general ledger. *Risk – errors and irregularities may occur and remain undetected.*
- The existing arrangements in place for checking fair value adjustments and accrued interest require review. *Risk – errors and misstatements may occur and remain undetected.*

1.4 Summary

Our review of Borrowings identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

May 2015

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
BORROWINGS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that the existing procedures in place are updated to include long term market borrowings.	Low	Service Manager – Corporate Finance	Agreed		May 2015
3.2.3	Appropriate checks should be carried out to ensure that the accrued interest on loans is correctly recorded on the loans register.	Medium	Service Manager – Corporate Finance	Agreed		May 2015
3.3.1	Management should ensure that a consistent approach is adopted for recording all borrowings – the existing temporary loan record form should be adapted and used for recording long term borrowings. For all long term borrowings, the loan record form should be fully completed by the responsible officer and authorised by the Section 95 officer.	Medium	Service Manager – Corporate Finance	Agreed		June 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that the actual bank balances are recorded on the cash flow forecast on a regular basis.	Medium	Service Manager – Corporate Finance	Agreed		May 2015
3.8.2	Management should ensure that appropriate reconciliations are undertaken between the accrued interest calculations provided by the Council’s external advisors and the information held on the loans register. Management should ensure that any variances identified are fully investigated and that appropriate action is taken.	Medium	Service Manager – Corporate Finance / Service Manager – Business Finance	Agreed		June 2015
3.9.2	Management should ensure that a summary sheet is completed for reconciliations undertaken between the loans register and the general ledger. A person independent of processing should check the reconciliation and sign the summary sheet as evidence of checks being carried out.	Medium	Service Manager – Corporate Finance	Agreed		July 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.9.3	Appropriate arrangements should be put in place to ensure that key information which forms part of the Council's Statement of Accounts is checked for accuracy and completeness.	Medium	Service Manager – Corporate Finance / Service Manager – Business Finance	Agreed		June 2015

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.