

Taupo District Council

Treasury Management Review

16 February 2018

Confidential



Brian Fox
Group Manager Corporate and Community
Taupo District Council
72 Lake Terrace
Taupo

16 February 2018

Report for Services In Relation To Treasury Management for Taupo District Council

Dear Brian

We are pleased to provide you our report that provides a summary of our key findings from our internal audit covering a review of your key financial controls and policy in relation to Treasury Management.

This report was prepared in accordance with the terms and conditions set in our engagement letter dated 4 October 2016 and should be read in conjunction with the key terms of business, restrictions and disclaimers included in this report.

Thank you for the opportunity to support you in this piece of work. We would also like to express our appreciation for the assistance provided to us by your team during this project.

Please do not hesitate to contact me if you have any questions or require further assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Dixon', with a long horizontal flourish extending to the right.

John Dixon
Partner

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Section 1

Executive Summary

Executive Summary

The objective of this engagement is to assess compliance of the Treasury Portfolio with the Treasury Management Policy through the required metrics and processes included within the policy. We have assessed this for the Financial Year of 1 July 2016 to 30 June 2017 which is the second year the amended Treasury Management Policy has been implemented.

The engagement will include the following areas:

- Compliance with the Treasury Management Policy (TMP).
- Consider whether investing activities are properly authorised with appropriate reviews and timely recording.
- Consider the specific requirements of the TEL Investment (TEL) Portfolio.
- Consider whether issues and recommendations made in our report dated December 2016 have been addressed.

The specific procedures and our approach which will form our engagement are recorded in Appendix 2.

Objective

1. Ensure compliance with the Treasury Management Policy (TMP).

Specifically focussing on:

- Investments
- Borrowing
- Risk
- Cash and Working Capital
- Management
- Reviews

2. Ensure investing activities are properly authorised with appropriate reviews and timely recording, for example:

- Pre Deal Activities
- Execution of Deals
- Confirmation
- Investment Risk

Approach

Our approach was as follows:

- Gain an understanding of the processes in place for Treasury Management through discussion with relevant staff.
- Select a sample of investments across three months to test procedures and processes are in compliance with the policy.
- Assess the policy, procedures and processes against good practice to identify any gaps or weaknesses.
- Review the Treasury Management Policy reporting to Council and confirm the performance is within the policy parameters.
- Ensure the specific requirements of the TEL portfolio are met.
- Ensure issues and recommendations made in our report dated December 2016 have been addressed.

Section 2

Our findings

Treasury Management Process

Overview of Key Compliance

Confirmations

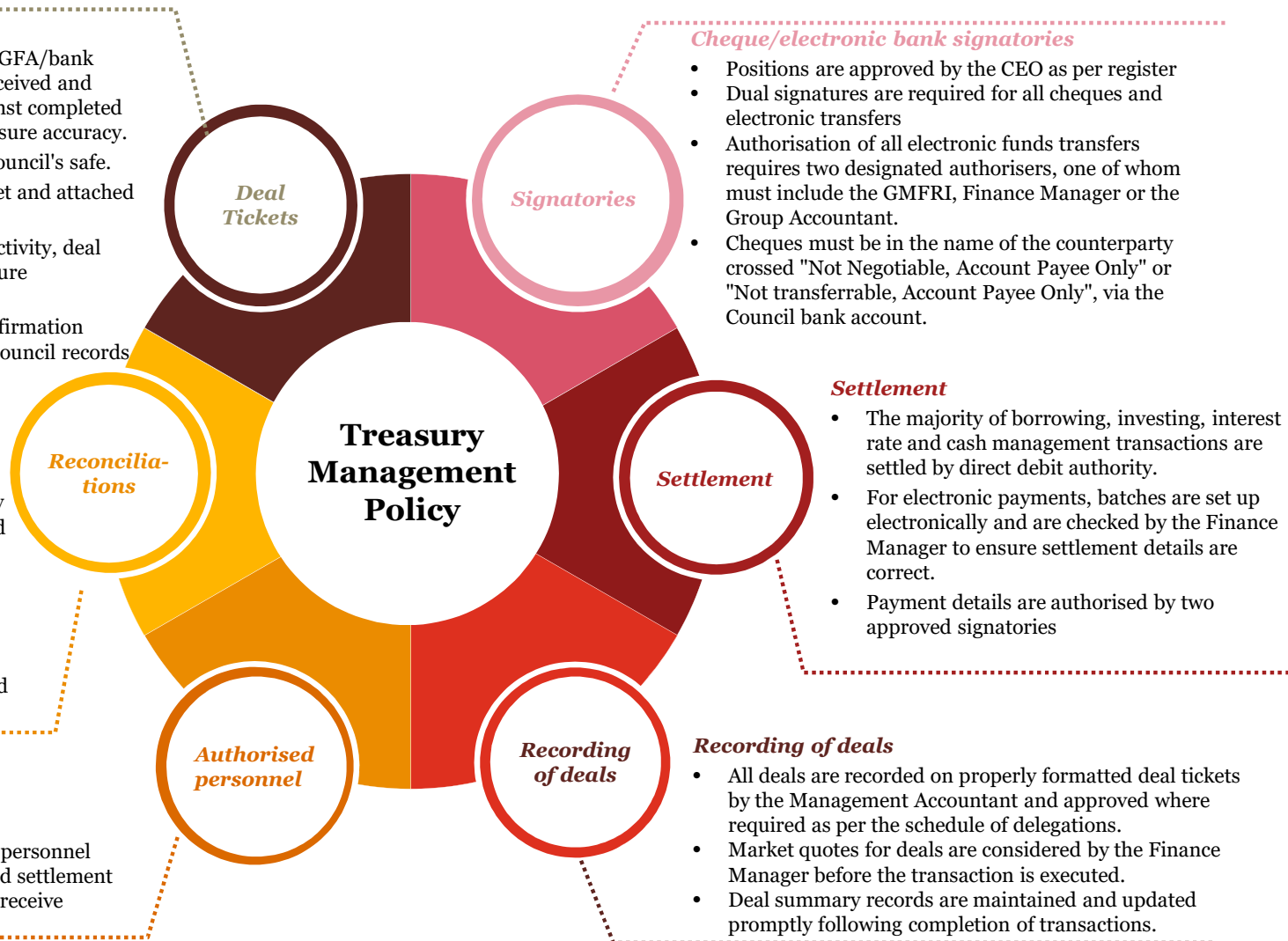
- All inward deal confirmations including LGFA/bank funding and registry confirmations are received and checked by the Financial Accountant against completed deal tickets and the treasury records to ensure accuracy.
- All deliverable securities are held in the Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- The Finance Manager checks all dealing activity, deal tickets and confirmations monthly, to ensure documentation is in order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the GMFRI.

Reconciliations

- Bank reconciliations are performed monthly by the Finance Officer Treasury and checked and approved by the Group Accountant.
- Any unresolved reconciling items which required amendment to the Council's records are signed off by the GMFRI.
- A monthly reconciliation of the treasury spreadsheet to the general ledger is reviewed and approved by the Group Accountant.

Authorised personnel

All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.



Process Testing – Investment Procedures

Our findings

1. Deals Supporting Documentation

Priority Rating

Low

Observation

During our testing over the deal tickets and supporting documentation we noted the following exceptions:

- 8 instances where the term deposit confirmation was not attached to the deal ticket but could be located attached to the monthly reconciliation
- 6 instances where no term deposit confirmation or other documentation was attached to the deal ticket or the monthly reconciliation
- 4 instances where the quote sheet attached to the deal ticket did not show any indication of review.
- 4 instances where the cashier section had not been signed off by someone. We note that you use this as evidence that a check has been performed over the funds in the bank
- 1 instance where the call transaction deal ticket was completed after the date of transaction

We note that the deal ticket form has the confirmation information to be completed but this is not done on any that we have tested.

Recommendation

As best practice all deals have the appropriate documentation attached to the deal ticket. This will ensure all deals are being appropriately considered, reviewed and checked for accuracy. This will also ensure the transactions comply with the TMP.

Management comment

We concur with the recommendations and will implement immediately.

Implementation date and management responsible

Immediately – Finance Manager

Process Testing – Investment Procedures

Our findings cont.

2. Bank Overdraft

Priority Rating

Low

Observation

We noted in prior year that the policy states it is the finance managers responsibility to ensure the cheque account does not go into any 'unplanned' overdrafts. We have noted that there was an unplanned overdraft at the end of December 2016/ beginning Jan 2017. There was a transfer done immediately to fix this problem and it was noted that it was an error from the ANZ. We note this for completeness.

Recommendation

We recommend that Finance Manager continues to monitor this and make sure they are aware of all payments especially over the Christmas period when the office may be closed to ensure there are no unplanned overdrafts over this time.

Management comment

Noted, we have a current account sweep system in place with the bank to ensure no management error overdrafts. We will continue to monitor and try to capture any bank errors.

Implementation date and management responsible

Immediately – Finance Manager

Process Testing – Investment Procedures

Our findings cont.

3. Monthly General Funds Reconciliation not signed

Priority Rating

Low

Observation

During our testing over the reconciliations performed each month we identified one month (August 2016), which was not signed off. We have sighted that the documentation behind the reconciliation was reviewed and from discussions with Neil Ward the only reason for this not to be signed was that the reconciliation had been updated after his review.

Recommendation

That all reconciliations are signed off as reviewed in accordance with the policy. If reconciliations are changed these should be provided for review and sign off to ensure that changes have been made correctly.

Management comment

Noted and agreed.

Implementation date and management responsible

Ongoing – Finance Manager

Process Testing – Investment Procedures

In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of the Policy. Therefore Council has implemented specific policy parameters to effectively and manage its investments, including:

- Borrowing Limits
- Interest Rate Maturity
- Credit rating requirements
- Portfolio mix requirements
- Liquidity limits

Under section 4.2 of the TMP, debt is to be managed within required limits. We obtained borrowing limit data from the Treasury reports for August 2016, January 2017 and April 2017 to test to ensure that the limits are in line with the policy.
No instances of non-compliance were noted.

The Council has established a unique asset allocation strategy. We note that the policy allows for a variance from the Policy by +/- 25% before the breach is required to be reported. We noted no exceptions outside of the 25% allowance as noted on the page.

Borrowing Limits

Investment and Maturity

Counterparty Credit Risk

Interest Rate Maturity

We have obtained copies of the reconciliations for the TEL and GR for the periods of August 16, January 17 and April 17 and assessed the credit ratings of each counterparty. Based on this we have noted that two ratings were below policy.

Consistent with the sample within Borrowing Limits, no instances were noted where the Interest Rate per the Borrowing Spreadsheet was outside the expected parameters.

Investment Portfolio Mix

TEL Investment Portfolio

The Council has established a unique asset allocation strategy. We have assessed this by obtaining the information from the monthly treasury reports for August 16, January 17 and April 17. We note that the policy allows for a variance of the allocation by +/- 25% before the breach is required to be reported.

Asset Classes	\$	Actual Allocation	Allocation +/- 25%	Breach	Within 25% allowance	Breach noted in Monthly Report
Aug-16 Cash - Actual 29%, Policy limits 0 - 35%	15,793,534	28.94%	10.00%	Yes	Yes	N/A
Diversified Fixed Interest - Actual 61%, Policy limits 25 - 75%	33,500,000	61.39%	50.00%	Yes	Yes	N/A
Australasian Equities - Actual 6%, Policy limits 0 - 35%	3,199,828	5.86%	10.00%	No	Yes	N/A
International Equities - Actual 1%, Policy limits 0 - 40%	690,747	1.27%	15.00%	No	Yes	N/A
Property - Actual 3%, Policy limits 0 - 40%	1,383,081	2.53%	15.00%	No	Yes	N/A
	<u>54,567,191</u>					
Jan-17 Cash - Actual 14%, Policy limits 0 - 35%	7,520,836	13.78%	10.00%	Yes	Yes	N/A
Diversified Fixed Interest - Actual 73%, Policy limits 25 - 75%	40,500,000	74.22%	50.00%	Yes	Yes	N/A
Australasian Equities - Actual 10%, Policy limits 0 - 35%	5,459,072	10.00%	10.00%	Yes	Yes	N/A
International Equities - Actual 1%, Policy limits 0 - 40%	768,774	1.41%	15.00%	No	Yes	N/A
Property - Actual 2%, Policy limits 0 - 40%	1,383,081	2.53%	15.00%	No	Yes	N/A
	<u>55,631,762</u>					
Apr-17 Cash - Actual 19%, Policy limits 0 - 35%	10,805,096	19.80%	10.00%	Yes	Yes	N/A
Diversified Fixed Interest - Actual 71%, Policy limits 25 - 75%	40,000,000	73.30%	50.00%	Yes	Yes	N/A
Australasian Equities - Actual 6%, Policy limits 0 - 35%	3,579,011	6.56%	10.00%	No	Yes	N/A
International Equities - Actual 1%, Policy limits 0 - 40%	791,057	1.45%	15.00%	No	Yes	N/A
Property - Actual 2%, Policy limits 0 - 40%	1,168,529	2.14%	15.00%	No	Yes	N/A
	<u>56,343,692</u>					

Our Findings

Based on the work performed above whilst there were breaches noted for cash and diversified fixed interest these are within the 25% allowance available, therefore no control weakness has been noted.

Process Testing – Investment Procedures

Our findings

4. Counterparty Credit Risks

Priority Rating

Low

Observation

During our testing around counterparty credit risks we noted two Banks whose rating falls outside of the policies settings. The rating of Kiwibank (A) and Rabobank (A) are “low” according to the picture below but are below the A+ rating as per the policy. These should be reported to Council per the TMP but we have not sighted that this is happening.

Fitch	S&P	Moody's	Rating grade description (Moody's)	
AAA	AAA	Aaa	estm tment grade	Minimal credit risk
AA+	AA+	Aa1		Very low credit risk
AA	AA	Aa2		
AA-	AA-	Aa3		
A+	A+	A1		Low credit risk
A	A	A2		
A-	A-	A3		

Recommendation

We recommend that management review this aspect of their policy and ensure that where the ratings fall below the policy they are communicated appropriately with Council.

Management comment

Management report counterparty exposures to Council in the monthly treasury report. No investments were held with Rabobank in the reporting period and Council only held investments less than 365 days with Kiwibank in the reporting period which is within policy.

Implementation date and management responsible

Ongoing as required – Finance Manager

Prior Reported Findings

Follow up actions

	<i>Finding</i>	<i>Follow Up</i>
Policy Breaches	Sections 5.9 - strategic asset allocation for cash was breached in 2 out of 3 months tested.	Noted breaches in all months tested however these were within the allowance available and therefore the finding has not been raised again.
Deal Ticket Documentation	One exception noted during our testing where no supporting quotation sheet was attached.	Refer to the control point raised on page 8 for 2017 findings.

Section 3

Appendices

Appendix 1 - Documents Sighted and Glossary

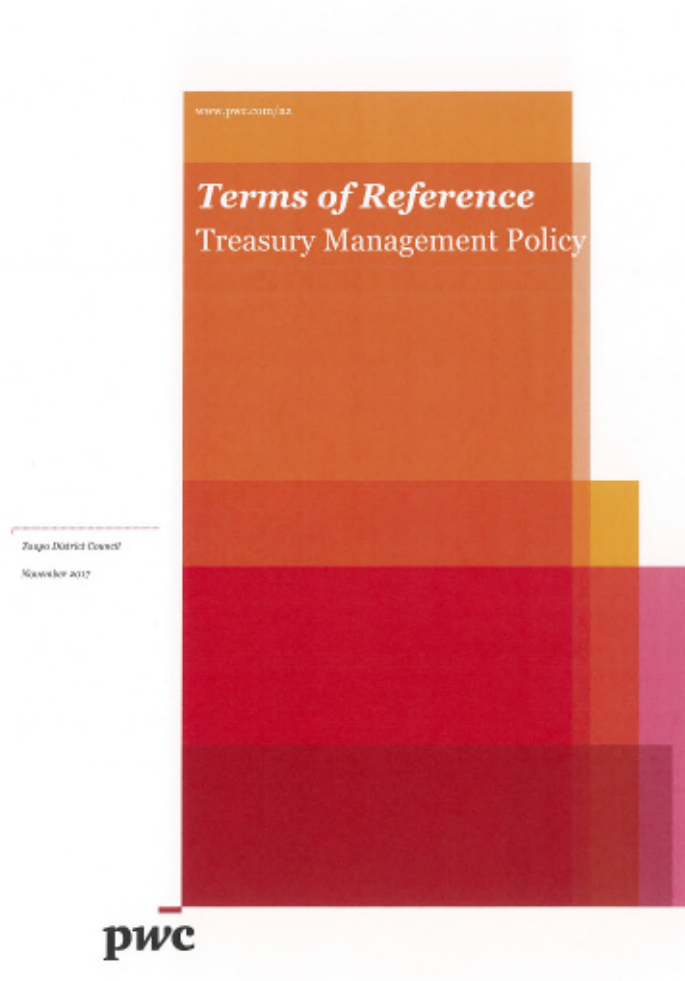
The following documents have been reviewed by PwC in assessing TDC's compliance with the TMP

- Treasury Management reports for August 2016, January 2017 and April 2017.
- Treasury spreadsheets & information for August 2016, January 2017 and April 2017.
- Deal Tickets for August 2016, January 2017 and April 2017.
- Treasury monthly reconciliation folder for August 2016, January 2017 and April 2017.
- Public Council minutes from Taupo District Council website.

Glossary

- TDC – Taupo District Council
- TMP – Treasury Management Policy
- TMG – Treasury Management Group
- TEL – Investment Portfolio
- GF – General Fund
- PwC – PricewaterhouseCoopers

Appendix 2 - Terms of Reference



1. Terms of Reference

Background

As part of the Internal Risk Programme for 2017/2018, and in accordance with our engagement letter dated 4 October 2016, we will undertake Internal Audit procedures, consistent with the Risk Management framework of Taupo District Council (TDC).

This will assist the Audit and Risk Committee to exercise oversight of Management's compliance with the Treasury Management Policy and respond to any risks associated with this Policy.

Our Internal Audit methodology is designed to complement the Internal Audit process of Council. These engagements are designed to specifically address areas where the identified risk is higher or where management and/or Council require additional procedures over and above what is provided in the ordinary course of business.

Objective and scope

The objective of this engagement is to assess compliance of the Treasury Portfolio with the Treasury Management Policy through the required metrics and processes included within the policy.

The engagement will include the following areas:

- Compliance with the Treasury Management Policy (TMP).
- Consider whether investing activities are properly authorised with appropriate reviews and timely recording.
- Consider the specific requirements of the TEL portfolio.
- Consider issues and recommendations made in our report dated December 2016 have been addressed.

The specific procedures and our approach which will form our engagement are recorded in Appendix A.

Sponsor

The sponsor of this engagement will be Brian Fox (Group Manager Corporate and Community).

Appendix 2 - Terms of Reference cont



Staffing

This engagement will be performed by the following:

John Dixon	Engagement Partner responsible for the overall engagement.
Sophie Hay	Engagement Manager responsible for overseeing the delivery of the engagement.

Other staff, including specialists, will be used as required.

Timeframe

The timeframes for this assessment will be agreed as required.

Planning of Engagement	October 2017
Commence fieldwork (subject to availability of data)	20 November 2017
Expected date for completion of fieldwork	21 November 2017
Issue draft findings / workshop results	27 November 2017
Management Comments received	4 December 2017
Final results issued	8 December 2017

Deliverables

At the end of this engagement we will meet with relevant staff/management to discuss our findings and agree upon a practical approach to implementing any recommendations for improvement. Individual written reports will be used as the basis for this discussion.

To ensure a 'no surprises' approach we will regularly communicate progress updates to you during fieldwork.

As noted above, we will issue individual reports which will be produced within 30 business days of the completion of the fieldwork.

Our oral reports and any draft reports which you might receive will not constitute our definitive findings and recommendations. These findings and recommendations, if any, will be contained solely in our final written report.

These reports are provided solely for the Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure.



The engagement will not constitute an agreed upon procedure, review or audit in terms of standards issued by the New Zealand Institute of Chartered Accountants. Accordingly, this engagement is not intended to, and will not, result in the expression of an audit opinion nor the fulfilling of any statutory audit or other requirements.

Fees

We estimate that this assignment will take approximately 2 days on-site in Taupo with 3 days planning and reporting time from our Hawke's Bay office. This will have an estimated total fee range for this engagement will be \$9,000 - \$9,500 exclusive of GST and disbursements.

This fee excludes a service fee of 3% to cover our office support costs in respect of photocopying, postage, tolls and faxes, stationery, couriers and mileage. In addition to our fee, any other significant direct out of pocket expenses incurred would be charged at cost (e.g. travel and accommodation).

Achieving the desirable and budget, are dependent upon Council staff members being available to work with our team as required during that course of this evaluation and the availability of required documentation. Should the nature and extent of work required differ from that anticipated we will discuss with you and agree a revised timeframe and budget.

Appendix 2 - Terms of Reference cont



2. Acceptance

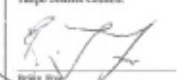
Please contact me if you have any questions in respect of this Terms of Reference.

If you are in agreement with this Terms of Reference, please sign where indicated below and return to us.



John Dixon
Partner
PwC
Napier
14 November 2017

I accept the above terms of reference for the Internal Audit Procedures on behalf of Taupo District Council.



John Poir
Group Manager Corporate and Community
Taupo District Council

23.11.17
Date

PwC
Terms of Reference - Confidential
Taupo District Council

Appendix A

Engagement	Procedures
Treasury Management Policy	<ol style="list-style-type: none"> 1. Review the TMP to gain an understanding of processes and procedures. 2. Obtain confirmations from financial institutions to confirm information contained in the TEL and GF spreadsheets. 3. Interview key staff to gain an understanding of the processes in place for the management of the Treasury policy. 4. Review the Treasury Management reporting to Council and confirm the performance is within policy parameters. 5. Assess the above policies, procedures and processes against good practice and make recommendations to address any gaps or weaknesses. 6. Follow-up on the status of issues reported in our review dated December 2016 and by the external auditors.

Disclaimer

This document has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

In preparing this document and providing our recommendations, we have relied upon, and assumed the accuracy and completeness of, all information available to us from public sources and furnished to us by Taupo District Council staff.

It should not be construed that we have conducted an audit of the information we have used.

This document has been prepared solely for use by Taupo District Council.

Our engagement did not constitute a statutory audit (the objective of which is the expression of an opinion on financial statements) or an examination (the objective of which is the expression of an opinion on management's assertions).

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this document and/or any related information or explanation (together, the "Information").

Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

This document has been prepared with care and diligence and the statements and opinions within it are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed by us or any of our partners or employees for the preparation of the document to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the document or assumptions reasonably taken as implicit.

We reserve the right, but are under no obligation, to revise or amend the document if any additional information (particularly as regards the assumptions we have relied upon) which exists at the date of this document, but was not drawn to our attention during its preparation, subsequently comes to light.

This document is issued pursuant to the terms and conditions set out in our letter of engagement with by Taupo District Council.