



***Finance – Treasury Investment
Audit Report***

October 2018

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1.0 Management Summary

Audit Services has completed an audit of the investment function administered through the Treasury Office.

The audit was conducted in accordance with the *Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit included a review of the Investment Policy and Ontario Regulation 438/97. Additionally, we performed detailed testing on a selected sample of transactions to ensure that they are performed and recorded in compliance with applicable policies and statutory requirements.

Testing was conducted at a sufficient level of detail to allow us to evaluate compliance of investment activities with the Council Approved Investment Policy and Ontario Regulation 438/97.

Overall, the results of our detailed testing indicate that the processes for investment transactions operate in a manner that is in compliance with the Investment Policy and Ontario Regulation 438/97.

Opportunities for internal control improvements were noted and discussed with appropriate management. Other improvements relate to the reporting requirements for the Annual Investment report, updating the Investment Policy insurance requirements, the pre-qualification of financial institutions process and document maintenance.

It should also be noted that there were key processes identified during the audit where controls were strong and working as designed. These areas include; determining portfolio structure and limits, ensuring investment transactions are made within the established limits, and allocating investing returns.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Treasury Office staff for their co-operation and assistance provided during the audit.

2.0 Introduction

As part of our Council Approved Audit Plan for 2018, the Audit Services Branch performed a Treasury - Investment Audit. The Audit Plan, approved by the Audit Committee, is developed by the Audit Services Department using a Risk Assessment Methodology that helps to define the different risks associated with the various processes at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

The Treasury Office efficiently manages and preserves the financial assets of the Region. This is reflected in the Investment Policy, which governs the Treasury function and limits the Region to a relatively risk averse strategy.

The activities performed within the Treasury Function include determining current and future capital requirements across the Region and maintaining a portfolio structured to meet short, medium, and long-term capital requirements.

Audit Services reviewed the investment processes by assessing compliance to the Investment Policy and Ontario Regulation 438/97. Additionally, we performed detailed testing of documents and records.

3.0 Objectives and Scope

The main objectives of this engagement were to:

- Review compliance of investment activities with the Council Approved Investment Policy and Ontario Regulation 438/97.

The audit objectives were accomplished through:

1. A review of the Investment Policy and Ontario Regulation 438/97.
2. A review of selected transactions to ensure that they are performed and recorded in compliance with applicable policies and statutory requirements.
3. Interviews with appropriate personnel.
4. Review of other related documentation as required.

4.0 Detailed Observations and Recommendations

4.1 Annual Investment Report Requirements

Observation

The Investment Policy states that the report should include an estimated ratio of the total long-term and short-term securities compared to the total investments and description of the change, if any, in what estimated proportion since the previous year's report.

Our review of the Annual Investment Report noted that no ratio for the previous year was reported, and therefore, there was no reporting of the year-over-year change and any description of the changes.

The Investment Policy also requires a statement by the Commissioner of Finance and Treasurer as to whether or not, in their opinion, all investments were made in accordance with the investment policies and goals adopted by the Corporation.

Our review noted that the report does not specifically address this requirement; the only statement in the Report is that "General Fund investments adhere to the approved Investment Policy".

Recommendation

Management should review the value of the Investment Policy requirement to include estimated ratios. If deemed appropriate, management should ensure that the Annual Investment Report includes an estimated ratio of the total long-term and short-term securities compared to the total investments, and the description of any year-over-year changes.

If management determines that the requirement to include estimated ratios in the Annual Investment Report is no longer necessary, the Investment Policy should be updated to reflect that decision.

Management should also ensure that the Report includes a statement by the Commissioner of Finance and Treasurer as to whether or not all investments were made in accordance with the investment policies and goals adopted by the Corporation, as required by the Investment Policy.

Management Response

Agreed. The 2018 Annual Investment Report now includes a schedule that estimates the ratio of long-term and short-term securities held during the year and the year-over-year change to these ratios. Additionally, while the report is from the Commissioner of Finance, it now explicitly states "it is the opinion of the Commissioner of Finance that all investments were made in accordance with the investment policy and goals approved by Council and the Sinking Fund Committee."

4.2 Insurance Requirement Responsibilities

Observation

The Investment Policy requires that the Commissioner and Treasurer and/or the Director, Treasury Office obtains adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets.

During our audit, we confirmed that the policy was written at a time in which the Director, Treasury was responsible for obtaining insurance coverage. Through re-organization, the insurance requirements are now the responsibility of the Controllershship Office.

It should be noted that during our review we confirmed that the Region has obtained adequate insurance coverage.

Recommendation

Management should update the Investment Policy to identify and clearly state the responsibilities of obtaining adequate insurance coverage based on the current organizational structure.

Management Response

Agreed. The Investment Policy will be amended to reflect the appropriate personnel responsible for obtaining adequate insurance coverage as set out in the current organizational structure. The next update to the Investment Policy is scheduled for the second quarter of 2020.

4.3 Pre-Qualification of Financial Institutions

Observation

The Investment Policy states that "Staff shall endeavor to mitigate credit and interest rate risk as follows: Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Corporation does business".

Our audit noted that in practice, the Region does not perform a pre-qualification process for dealers, but rather conducts investment transactions through the use of Investment Industry Regulatory Organization of Canada (IIROC) approved dealers.

IIROC defines their role as writing the rules that set out and enforces high regulatory and investment industry standards. They screen all investment advisors employed by IIROC-regulated firms to ensure they are of good character, are properly trained, and have successfully completed all the required educational courses, background checks and programs.

The Investment Policy as currently written does not mention any requirement to use only IIROC pre-qualified dealers for investment transactions.

Recommendation

Management should update the Investment Policy to reflect the requirement to use only IIROC (or equivalent) approved dealers to perform investment transactions, or perform a pre-qualification process of financial institutions.

Management Response

Agreed. As part of the next update to the Investment Policy, scheduled for the second quarter of 2020, this section will be amended to state that dealers may be prequalified through their membership in good standing with IIROC (or equivalent) or through another defined prequalification methodology.

4.4 Transaction Documentation Improvements

Observation

We selected a random sample of 25 investment transactions occurring between July 2017 and July 2018 to ensure they were performed in accordance with the Investment Policy. Although we determined that investment transactions are performed in accordance with the Investment Policy, we noted two opportunities for improvement:

1. On the investment trade ticket, the trader name is written underneath their signature line. For the approver line, there is no name written underneath the signature to easily identify the approver.
2. For 2 transactions, the bank confirmation was not attached to the filed investment trade ticket.

Recommendation

Management should require the written name of the approver underneath the signature, making it easy to identify the individual who approved the transaction.

Management should ensure that all bank confirmations are attached to the associated transaction when maintaining documentation.

Management Response

Agreed. Trade tickets are currently generated by the Investment Management System and include the printed name of the trader on it. However, as several individuals are permitted to review and approve the transaction (eg. Manager, Director, Commissioner) their names are not pre-printed on the transaction ticket. Management will now ensure that the written or stamped name of the approver is readily identified under his/her signature.

Management will ensure all bank confirmations are attached to the associate transaction and will confirm by way of a monthly sign-off (to be include with the pertinent trade journal) by the Manager of Investments and Cash Management.

Original signed by:

Laura Mirabella
Commissioner of Finance and
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Original signed by:

Ed Hankins
Director, Treasury Office

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Director Audit Services