

CASH FLOW MANAGEMENT AUDIT

EXECUTIVE SUMMARY

The City Auditor's Office issued the Cash Flow Management Audit Report to Administration on April 6, 2018. The report includes Administration's response to four recommendations raised by the City Auditor's Office to Finance. Administration accepted all recommendations and has committed to the implementation of action plans no later than June 30, 2019. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2018 APRIL 17:

That Council receive this Report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2017/18 Annual Audit Plan was approved on November 10, 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2017/18 Annual Audit Plan. The objective of this audit was to assess the effectiveness of The City's cash flow forecast process by assessing the design and operation of controls and key sub-processes that mitigate the following risks:

- The cash flow forecast cannot be completed on a timely basis;
- Data inputs used to create the cash flow forecast are inaccurate or incomplete; and
- Data outputs from the cash flow forecast are inaccurate due to errors in analysis.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The audit approach involved selecting a sample of 10 daily cash flow forecasts (during the period November 2016 – October 2017), and testing the key controls and activities identified in the process walk through to assess the design and operational effectiveness. We also compared current practice to Government Finance Officers Association best practice recommendations. We concluded that Treasury's current cash flow forecasting process is effective in design and operation in mitigating the risks identified (i.e. timeliness, and accuracy) and supports The City's current informal cash flow management strategy.

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Three of our four recommendations were raised to provide additional reliability and rigour to the existing process: expanding Treasury's Business Continuity Plan to include the cash flow forecasting workaround should the IT system used in forecasting be unavailable; updating documented requirements for Business Unit notification to Treasury of anticipated cash flow outgoings; and formalizing the follow up of significant variances between forecast and actual cash flow.

Treasury currently operates a cash flow management strategy which takes advantage of favourable bank interest rates received by maintaining high cash balances (an average balance of \$25m and above) in The City's bank accounts. Based on the daily cash flow forecasting activity, additional dollars are invested, while any forecast shortfalls are covered through cashing in short term investments, or through borrowing through the issuance of commercial paper. This strategy has not been documented or widely communicated. Although this strategy has been acknowledged by Finance, we also raised a fourth recommendation that Treasury increase transparency through inclusion of the strategy as part of current quarterly and annual investment reporting.

Stakeholder Engagement, Research and Communication

This audit was conducted with Finance's Treasury division acting as the principal audit contacts within Administration.

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget

N/A

Current and Future Capital Budget

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

The mandate of The City's Treasury division includes "to generate investment income while preserving capital and provide liquidity for the cash flow requirements of all City funds." Cash flow management, including forecasting daily City cash requirements, is a critical input to this mandate, particularly given the significant variances in daily inflows and outflows of cash that the City experiences. The City's 2017 Annual Investment Report noted that as at 31st December

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2017, The City's working capital and short term investments were \$1.3B, representing 31% of all City investments. The daily average in the consolidated City bank accounts during December 2017 was \$85M.

REASONS FOR RECOMMENDATIONS

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENT

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