

FROM: Audit and Risk Manager

TO: Head of Finance

C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Portfolio Holder (Cllr Hales)

SUBJECT: Financial Strategy, Planning & Budgetary Control

DATE: 31 March 2020

1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has recently been completed by Ian Davy, Principal Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 Previous audits have reviewed these topics separately. However, following the last audits, undertaken in August and September 2016, it was decided that the audits should be combined to provide a general overview of the short and medium term budgeting processes.
- 2.2 The Medium Term Financial Strategy (MTFS) details the general fund revenue statement forecast for a rolling five-year period. The MTFS identifies if additional revenue savings or income are required with the objective of achieving a financially-balanced general fund.
- 2.3 Financial planning processes should ensure that financial resources are allocated to the identified priorities of the Council, including both mandatory and discretionary services, whilst budgetary control processes should ensure that actual income and expenditure is in line with those plans, checking that spending limits are not exceeded with financial adjustments being made to keep spending within approved budgets.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:

- Medium Term Financial Strategy
- Budget planning and control.

3.3 The control objectives examined were:

- The Council's Medium Term Financial Strategy (MTFS) reflects the agreed corporate priorities.
- Changes to priorities are reflected in the MTFS
- The Council's financial strategy has been approved by appropriate staff and Members
- The MTFS is based on sound figures and reflects all relevant (known) factors
- The Council is able to make decisions based on the most accurate and up-to-date figures available
- The Council can be confident that the 'formal' MTFS record is accurate and available when needed
- Formally approved budgets are set each year, taking into account all relevant income and expenditure
- All budget adjustments (including virements) are authorised
- The financial management system accurately reflects the agreed budgets
- Budgets are allocated to named individuals
- Budgets are adequately monitored
- The budget position is regularly reported
- Appropriate financial reserves are maintained in line with assessed risks.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audits reported in August 2016 (Financial Planning and Budgetary Control) and September 2016 (MTFS) were also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
Financial Planning and Budgetary Control		
1 The Senior Management Team should identify staff requiring budgetary control training, taking account of future staff changes, so that the control environment for budgetary monitoring and control is maintained.	Training of Budget Managers will be mentioned quarterly in reports to SMT. Refresher training for existing managers and training for new budget holders will be offered periodically.	The Strategic Finance Manager advised that 'Managing Your Cost Centre' training is now available and is included in the Learning Directory. However, this is not compulsory and the March 2020 session was cancelled as there were no staff booked to attend.

Recommendation	Management Response	Current Status
<p>2 Consideration should be given to amending the limits set within the Code of Financial Practice in relation to housing capital improvement and renewal. Suggested limits are £500,000 in any one year, and £150,000 for each request per scheme, subject to the appropriate funding being in place.</p>	<p>This will be considered within the next review of the Code of Financial Practice.</p>	<p>The Code of Financial Practice in place is from before the previous review and, as such, does not reflect the recommended limits. However, the SFM advised that there is a flexibility to move funds between (housing capital) schemes, as long as the total amount of funding remains the same. It may, therefore, be relevant to review whether a limit on these 'transactions' remains relevant.</p>
Medium Term Financial Statement		
<p>3 The political, economic, social and technological environment should be surveyed routinely for their impact on the MTFS.</p>	<p>The MTFS is a living document, fed from many sources, including the Significant Business Risk Register, where the consideration of such aspects are considered.</p>	<p>The current review has confirmed that this is a 'living document' with various different versions being created over the course of the year to factor in changes identified.</p>
<p>4 The results should be categorised as Certain, Probable or Possible with the first two categories assessed for their financial impact on the MTFS.</p>	<p>Following such consideration, if there are any issues that need to be included within the MTFS with reasonable certainty, these are duly factored in. To create a new process/routine is not necessary.</p>	
<p>5 The frequency of updating to the MTFS should be monthly to align with the revenue budget monitoring arrangements.</p>	<p>MTFS updated regularly on an on-going basis. MTFS is reported periodically as part of Budget Monitoring arrangements, notably when significant changes have been newly included.</p>	

Recommendation	Management Response	Current Status
6 The MTFS should be prepared such that it groups recurring developments, limited growth, savings and items funded from reserves by service area by year.	This will only be practicable for the MTFS presented as part of the February Budget report and Budget Book due to the MTFS being a living document with all changes forming part of the full audit trail.	The appendices to the February Budget Report were found to split out developments into recurring, non-recurring and those funded by reserves as recommended.
7 A reconciliation of the 2017/18 to 2020/21 revenue savings/additional income per the FFF change programme report should be made with the MTFS for the same period and the MTFS updated accordingly.	MTSF is a living document. It has been updated to include the Summer 2016 Executive update, and is also informed from other supplementary sources of information.	As above, this review has found the MTFS to be under continuous review with updates performed as and when considered necessary.

4.1.2 It is considered by Internal Audit that the two recommendations from the previous audit of Financial Planning and Budgetary Control require further consideration.

Risk

Managers may be unaware of their budget management responsibilities.

Recommendation

The 'Managing Your Cost Centre' course should be made mandatory for new budget managers with consideration being given to running this as refresher training for existing budget managers.

Risk

Limits stated in the Code of Financial Practice in relation to (Housing) capital expenditure may not be appropriate.

Recommendation

Limits relating to capital expenditure set out in the Code of Financial Practice should be reviewed to ensure that they remain relevant.

4.2 **Medium Term Financial Strategy**

4.2.1 The Strategic Finance Manager (SFM) advised that the MTFS is a rolling document, with new columns being added / old ones removed each year as opposed to 'setting' a new MTFS.

- 4.2.2 There were two different versions of the MTFS available on the Finance Common network drive at the time of audit testing showing the latest position, with the different versions reflecting the possibilities of the council tax referendum being won or lost.
- 4.2.3 The SFM advised that he has access to Executive reports and other relevant committee and management reports, so keeps up to date with any relevant changes to Council priorities. He also suggested that the Head of Finance provides summaries of outcomes following meetings that he has attended.
- 4.2.4 Without reviewing all individual committee / SMT reports, it was not possible to identify all relevant changes that may have budget implications. However, upon review of the MTFS spreadsheets, a number of items were identified that had recently been approved by Executive, so it is clear that items are being included as appropriate.
- 4.2.5 One issue noted was that the Climate Change Director post was only included in the 'Loss' version of the spreadsheet. The SFM advised that this was because, at the time of that version, the intention was that the post (along with other costs, such as holding the referendum) would have been paid for out of the Climate Emergency reserve that was to be established, with specific funds being drawn down as and when required and it did not, therefore, have an entry of its own. However, the SFM advised that, subsequent to the production of these spreadsheets, the decision was taken that these would be paid for outside of the reserve, as they were decisions taken before the result was to be known.
- 4.2.6 The latest version of the MTFS has been reported to, and noted by, Executive (12 February 2020) and subsequently to Council (26 February 2020). The SFM advised that Members would also be given updates as part of other reports whenever any significant amendments were being made to the MTFS.
- 4.2.7 He suggested that the latest example was as part of the Fit for the Future Strategy change in July 2019. Upon review of the report to Executive, it was confirmed that a relevant update was provided.
- 4.2.8 The SFM advised that Accountancy staff work alongside departments in relation to significant projects / major contracts to ensure that all relevant costs are taken into account (e.g. leisure centres, waste contract, HQ development etc.). Management meetings undertaken throughout the year also include consideration of growth items that need to be factored in.
- 4.2.9 Other external factors, such as inflation on major contracts, pay awards and Council Tax legislation would be taken into account, with these being initially built in with nominal / estimated percentages and then firmed up when known. The amount of Government grants (e.g. New Homes Bonus) would also be estimated as confirmation of these amounts have historically been received late.
- 4.2.10 The SFM confirmed that monthly budget monitoring is undertaken by Accountancy staff with each relevant budget manager which may identify (one-off or recurring) items that may affect the MTFS. Following these

reviews, a 'Budget Changes to Action' spreadsheet is populated (see further budget monitoring details in 4.3 below).

- 4.2.11 Growth projects are factored in to the MTFS scenarios as required and there are also reviews of items included within the Equipment Renewal Reserve to identify if everything is still needed, with this information being shared with the 'asset owners' for them to provide updates as required. Similarly, earmarked reserves will be reviewed to ascertain if they are still required.
- 4.2.12 The SFM highlighted that the savings in relation to the HQ relocation project had initially been slipped and then removed from the MTFS due to the ongoing uncertainty of when / if this would go ahead.
- 4.2.13 The SFM advised that the main review of the MTFS is undertaken in time for the February budget setting report. Outside of this 'formal' timescale, there will be various, ad-hoc, reviews by CMT, depending on when significant developments have taken place.
- 4.2.14 As highlighted above, the document goes through various different iterations during the year and takes into account different scenarios (e.g. v2 & v3 both have versions that factor in no office (HQ) savings, v5 has an alternate version that factors in major contracts changes, and v11 has versions that factor in the potential for winning or losing the council tax referendum).
- 4.2.15 The SFM advised that only himself or the Head of Finance should amend the spreadsheets, although they are not protected to stop others from changing them. Version control is maintained, with each version being given a version number and date.

Advisory

Consideration should be given to implementing password protection on the MTFS spreadsheets.

- 4.2.16 The SFM confirmed that the maintenance of the MTFS is part of his job description and this was confirmed upon review. There are also specific references to responsibilities for financial strategy within the Code of Financial Practice, with the majority of the process being enshrined in 'general' budget management and control principles that are detailed within the document.

4.3 Budget Planning & Control

- 4.3.1 The SFM advised that the main driver of the budget cycle is the Council Tax billing run timetable. As such, the budget needs to be agreed in February each year. Upon review, it was confirmed that the budget had been reported to Executive on 12 February 2020 and subsequently passed to, and approved by Council on 26 February 2020 (as per the MTFS as highlighted above).
- 4.3.2 Departmental and corporate risk registers include reference to budgetary and financial strategy risks as appropriate. Executive reports, including the base budget report and the budget setting report (including the associated Financial Strategy document), make reference to the various factors that have been considered in relation to the setting of the budget.

- 4.3.3 As with any other report, an assessments of risks is incorporated into the budget setting report to Executive (section 6), covering the issues that may affect the budget as proposed within the report. A separate appendix is also included with the budget setting report, covering the risks affecting the level of the general fund balance (appendix 4).
- 4.3.4 The budget book is very detailed, showing all relevant budgets in place and includes summary information on sources of income and areas of expenditure in graph form. The top level details from the budget book (i.e. General Fund total budget and the capital budget) were checked to the opening budgets on TOTAL and these were found to agree.
- 4.3.5 Further testing was also undertaken on a sample of cost centres to ensure that the budget on TOTAL agreed to the figure in the budget book and no issues were identified.
- 4.3.6 The SFM advised that reports are prepared for both SMT (monthly) and Executive (quarterly) to show the current budget position, including any significant variances and amendments.
- 4.3.7 Upon review of the SMT reports on the intranet, reports could only be found for July, September and November, with the final accounts report in March. For the August and October meetings, minutes confirmed that reports had been circulated and discussed as appropriate.
- 4.3.8 The SFM advised that SMT do not receive monthly reports before the end of the first quarter, with variances being reported in the budget setting reports (where revised current year budgets are presented), and from December because focus shifts towards the setting of the new budget with variances (identified during closedown meetings between the budget holders and the Assistant Accountants) being reported in the final accounts report.
- 4.3.9 Reports to Executive were found for the first two quarters of the 2019/20 financial year with the budget setting report (February) showing changes from the predicted outturn figure included within the base budget report.
- 4.3.10 Where money is to be moved between budgets (either to a different part of the same cost centre, or between budgets), a virement is undertaken. Testing was undertaken on a sample of virements performed to ensure that they had been processed appropriately, based on supporting documentation attached to the system.
- 4.3.11 Testing proved largely satisfactory. It was noted, however, that one virement appeared to be between different cost centres although the supporting paperwork suggested that the funds should have moved within the same one. This virement was subsequently reversed, although this appeared to be down to the original need no longer being present as opposed to the error being identified. Supporting paperwork was also not on the system for another virement that had been processed. However, when this transaction was queried with the relevant Assistant Accountant, he located the original paperwork and attached it to the system accordingly. Whilst these two

isolated errors do not warrant a formal recommendation, these need to be noted so that staff are aware that they should double-check their work.

- 4.3.12 The budget working papers are held on the shared network drive so that relevant budget holders can access them accordingly. They are broken down by service area, with a separate folder and spreadsheet for each budget holder (covering all of their relevant cost centres).
- 4.3.13 Testing was undertaken on a sample of budgets to ensure that working papers were in place and had been signed off by the budget holder. Budget working papers were found for each relevant budget holder, with these being signed off as appropriate. In two instances, the declarations had been completed by the new post holder as opposed to the person originally named.
- 4.3.14 Due to time constraints and the changed circumstances due to COVID-19, specific discussions were not held with budget holders. Other audits generally cover budget monitoring of the specific budget areas, with discussions with those budgets holders being held. However, as part of this audit, the SFM provided an overview of the process from the Accountancy perspective.
- 4.3.15 He advised that the level of commitment is varied across the Council. This might be, in part, due to the fact that not all those who have budget management responsibilities would necessarily have this as part of job descriptions.
- 4.3.16 One recent example of the varied level of commitment was highlighted in relation to the closedown meetings that had been held, with some 18 of the (approximately) 70 budget holders not being booked onto the sessions, including up to SMT level. This was a large increase on the previous year (following the previous closedown issues) where only two budget holders did not attend a session. The SFM advised that the Head of Finance was due to raise this issue at SMT but this has been impacted by the COVID-19 pandemic.
- 4.3.17 The level of reserves held and the reason for each of them is reported to Executive as part of the budget setting process. The risk section in the Executive report highlights current risks in relation to the reserves held, including the current need to replenish those that are forecast to be over-committed in the coming years.

5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Financial Strategy, Planning & Budgetary Control are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.

Level of Assurance	Definition
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 Just two issues were identified warranting recommendations although both of these were considered minor:

- Not all budget managers are attending relevant training sessions.
- Limits set within the Code of Financial Practice in relation to housing capital may not be relevant.

5.4 A further 'issue' was also identified where an advisory note has been reported. In this instance, no formal recommendation is thought to be warranted as there is little to no risk if the action is not taken. If the change is made, however, the existing control framework will be enhanced:

- Password protection for the MTFS spreadsheets could be considered.

6 Management Action

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Financial Strategy, Planning & Budgetary Control – March 2020

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.1.2	The 'Managing Your Cost Centre' course should be made mandatory for new budget managers with consideration being given to running this as refresher training for existing budget managers.	Managers may be unaware of their budget management responsibilities.	Medium	Strategic Finance Manager & HR staff	The Strategic Finance Manager will liaise with HR to ascertain how to make the course mandatory for new starters with budget management responsibility.	March 2021
4.1.2	Limits relating to capital expenditure set out in the Code of Financial Practice should be reviewed to ensure that they remain relevant.	Limits stated in the Code of Financial Practice in relation to (Housing) capital expenditure may not be appropriate.	Low	Strategic Finance Manager & Principal Accountant (Capital & Treasury)	Capital limits will be reviewed to ensure appropriate delegations are set to allow the HIP to support the needs of the service within the agreed total budget.	August 2020

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.