

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Finance
Strategic Finance Manager
C.C. Chief Executive
Deputy Chief Executive (AJ)
Principal Accountants

SUBJECT: Financial Planning and
Budgetary Control
DATE: 21 November 2013

1. Introduction

- 1.1. In accordance with the approved Audit Plan for 2013/14, an examination of the above subject area has been undertaken and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2. Wherever possible, results obtained have been discussed with the staff involved in the systems examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2. Scope And Objectives Of Audit

- 2.1. The purpose of the examination was to report a level of assurance on the adequacy of controls in place for financial planning and budgetary control to ensure that the Council's operations and key objectives continue to be sufficiently resourced.
- 2.2. This audit was linked in with a separately reported review of Medium Term Financial Strategy and examined the structures and processes covering:
 - preparation of annual financial plans (including alignment with the Medium Term Financial Strategy);
 - budget setting;
 - budget monitoring and reporting.
- 2.4. The evaluation made use of the CIPFA systems-based model (section on Budgetary Control within the Main Accounting Systems module), while in addition considering the state of implementation of the recommendations from the previous audit devoted to budgetary control reported in April 2011.
- 2.5. The findings are based principally on review of documentary evidence and testing with appropriate reference to the CIPFA model. While Andy Crump (Principal Accountant) was designated as principal contact for the assignment, the examination entailed some degree of discussion with most Accountancy staff.

3. **Audit Findings**

3.1 Recommendations from Previous Audit

3.1.1 The current position in respect of the recommendations from the audit reported in April 2011:

Recommendation	Management Response	Current Status
Consultations should be arranged with a view to agreeing formal service level standards for the budget monitoring process covering the roles of the budget managers, Finance (and other) support, information resources and training. <i>(Medium risk)</i>	Being considered as part of Financial Management Systems Intervention. A protocol rather than SLAs to be developed. Training to be considered in light of what is required within this.	A protocol was agreed and adopted from April 2012.
The form of senior management reporting on budget monitoring should be re-examined with consideration given to alternative formats of presentation to Senior Management Team and use of informal briefings where there is no requirement on the meeting agenda to submit a formal report. <i>(Low risk)</i>	Outline for format of report has been reviewed for 2011/12. April SMT being developed at present, Exec report to be reviewed prior to August meeting.	Variation in format between Executive and Senior Management Team reporting is now in evidence.
The principle and application of Finance and Audit Scrutiny Committee calling budget managers to account for failures in managing their budgets in accordance with approved standards should be explored in consultation with senior management, Portfolio Holder and Committee Chair as appropriate. <i>(Low risk)</i>	To be discussed with appropriate officers and Members as part of the consideration of the Q1 report. To be included within Budget Monitoring Protocol (subject to member approval)	Whilst this may not be detailed within the Budget Monitoring Protocol, this provision is still in place, and has been discussed at SMT and Finance & Audit Scrutiny Committee. Accordingly, officers and members should be aware of this potential requirement for budget managers to be called to account by Finance & Audit Scrutiny committee.

3.2 Developments Since Previous Report

3.2.1 The report of April 2011 was based on a review which, while scoped to cover the main accounting systems generally, focused substantially on budgetary control. The review was mainly in the form of consultations with selected Finance officers and Service Area Managers in order to gain an appreciation of operational issues connected with the budgetary control process. It is from these consultations that the above recommendations stemmed.

- 3.3.2 Since that report, the Finance systems intervention has culminated in significant changes to budgetary control arrangements including:
- § budget changes and virements now a continuous process replacing the previous annual revised estimate routine;
 - § greater empowerment for Accountants to action virements and budget changes in the Total Financial Management System, subject to management scrutiny and Executive ratification where applicable .
- 3.3.3 Revisions to the Code of Financial Practice (referred to hereafter as the Code) were approved in March 2012 to reflect these changes. Another noticeable feature is the removal of the word 'estimates' previously used in formal agenda, minute and report headings.
- 3.4 Financial Planning
- 3.4.1 The Financial Strategy (revised annually) and Medium Term Financial Strategy (continually updated) form the basis for ongoing financial planning in accordance with the Council's strategic priorities.
- 3.4.2 In the annual budget process, the service planning regime and the Fit for the Future Programme are key drivers, focusing on the need to find budget savings and efficiencies.
- 3.5 Budget Setting
- 3.5.1 The structures and processes for budget preparation are essentially unchanged from the previous review with a clear framework assigning responsibilities, timetabling essential tasks and ensuring proper consultations with senior management and Members leading to timely submission for Council approval.
- 3.5.2 The actual mechanics are centred on Excel spreadsheet models based on distributed workbooks completed by the budget managers feeding into consolidated workbooks with planned major projects, service changes and grant levels factored in from the Medium Term Financial Strategy.
- 3.5.3 Approved budget amounts are uploaded to the Total Financial Management System from a single dataset and subject to appropriate checks. System access to perform this task is appropriately restricted. Data match tests performed on the current year original budgets as part of the audit showed no anomalies.
- 3.5.4 A hierarchical budget responsibility structure is enshrined in the Total system and manifest in the internal budget books. Budget Managers are required to sign off the approved budgets for their respective cost centres. The signed budget statements are held in Finance.
- 3.5.5 Training briefings were last given to Budget Managers in the wake of the new protocol issued in April 2012.

3.6 Budgetary Control

- 3.6.1 The protocol introduced in April is a concise document setting a basis for joint working between the Accountants and services with the aim of managing budgets effectively, including identifying and acting on variances and budget changes promptly.
- 3.6.2 Report-back from the process is exception based and entails entry on a central Excel workbook (Budget Changes to Action) which is scrutinised by the Strategic Finance Manager and is one of the key feeds into updates of the Medium Term Financial Strategy. Information provided includes trails to the applicable transactions in Total and references to required authorisations.
- 3.6.3 To date, application of this spreadsheet logging is limited to General Fund only, although it is advised that it will extend to the Housing Revenue Account in due course.
- 3.6.4 Test matches of significant in-year budget changes in Total to the Budget Changes to Action spreadsheet (and supporting authorisations where applicable) confirmed that the changes complied with the Code.
- 3.6.5 Accountants are also empowered to action virements, defined in Paragraph 12.4 of the Code as a "legitimate transfer of available resources from one budget head another". The Code goes on to say "use of virements must not create additional overall budget liability....").
- 3.6.6 Virements in the current year transferring large amounts between service heads as a result of officer structure changes were particularly noticeable from the test matches. While there is no doubt as to validity of these, certain ambiguities in the provisions of the Code come to light here. In the latest revision, Paragraph 12.13 gives a measure of freedom to move budgets within services and between Service Areas (in the latter case with Head of Finance approval). Although these 'budget moves' are not specifically defined as such, these are still held to constitute virements under the definition in Paragraph 12.4.
- 3.6.7 The ambiguity here concerns a long-standing provision (Paragraph 12.7) that still requires full Council approval for virements over £100,000, of which one instance was identified in the test. There is no clear statement in the Code to the effect that the freedom to move budgets under Paragraph 12.3 constitutes an exception to this rule.

Risk

Virements may be subject to challenge as unauthorised under the Code of Financial Practice as currently worded.

Recommendation

The Code of Financial Practice provisions should be revised to remove any ambiguities concerning the definition of virements and the circumstances where Member approval is required.

- 3.6.8 In contrast to revenue budget monitoring, the mechanisms for capital programme monitoring and management of reserves are essentially unchanged from those previously audited. The recent audit of main Accounting Systems devoted some coverage to these areas.
- 3.6.9 Stewardship reports are made to Senior Management Team (generally monthly) and Executive (quarterly).
- 3.6.10 On this occasion, the audit review did not incorporate general consultation with Accountancy staff and service managers as on the last occasion. That said, some feedback on the operation of the budget monitoring system indicates that issues reported in 2011 are still being encountered, in particular variations in buy-in and commitment from managers.
- 3.6.11 While it is not the purpose of this review to assess the operational issues, it is recognised that added pressures and complications caused by recent restructures and other known staffing issues will have significant impact here. It is also recognised that the budget management system is continuing to evolve.

4 **Conclusions**

- 4.1 The developments in budget management over the last two years applying greater officer empowerment and continuous budget change have to be seen as a positive step to support real-time response to developments affecting the Council's financial position. The findings from the review confirm that sound systems are in place to keep the process within bounds thus mitigating the key risks to proper financial governance. The evaluation is therefore seen as giving SUBSTANTIAL overall assurance of the capability of the systems in place to achieve the relevant corporate and service management objectives.
- 4.2 Observations on virement activity suggest that certain traditional provisions of the Code of Financial Practice have become out of step with the prevailing characteristics of virement transactions and freedoms to move budgets.

5 **Management Action**

- 5.1 A recommendation incorporated to address the above issue is reproduced in the appended Action Plan for management response.

Richard Barr
Audit and Risk Manager