

preparation of annual financial plans and the associated budget setting, monitoring and reporting.

3.4 The control objectives that have been considered as part of this audit include:

- 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 Recommendation from Previous Report

4.1.1 The current position in respect of the recommendation from the audit reported in November 2013 is as follows:

Recommendation	Management Response	Current Status
1 The Code of Financial Practice (COFP) provisions should be revised to remove any ambiguities concerning the definition of virements and the circumstances where Member approval is required.	The Financial Code of Practice will (most likely) next be revised in 2014, after next year's Budgets have been finalised. As the recommendation relates to an "ambiguity" rather than a material monetary risk to the Council, it is proposed to incorporate this amendment then.	Audit inspection and review of section 12 of the COFP shows the basis for use of budget virements has been clearly defined.

4.2 Financial Planning

4.2.1 The overall framework for financial planning is clearly evidenced within the Code of Financial Practice (COFP).

4.2.2 The individual sections of the COFP set out, to a good standard, the expected generic elements of the budgetary control cycle.

4.3 Budget Setting Process

4.3.1 Compliance tests were performed to assess if controls were operating effectively for the 2016/17 annual revenue budget cycle and that a risk assessment of material income and revenue expenditure was undertaken as part of budget setting.

4.3.2 Evidence provided by the Principal Accountants demonstrated that a systematic approach to compilation of the 2016/17 annual revenue budget was in place.

4.3.3 Committee reports and minutes also clearly demonstrated that the budget for the year was recommended by the Executive and approved by the Council.

4.4 **System Input**

4.4.1 Tests were performed with the objective of confirming that the individual service income, revenue expenditure and capital expenditure budgets for 2016/17 had been correctly input onto Total (the financial management system) with the objective of facilitating budget monitoring controls.

4.4.2 The audit trails from the Total budgetary control module were checked to the 2016/17 revenue and capital service budget book and confirmation was obtained that all the budgets have been correctly uploaded.

4.5 **Budget Virements**

4.5.1 A budget virement is an administrative transfer of funds from one part of a budget to another, allowing for managers to accurately reflect how they intend to spend the funds under their control.

4.5.2 The process was tested using a sample of four 2016/17 service revenue budget virements. Evidence provided and reviewed confirmed that the authorisation controls were operating correctly.

4.6 **Budget Holders**

4.6.1 A test was completed to verify that all 2016/17 budgets have specific named budget holders. Review of the "allocate codes to hierarchies" screen in Total provided adequate evidence that each cost centre is linked to the relevant service budget holder.

4.6.2 The Principal Accountant responsible for training staff on Total acknowledged that budget holder financial training, to help with the monitoring of the 2016/17 revenue budget, needs to be planned to take account of known, imminent, staffing changes.

Risk

Relevant staff with budget responsibility may be unaware of their budget monitoring requirements.

Recommendation

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.

4.7 **Documentation of Procedures and Responsibility**

4.7.1 The COFP budgetary control procedures were reviewed and were evaluated to consider if any enhancements could be made to the existing control arrangements.

4.7.2 The inspection confirmed that the procedures are generally clear and defined. However, the supplementary budgets and virement procedures at section

9.11.1 for housing capital improvement and renewal is considered to need updating to give greater flexibility to the Executive to approve supplementary housing capital budgets and virements.

- 4.7.3 The existing approval levels within the relevant procedure are set at, what the auditor considered to be, an inappropriate level, i.e. up to £300,000 per annum and up to £50,000 per request. It is felt that these levels should be increased if the cash resources available allow the capital programme to be flexed across financial years.

Risk

The Executive may be inappropriately constrained in terms of the capital budget changes that they can approve.

Recommendation

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.

4.8 Budget Monitoring

- 4.8.1 The overarching arrangements for 2016/17 budget monitoring are well documented in the budget protocol for joint working between the Principal Accountants and service area budget holders.
- 4.8.2 Following the monthly budget monitoring reviews the resulting actions, such as budget virements, are appropriately documented in the control spreadsheet maintained. This highlights the financial impact within the services revenue budgets and the budget changes to action.
- 4.8.3 The joint monitoring arrangements by the Principal Accountants and service teams were tested with the objective of ensuring that the actual financial activity, compared to budgeted activity, was subject to timely review.
- 4.8.4 A sample of three out of the seven service areas was chosen to test. Working papers maintained by the Principal Accountants clearly show that the service managers took ownership for budget monitoring and, with the guidance from the Principal Accountant, clear financial decisions were taken and subsequent actions were adequately documented and completed in a timely manner.

4.9 Budget Reporting

- 4.9.1 The governance reporting process to the Executive and Senior Management Team during 2016 was tested for compliance with the expected frequency of reporting per the reporting timetable. This testing confirmed that budgetary control reports are being provided to Executive (quarterly) and SMT (monthly) in line with the reporting timetable.
- 4.9.2 The key significant variances between the approved revenue budget and actual financial transactions are well communicated in the reports to the Executive as demonstrated in the report Final Accounts 2015/16, dated 2 June 2016.

4.9.3 The draft quarter one (2016/17) revenue budget monitoring report was also reviewed with the objective of confirming that significant budget variances have been identified by Principal Accountants and service areas and any subsequent amendments to the revenue budget are recommended for approval by the Executive.

4.9.4 The review of the report confirmed that this process is working satisfactorily, as the draft report explained that, as a result of budget monitoring, the 2016/17 revenue budget will require increasing, using contingent uncommitted reserve balances and a recommendation has been made to the Executive to authorise use of this reserve. This is on schedule to be reported to the Executive meeting on 27 July 2016.

4.10 **Financial Reserves**

4.10.1 The specific financial reserves process and controls as at 31 March 2016 were tested with the objective of seeing evidence that the financial reserves were justified.

4.10.2 Inspection confirmed that the actual balances at 31 March 2016 were appropriate, being above the minimum working balances set (General Fund £1.5m and the Housing Revenue Account £1.25m).

4.10.3 The specific earmarked reserves process was walkthrough tested using the Business Rates Volatility Reserve as at 31 March 2016. Upon review, it was considered that there was appropriate justification for holding the reserve and there was evidence that the working balance had been appropriately reassessed. The financial reserves process is, therefore, considered to be operating correctly.

5 **Conclusions**

5.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for Financial Planning and 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.
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 Two recommendations were made relating to: i) identification of staff who may need training in respect of budget monitoring controls; and ii) consideration of amending the Code of Financial Practice for supplementary budgets and virements for housing capital improvement and renewal.

6 Management Action

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

Richard Barr
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Action Plan

Internal Audit of Financial Planning and Budgetary Control – August 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer	Management Response	Target Date
4.6.2	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.	Relevant staff with budget holder responsibility may be unaware of their budget monitoring requirements.	Medium	Principal Accountant (Systems)	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.	March 2017
4.7.3	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.	The Executive may be inappropriately constrained in terms of the capital budget changes that they can approve.	Medium	Strategic Finance Manager	This will be considered within the next review of the Code of Financial Practice.	March 2017

* 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.