

- 3.3 In terms of scope, the audit covered the following risks:
1. Insufficient and / or uncertain finance to enable the Council to meet its current and future objectives.
 2. Unforeseen financial liabilities or Services not flagging known areas of future expenditure.
 3. Formal budget setting timescales are not adhered to.
 4. The Council must cease certain popular services due to poor financial planning or lack of funds.
 5. The Council is unable to set a balanced budget / MTFS shows a future deficit.
 6. Processes not adhered to increasing opportunity for fraudulent / unauthorised expenditure.
 7. Stress of managing workload if resources or capacity is limited.
 8. Work spread unevenly amongst teams leading to enhanced pressure on some staff.
 9. Loss of staff knowledge through staff retention issues / recruitment challenges.

3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

- Core financial administration processes underpin the Money strand of the Fit for the Future strategy in place.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in March 2020 was also reviewed. The current position is as follows:

| | Recommendation | Management Response | Current Status |
|---|--|--|--|
| 1 | 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. | The Strategic Finance Manager will liaise with HR to ascertain how to make the course mandatory for new starters with budget management responsibility. | The Learning & Development Officer confirmed that accountants are encouraged to schedule the training but it is not mandatory. There is a meta reminder circulated but not training specifically as a refresher. |
| 2 | Limits relating to capital expenditure set out in the Code of Financial Practice should be reviewed to ensure that they remain relevant. | 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. | Code of Financial Practice available is from 2015 so has not been updated since the last audit. There are no "review" dates published so it may not have been reviewed since its production in 2015. |

- 4.1.2 It is considered by Internal Audit that two of the recommendations from the previous audit of Financial Planning and Budgetary Control require further consideration. Please note the below risks were highlighted in the internal audit report from September 2016, noted as unresolved and carried forward in the March 2020 report.

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 **Financial Risks**

- 4.2.1 **Risk: Insufficient and / or uncertain finance to enable the Council to meet its current and future objectives.**

The MTFS is a rolling document which is updated and changed as needed. There are currently two live documents, one of which has been updated to show the financial situation without the merger between SDC and WDC. The other document, although no longer a "working" document, showed the strategy with expected financial outcomes should the merger have continued.

Members are provided with updates regarding the status of the budgets when significant amendments are made as well as receiving quarterly reports. The MTFS was approved by Committee in December 2021 as part of the quarter two budget report.

The most recent updated to the document had incorporated changes from a report approved at committee meetings which had budget implications. Other budget changes from earlier in the year had also been reflected in the strategy. Some of the changes included the "applause" initiative, ICT systems alignment costs, estimated pay inflation and expected income for garden waste payments.

The MTFS includes estimated income for Council Tax as well as potential expenditure for inflation on contracts. There are a number of grants and payments the Council receives that are underestimated, as the final amount has not yet been declared, or there has not been a figure allocated as they are

received late in the year and not a guaranteed income - for example, the Local Finance Settlement Figure which is usually received in late December. The reserve funding includes costs associated with the Commonwealth Games, Jubilee Celebrations and the neighbourhood plan.

The budgetary spreadsheets show an allocation towards the relocation of the main Council office but no savings could be identified or additional costs associated with the closure of the fourth floor. This could be due to the spreadsheet assuming "worst case scenario" outcomes.

A review of the ICT access properties for the budget setting and MTFS spreadsheets was completed. The access is restricted to appropriate officers within Council, this includes Finance and ICT support staff.

The responsibilities for budgetary control are set out within the Code of Financial Practice which is available to all staff via the intranet. The Code was last approved in 2015 and should be reviewed - the recommendation in para. 1.2 applies here. The responsibilities are set out for the Executive, Council, Head of Finance (previous job title - now 'Head of Financial Services'), heads of service, budget managers and the Chief Executive

Backup copies of the budget spreadsheets and the MTFS are completed as part of the Council's main backup programme.

4.2.2 **Risk: Unforeseen financial liabilities or Services not flagging known areas of future expenditure.**

Accountants meet with budget managers regularly and encourage them to inform the accountant of any changes that would have financial implications. All managers are contacted at year-end and asked to provide any details or concerns where budget changes may need to be considered or provisions need to be made.

Budget updates are shared with the senior leadership team (SLT), agendas and summaries of SMT meetings are available for all staff to view on the intranet. The sharing of budget updates

Where a budget change has been needed the MTFS and budget sheets have been adjusted accordingly. A number of significant changes were identified on the spreadsheet and could be tracked back to committee reports where the change had been approved.

Accountancy staff work alongside service areas when they are managing larger projects or contracts to help ensure that costs are considered and reflected accurately in the strategy. Meetings are held regularly throughout the year to review any additional budgetary considerations.

4.3 **Legal and Regulatory Risks**

4.3.1 **Risk: Formal budget setting timescales are not adhered to.**

The budget book sets out the Council's income and expected expenditure across the year. The latest version of the budget book was reported to Cabinet and approved by Council in February 2022. The book shows the sources of income and areas of expenditure in both spreadsheet and pie chart format allowing a quick overview of the figures as well as more detailed information.

Reports are issued to SLT and managers forum on a regular basis as well as a report to committee on a quarterly basis. Minutes for SLT are available on the intranet and could be reviewed to show the finance position updates shared. The meeting minutes from 14 July showed that the reports had been discussed and circulated appropriately. The minutes from a managers forum meeting on 1 September show that the budget update was shared along with timeframes for the updated fees and charges and budget setting for the next financial year. The minutes highlight the savings the Council needs to make.

Committee meeting agendas were also reviewed and quarterly budget update reports had been presented to Executive. Confidential reports were also found where changes needed to be made to the budgets. These changes could be followed through from the reports to the MTFS.

Reminders are sent to officers asking them to speak to their allocated accountant should they have any expected changes which will impact their budgets. Reminders are also issued for the updating of fees and charges to ensure they can be reviewed and presented to committee in time for the changes to be advertised and in effect from the beginning of January. The current fees and charges was approved on 4 November 2021. The fees and charges for 2023 are currently being reviewed and calculated, with an expectation that they will be reported and approved at Cabinet on 3 November 2022.

The completion of the fees and charges allows the budgets to be prepared and approved in February with the Council tax billing. The current budget was reported to Cabinet on 10 February 2022 and approved by Council on 23 February 2022.

4.4 **Reputational Risks**

4.4.1 **Risk: The Council has to cease certain popular services due to poor financial planning or lack of funds.**

There are risk registers in place that budget managers and accountants can use to help manage and plan their budgets. By identifying relevant potential risks, appropriate controls and contingencies can be implemented. Some key potential risks identified include insufficient finance to sustain services or to meet objectives and contract failure. The risk registers available on the intranet for staff use are from 2019. There have been a number of changes since then both locally and nationally, with service area reorganisations and the pandemic. It is important that the risk registers be kept up-to-date so that budget managers and accountants can consider and use relevant and current potential risks to inform their budgetary decisions.

Recommendation

The Service Area risk registers available on the intranet should be updated annually to ensure they reflect relevant and current risks.

Reports to Cabinet reference factors including budgets, ensuring that managers and officers consider the impact of the report on budgets and financial planning. An assessment of risks is also incorporated into report templates which provides another opportunity to identify budget changes and considerations. The “financial” section of the report template states:

4.2.1 Include a summary of the financial implications of the proposal for either the relevant Council or both Stratford and Warwick.

Advisory

The current report template online is the shared WDC and SDC template. This will need reviewing and updating to be relevant for WDC only.

The reserves held were previously reported quarterly to executive. The reports show variances to the budgets and the impact on services should changes not be implemented. As mentioned in para. 4.3.1, budgets are discussed at Managers Forum meetings which includes information about savings to be made and reminders to review the budgets to help to reduce the risk of unplanned expenditure.

4.4.2 Risk: The Council is unable to set a balanced budget / MTFS shows a future deficit.

Budget meetings between accountants and budget managers are carried out throughout the year allowing changes to be considered and implemented. A “budget changes to action” (BCA) spreadsheet is updated to reflect these changes which can then be considered and implemented on the MTFS.

Accountants work alongside service areas, reviewing budgets with the officers, so that any projects or contract renewals are considered with the relevant costs taken into account. These include contracts such as leisure centres and waste management contracts and projects like the commonwealth games and the Council head office plans. The BCA spreadsheet includes changes such as staffing changes in service areas, restructure costs and Climate Change Programme Officer funding.

The MTFS at present shows a deficit of £1.4m with a forecast of a £3m deficit for 22/23 based on the expected price rises. A saving of £3m needs to be secured.

The budget spreadsheets for budget managers are clearly set out and include a range of expenditure sections and income (where required).

4.5 **Fraud Risks**

4.5.1 **Risk: Processes not adhered to increasing opportunity for fraudulent / unauthorised expenditure.**

The responsibilities for budgetary control are set out within the Code of Financial Practice which is available to all staff via the intranet. As mentioned earlier in this report the code may be in need of a review to ensure the processes are relevant and the officers and roles with responsibility are current.

There was a Meta training issued recently for budget managers regarding the closure of accounts for 2021/22. The meta was still live on 9 September 2022 and due to be taken down. 221 staff had acknowledged and confirmed the process and 238 had responded to say they weren't involved in the process.

An email was circulated to managers forum on 20 July requesting that managers consider and declare any contingencies and liabilities for the end of year process. The email provides scenarios and examples of the information they needed to consider and declare.

There are currently 57 budget managers identified on the budget sheets. Although there is advice available for budget managers on the intranet on how to find out what their approved budget is for the year, the advice is outdated and signposts the user to links that no longer exist. Within another Finance Services page there are additional guide documents but these also do not have a link.

Recommendation

The advice and FAQs on the intranet Finance Services pages should be reviewed and updated.

The budget book is not available through the intranet Finance pages and the search function does not produce the current book in the results, the most recent result showing as 2019-20. The book is available within the shared accountancy computer drive.

Recommendation

To make the budget book readily available for officers to view, the files available on the Finance page should be reviewed and updated.

There are various training documents online for all staff providing instructions on how to use the basic functions of the finance system such as logging on and navigation. Some of the training documents for budget managers are no longer fit for purpose as they "talk" the users through the old finance system.

Recommendation

The training documents available on the intranet for budget managers should be updated so the guidance can be used with the new finance system.

No guidance could be found on the intranet documenting the expenditure authorisation process. Authorisation limits are set for officers who have the ability to authorise expenditure. A sample of staff was asked if they knew what the upper limit was that they could authorise. There were mixed responses with some staff unsure of the amount they could authorise. The authorisation list and limits are published within the finance system.

Advisory

Staff who can authorise expenditure could be notified and made aware of their authorisation limit.

When entering a purchase amount into the finance system for approval there is no hierarchy or details to tell the user the limit of the authoriser they are selecting. This means they could be unknowingly selecting an officer with inadequate access level. This is more of a finance system issue and could be overridden by selecting a higher level of management to authorise payments. The system does automatically escalate the authorisation up to the next level where limits aren't high enough. In these cases, though, the system would not know if that officer was on leave potentially stalling payments.

A review of spending was completed to check the orders were authorised appropriately. In a sample of 20 selected transactions from within the last two months all had been authorised appropriately. In 2 cases the amount was more than the authorising limit of the officer selected. In these cases a second officer had been allocated the responsibility of authorising the expenditure.

4.6 Health and Safety Risks

4.6.1 Risk: Stress of managing workload if resources or capacity is limited.

An accountancy timetable is saved to the accountancy shared drive. The timetable doesn't allocate time for the end of year process specifically but this could be factored into the budget setting allocation. There is also no annual leave factored into the plan. The plan has been partially organised with the top half sorted by date. However, the bottom half of the plan hasn't been included in this and is instead sorted by lead accountant name. Although there are dates for the workload, there is no "sign-off" to show if it is complete. The sorting of the plan makes it difficult to identify busier periods and without annual leave showing there is no way to confirm if staff resources have been considered and are adequate for the tasks.

Recommendation

The accountancy timetable should be reviewed to ensure it is an adequate control to manage the accountancy tasks and resources available.

4.6.2 Risk: Work spread unevenly amongst teams leading to enhanced pressure on some staff.

The staff structure was mapped out using the staff details available on the intranet. The Accountancy team consists of the Head of Financial Services (Interim), four Principal Accountants and a Strategic Finance Manager (Interim). Below this level there are five assistant accountants and five other officers in various roles. These other roles include specialist roles such as systems officer and grant and loans manager and a trainee role.

A review of the budget spreadsheet shows two main account groups: income and expenditure. Within these there are eighteen subgroups. These subgroups include fees and charges, support services and transport. 57 cost centre managers are identified. A separate spreadsheet lists the cost centre managers and their supporting accountant. There are six accountants listed, one of which is no longer employed by the Council. On this separate spreadsheet there are 54 cost centre managers identified.

Recommendation

The budget spreadsheets should be reviewed and updated to ensure that current officers only are listed and that the service areas are in line with upcoming changes to the Councils structure.

As there is a proposed new structure due to be implemented on 1 October 2022, it would seem sensible to wait to complete any updates until it has been approved.

Assurance over the controls in place to prevent this risk cannot be given due to the data available being inaccurate and conflicting across the different spreadsheets. Analysing the information available would create an inaccurate opinion of the controls in place.

4.7 Other Risks

4.7.1 Risk: Loss of staff knowledge through staff retention issues / recruitment challenges.

The Financial Services area has gone through a period of uncertainty over the last 18 months, with changes implemented in preparation for the proposed merger between WDC and SDC, and then the undoing of those changes. The head of the service left with an interim appointment of a SDC employee filling the role on a short-term basis. Following the breakdown of the merger, the post is now held by a WDC employee, albeit still on an interim basis. On top of these major changes there have also been a number of accountancy staff leave the Council. Many other service areas within the Council have also been restructured. This has resulted in instability for the accountancy staff, not just within their teams but in the wider teams whom they support.

A new Council organisational structure has been proposed, due to be implemented on 1 October 2022. Once implemented the accounts roles can be realigned with the relevant service areas enabling the workload to be split between the officers utilising their skills and knowledge.

The interim Head of Financial Services had stated that recruitment is generally difficult in the accountancy team as officers internally don't have the required qualifications to apply for higher posts. There are no vacancies being advertised at present.

5 Summary and Conclusions

5.1 Section 3.3 sets out the risks that were being reviewed as part of this audit. The review highlighted weaknesses against the following risks:

Risk 4 - The Council must cease certain popular services due to poor financial planning or lack of funds.

Risk 6 - Processes not adhered to increasing opportunity for fraudulent / unauthorised expenditure.

Risk 7 - Stress of managing workload if resources or capacity is limited.

Risk 8 - Work spread unevenly amongst teams leading to enhanced pressure on some staff.

There were also two additional risks with recommendations carried forward from previous audit reports. Those risks were:

Risk - Managers may be unaware of their budget management responsibilities.

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

5.2 Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted, as there is little to no risk if the actions are not taken.

5.3 Although there are a relatively large number of recommendations, we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Financial Strategy and Budgetary Control are appropriate and are working effectively to help mitigate and control the identified risks.

5.4 The assurance bands are shown below:

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

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 and Budgetary Control – October 2022

| Report Ref. | Risk | Recommendation | Rating* | Responsible Officer(s) | Management Response | Target Date |
|--------------------|--|--|----------------|-------------------------------|--|--------------------|
| 4.1.2 | Managers may be unaware of their budget management responsibilities. | 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. | Medium | Principal Accountant | A new training programme is to be established to support the use of the new Finance Management System, introduced in Nov 21. This was supported at launch by mandatory training sessions | April 23 |

| Report Ref. | Risk | Recommendation | Rating* | Responsible Officer(s) | Management Response | Target Date |
|--------------------|--|--|----------------|-------------------------------|--|--------------------|
| 4.1.2 | Limits stated in the Code of Financial Practice in relation to (Housing) capital expenditure may not be appropriate. | Limits relating to capital expenditure set out in the Code of Financial Practice should be reviewed to ensure that they remain relevant. | Low | Head of Finance | Code of Financial Practice to be reviewed following recent appointment to Head of Finance. | April 23 |

| Report Ref. | Risk | Recommendation | Rating* | Responsible Officer(s) | Management Response | Target Date |
|--------------------|--|---|----------------|---|--|--------------------|
| 4.4.1 | The Council has to cease certain popular services due to poor financial planning or lack of funds. | The Service Area risk registers available on the intranet should be updated annually to ensure they reflect relevant and current risks. | Low | Audit & Risk Manager | Requests to service managers for updated risk registers, which can then be updated on the Intranet. The Finance Risk register is in its final stages of review and will be updated in October. | Dec 22 |
| 4.5.1 | Processes not adhered to increasing opportunity for fraudulent / unauthorised expenditure. | The advice and FAQs on the intranet Finance Services pages should be reviewed and updated. | Low | Strategic Finance Manager/ Strategic Procurement and Creditors Manager | Legacy documents to be removed from Intranet, and relevant pages reviewed and updated as necessary. | Dec 22 |

| Report Ref. | Risk | Recommendation | Rating* | Responsible Officer(s) | Management Response | Target Date |
|-------------|--|---|---------|---------------------------|---|---------------------|
| | | To make the budget book readily available for officers to view, the files available on the Finance page should be reviewed and updated. | Low | Strategic Finance Manager | The Budget book is available on the WDC Internet page as it is a statutory requirement to publish. This is typical for external purposes and budget managers are advised to use the Finance Management System to review and manage budgets. Any guidance notes referring to the budget book will be updated as necessary. | Dec 22 |
| | | The training documents available on the intranet for budget managers should be updated so the guidance can be used with the new finance system. | Medium | Strategic Finance Manager | Legacy documents to be removed from Intranet, and relevant pages reviewed and updated as necessary. Guidance for the new finance system is already available on the Intranet and will continue to be updated as the system evolves. | Apr 23 |
| 4.6.1 | Stress of managing workload when resources or capacity may be limited. | The accountancy timetable should be reviewed to ensure it is an adequate control to manage the accountancy tasks and resources available. | Medium | Strategic Finance Manager | Timetable review has commenced and is being updated in line with new deadlines. Resourcing and capacity have been reviewed, with the team fully established following successful recruitment. | Dec 22 and on going |

| Report Ref. | Risk | Recommendation | Rating* | Responsible Officer(s) | Management Response | Target Date |
|--------------------|--|--|----------------|-------------------------------|---|--------------------|
| 4.6.2 | Work spread unevenly amongst teams leading to enhanced pressure on some staff. | The budget spreadsheets should be reviewed and updated to ensure that current officers only are listed and that the service areas are in line with upcoming changes to the Councils structure. | Low | Strategic Finance Manager | The team structure is currently being reviewed in line with the recently updated organisational structure, to ensure work is distributed evenly across the team and service managers have a consistent dedicated support resource in accountancy. | Dec 22 |

* The ratings refers to how the recommendation affects the overall risk and are defined as follows:

- High: Issue of significant importance requiring urgent attention.
- Medium: Issue of moderate importance requiring prompt attention.
- Low: Issue of minor importance requiring attention.