



FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF THE FINANCIAL STRATEGY AND BUDGET COMPLIANCE FOR 2018-19

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REVIEW OF FINANCIAL STRATEGY AND BUDGET COMPLIANCE 2018-19

INTRODUCTION

1. This report sets out the results of our systems based audit of The Financial Strategy and Budget Compliance 2018-19. The audit was carried out in quarters 3 and 4 of 2018-19 as part of the programmed work specified in the 2018-19 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the Authority's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The Authority is one of the few authorities without debt. The Authority will have retained previous years' collection fund surpluses totalling £5.7m at the end of 2018/19 (which is normally credited to revenue budgets) as well as a financial management and risk reserve of £10m (both included within earmarked reserves).
4. The Director of Finance has taken a prudent approach in the use of the reserves, as he explained that one off payments to close budget gaps come at an opportunity cost, i.e. rather than being used for investment opportunities as per the Transformation Programme and helping to provide future revenue streams. Also it would not provide a sustainable solution.
5. While a balanced budget has been achieved for the 2019-20 financial year, which was approved by Executive on 13 February 2019, the budget for the medium term plan (i.e. the next three years 2020-21, 2021-22 and 2022-23) is not yet balanced, with cumulative budget gaps respectively of £15.5m, £20.3m and £31.7m.
6. There are three lines of defence in setting the budget and monitoring the budgets, the first line is the officers with direct involvement in income and expenditure, for example the budget holders. The second line of defence is all those key personnel that have an oversight of the budget and include, but are not exclusive to, the Chief Officers for each department, Scrutiny Committees, the Director of Finance, the Executive and the Full Council who approve the final budget. The third line of defence includes the internal and external auditors who assess actions taken with regards to the budget and identify any issues with budget setting/monitoring etc.

AUDIT SCOPE

7. The scope of the audit is detailed in the Terms of Reference.

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AUDIT OPINION

8. Overall, the conclusion of this audit was that Substantial Assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

9. Controls noted to be in place and working well, based on the sample testing conducted, included:
- Roles and responsibilities of those involved with the setting of the budget were detailed in the Financial Regulations and Procedures 2015 and the 'Annual Budget timetable and Guidelines 2018/19'.
 - The 2019/20 budget was balanced and was agreed by Full Council at the February 2019 meeting.
 - Reserves had not yet been required to cover budget gaps. The Director of Finance has set up general fund reserves of £20m, which exceeds the 3-5% guidelines as set by CIPFA.
 - The Council has recognised the need to critically review services and, where appropriate, transform these to reduce costs, and accordingly had put a Transformation Programme in place.
 - The Authority had produced a four year medium term financial plan, in line with CIPFA guidance.
 - Budgets with severe pressures were being monitored on a more frequent bi-monthly basis.

However, we would like to bring to management attention the following issues:

- The budget timetable did not provide sufficient detail or guidance on the savings to be achieved.
- In some cases identified savings did not sufficiently detail how these savings had been identified/calculated and when, for example, these were expected to be achieved.
- The Transformation Programme 'Project Initiation Document and Terms of Reference' was still in draft at the time of the audit but has subsequently been agreed and finalised.

SIGNIFICANT FINDINGS (PRIORITY 1)

10. There were no Priority 1 recommendations raised as part of this audit.

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DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

12. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

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DETAILED FINDINGS

APPENDIX A

No.	Findings	Risk	Recommendation
1.	<p><u>Budget Setting Guidelines</u></p> <p>In order to help ensure that the annual budget is produced and agreed in a timely manner and that all staff are aware of senior management expectations, appropriate budget setting guidelines should be in place.</p> <p>It was confirmed that the ‘Annual Budget timetable and Guidelines 2018/19’ had been produced and provided to relevant staff, which detailed the Authority’s approach, the budget timetable and advice on the process. Examination of the document confirmed that, while this provided detailed guidance on budget pressures and what was needed to support the arguments for these pressures, this did not provide the same detail of guidance on savings (i.e. efficiencies and mitigations). For example, this did not detail expectations on how savings should be calculated and substantiated or highlight the importance of the timing and sustainability of these savings.</p>	<p>Where sufficient guidelines are not in place for how savings and mitigations are to be achieved, there is a risk that there will not be sufficiently detailed supporting documentation and calculations available to support the savings identified, which will restrict the Authority’s ability to challenge and monitor these.</p>	<p>The budget timetable going forwards should provide more detail on the information required to support any savings identified to enable these to be properly challenged and monitored.</p> <p>(Priority 2)</p>

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DETAILED FINDINGS

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No.	Findings	Risk	Recommendation
2.	<p><u>Savings Plans</u></p> <p>As part of the 2019/20 budget, each directorate was required to provide a savings (i.e. efficiencies and mitigation) plan.</p> <p>The majority of the savings were identified and linked to the individual commissioning plans. However in some cases there was minimal detail of how the actual savings figures had been calculated (i.e. did not sufficiently detail how these savings had been identified/calculated and when for example these were expected to be achieved).</p>	<p>Where appropriate evidence is not provided to support the identified savings, there is a risk that these savings are more difficult to check or challenge. Furthermore, these are more difficult to monitor, with the risk that planned savings may be substituted with other savings which may not be sustainable.</p>	<p>Any identified savings should be supported with appropriate calculations and assumptions to enable these to be checked and appropriately monitored.</p> <p>(Priority 2)</p>
3.	<p><u>Savings Monitoring</u></p> <p>In order to help ensure that the expected savings are achieved and are sustainable, these should be monitored against the original savings plans.</p> <p>While quarterly (bi-monthly for high risk areas) budget monitoring was in place across the Authority, there was no evidence of the savings plans being specifically monitored.</p>	<p>Where savings are not monitored on a regular basis, there is a risk that savings will not be achieved as expected or that planned savings may be substituted with other savings which may not be sustainable.</p>	<p>The achievement of the identified savings should be monitored at least on a quarterly basis.</p> <p>(Priority 2)</p>

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APPENDIX B

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1.	The budget timetable going forwards should provide more detail on the information required to support any savings identified to enable these to be properly challenged and monitored.	2	The Council always worked to a budget timetable and the financial forecast is updated on a bi-monthly basis. A full timetable of savings/mitigation options is being identified through the council's overall transformation programme. Proposals from transformation are expected to be fully identified in October 2019.	Director of Finance	Completion by end of October 2019
2.	Any identified savings should be supported with appropriate calculations and assumptions to enable these to be checked and appropriately monitored.	2	The Heads of Finance for respective service areas are required to validate any saving proposals and provide necessary challenge to ensure the robustness of the savings identified with adequate evidence to support the proposals.	Director of Finance and Chief Officers Group	Ongoing
3.	The achievement of the identified savings should be monitored at least on a quarterly basis.	2	Savings are monitored through the quarterly budget monitoring arrangements. A list of all savings/mitigation will be reported	Director of Finance	Ongoing

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			separately to Chief Officers and the identified savings will be monitored and reported through the Council's quarterly budget monitoring to Councillors with bi-monthly monitoring on high risk areas.		

OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.