THE LONDON BOROUGH
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FINAL INTERNAL AUDIT REPORT

CHIEF EXECUTIVE'S DIRECTORATE

REVENUE BUDGET MONITORING 2022/23

Issued to: **Director of Finance**

                     Head of Finance – Adult Social Care, Health and Housing

                     Head of Finance – Children, Education and Families

                     Head of Finance – ECS and Chief Executive's

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INTRODUCTION

1.   This report sets out the results of our internal audit of Revenue Budget Monitoring. The internal audit was carried out as part of the work specified in the 2022-23 Internal Audit Plan. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.

2.   The London Borough of Bromley (Council) currently operates with a draft budget of £177 million which was finalised in conjunction with the estimated council tax at band D of £1,736.72 on 12 January 2022 and was formally approved by the Executive Committee on 9 February 2022 and full Council on 28 February 2022.

3.   The Council moved to System A in April 2022 (their main Financial Management System) and planned to operate with System B planning and forecasting. However, the planning and forecasting module for System A was unavailable until September 2022 with Finance staff using it for the 2023/24 draft budget production between October and March 2023. Limited rollout to budget holders started in January 2023.

4.   We would like to thank everyone contacted during this review for their help and cooperation.

AUDIT SCOPE

5.   The original scope of the audit was outlined in the Terms of Reference issued on 6 January 2023.

6.   We reviewed and tested controls over the following key risks:

- There is no central budget holder procedure, and staff are unaware of how to access guidance documents;

- Budget holders are unaware of the deadlines required for reports and the value of circulating them promptly;

- There are no tools or report templates to support budget holders in the creation of quarterly reports;

- Budget holders are undertrained and have not received the appropriate amount of guidance to ensure they can fulfil their role effectively and efficiently;

- The budget reporting process is inefficient, and the reports do not contain the full range of spending analysis data;

- Virements and contingencies are not approved per the scheme of delegation;

- Virements and contingencies are not reported to Committees; and

- Reporting to Executive and Policy Development and Scrutiny (PDS) Committees is infrequent and does not contain consistent budget reporting.

AUDIT OPINION

7.   Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	There is generally a sound system of control in place, but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	**2**	**0**

SUMMARY OF FINDINGS

8.   Our audit identified areas of good practice and sound controls as well as areas for development. These are set out below:

Policies and Procedures

- We reviewed the Financial Regulations (last reviewed in 2020). The Financial Regulations state that '*it is the responsibility of the Director of Finance to review and update the financial regulations document every three years'.* The next review of the Financial Regulations should therefore take place in 2023.

- Among others, Financial Regulations include information on strategic responsibilities, system and procedures, the scheme of virement, accounting arrangements which are relevant to budget monitoring.

- In addition to the Financial Regulations, the Council's Policy Development and Scrutiny Committees (PDS) are governed by budget books such as the Adult Social Care Budget book (ASC Budget) or the Resources, Commissioning and Contracts Management Portfolio Budget Book. These were approved in 2022/23 and, among others, detail budgets by cost centres whilst referencing changes to old cost centre codes.

- We were provided with System B Budget Holder Guidance which was approved in November 2022. The document's purpose is to supply instructions to users of System B. In review, we confirmed that it contained information relating to specific Officer roles (including budget holders, accountants, budget viewers and system administrators), and also details concerning system navigation and budget forecast.

- The above documents are accessible by staff through the Council's local intranet.

Budget Monitoring and Forecasting

- We confirmed that there is a timetable detailing the quarterly financial monitoring reports for the 2022/23 financial year. It notes what each report should include and who they should be submitted to before Committee viewing.

- As part of our testing, we aimed to comment on the robustness of the current budget monitoring process and the subsequent production of monitoring reports. Whilst we were able to review all Executive Committee meetings and confirmed that each budget report was produced and supplied as required by the timetable in the FY 2022/23, we noted inconsistencies in the production of these reports.

- Through discussion with the Head of Finance, Budget Holders, and Senior Accountants, it was noted that whilst quarterly reports were being produced consistently by the budget holders for review by the Finance Team, there was no standardised approach implemented by all budget holders in formulating the reports. Three Budget Holders interviewed noted that they were left to their own approach/preferences to ensure funding and income were distributed and tracked appropriately.

- Through further discussion with the Senior Accountant, it was noted that the CEF Budget document allows budget leads to input potential alterations to draft budgets and notify the Finance team, these are then amended and confirmed through the Committee Allocations document, which is then re-circulated to budget leads. Any errors are highlighted and resolved before confirmation.

- We assessed whether any additional training was arranged by Finance or received by budget holders since April 2022 to compensate for the lack of the specific System B module. Interviews with the sample of three budget holders above indicated

that they had received no significant extra guidance on how to operate and were predominantly allowed to operate their own approach and methods.

Virements

- The Head of Finance, Senior Accountant and Director of Finance advised Internal Audit that whilst virements are rare, the main principal adjustments are made through contingencies approved in Executive Committee meetings. To confirm that contingencies and virements in quarterly reports are approved following the Council's Financial Regulations and Procedures (2020 version), we selected a sample of five random contingencies with values ranging between £73,000 - £1,868,000, presented in reports in the 2022/23 financial year up to the time of our fieldwork.

  Our testing confirmed that all showed evidence of approval within the Executive Committee meeting minutes. Furthermore, the approval of each aligned with the approval threshold noted in the Financial Regulations whereby any contingency or amendment valued over £250,000 required Director approval. Moreover, across the sample of five random contingencies, we confirmed that four had been accurately processed and uploaded to System A. The one remaining sample valued at £73,000 for New Home Regeneration was a grant carried forward from the 2021/22 FY, where the reserve movement has not yet been actioned as it is dependent on the final outturn to determine how much of the reserve will be required, therefore, to avoid duplication of efforts such transfers are kept until year-end to action once the final position is known.

- As part of the budget reporting process, there should be a confirmation email containing the contingency value and approval distributed through the Senior Accounts Team. For our sample of five contingencies reported between April 2022 – January 2023, we found that the required email with approval was provided in four of the five instances. One of the five samples specifically required Executive Committee approval as the values exceeded £100k and is planned for review at the next meeting on 29 March 2023.

Management Information

- To confirm consistent budgetary reporting, we requested the Committee reports for all Executive meetings across 2022/23. We also reviewed three of the six PDS meeting reports to review the extent to which budget and financial reporting are present.

- Testing identified that the most recent Budget Report at the time of fieldwork was from 30 November 2022 and identified an overall net overspend of £9,568,000 within portfolio budgets and a £8,555,000 credit variation on investment income. This

budget gap could link to some of the concerns noted regarding the lack of a structured and universal approach to budget monitoring, undermining the robustness of budget monitoring.

- The Committees tested above displayed frequent and informative budget reporting to assist Members in understanding the financial landscape of the Council and making decisions.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9.   The findings of this report and an assessment of the risk associated with any control weaknesses identified are detailed in the Detailed Findings / Management Action Plan. Any management recommendations are prioritised in line with the criteria set within Appendix B.

1. New Budget Holder Training Records

Finding

We assessed whether all new budget holders have undergone training and had received the required documents as part of their training, including:

- Budget monitoring exercise;
- Estimate Exercise;
- Financial Awareness for Budget Holders; and
- System B Budget Holders Guidance.

We obtained a list of new budget holders for the 2022/23 FY from the Head of Finance, Children, Education and Families Finance. However, we were not provided with evidence that they have undergone training as required. In addition, we noted that there is no training framework to ensure that the completion records are maintained for those who have completed the training.

As part of our testing, we contacted ten new budget holders across various departments. We circulated a questionnaire regarding the training they had received, we received responses from five individuals. The results were as follows:

Sample	Received Budget Holder Guidance	Completed Financial Awareness	Completed Estimates Exercise	Completed Budget Monitoring Exercise
1	No	No	No	No
2	No	No	No	No
3	No	No	No	No
4	No	No	No	No
5	Yes	Yes	No	Yes

We were advised by the Head of Finance, Children, Education and Families Finance that training is typically performed on an a d-hoc basis, and it is the expectation that the core skills required to perform the role of a Budget Holder such as operating System A are already developed. Despite this, implementing a structured mandatory training regime would help ensure budget holders perform their duties in a standardised manner.

Risk

Budget holders may not be aware of the Council's expectations linked to their role, specifically when new budget holders are assigned. Staff may be unsure how they can fulfil their roles effectively and efficiently. Also, budget holders may not have the necessary knowledge and skills to monitor their budgets effectively. This could lead to overspending, underutilisation of funds or non-compliance with financial regulations.

Recommendation	**Rating**
New budget holders should receive a mandatory training session. The training should contain, at least, the following: • Budget monitoring exercise; • Estimate Exercise; • Financial Awareness for Budget Holders, and • System B Budget Holders Guidance. Furthermore, the Council should implement a training framework to ensure that training records are maintained for the budget holders who have undergone training. In addition, the framework should include clear steps for escalating action to be taken by Managers should training not take place. Management should also identify training needs for existent budget holders and provide ongoing training where needed. This will ensure budget holders are up to date through refresher courses to help them stay informed of best practices.	**Priority 2**
Management Response and Accountable Manager	**Agreed timescale**
Agreed. Managers should be receiving training on the basic fundamentals of budget monitoring. The department are looking at a new suite of training tools, both online interactive and in person training. The current set of training referenced above will be amended. This is already mandatory for new managers, but finance will work with HR in	December 2023

order to improve this process, so all managers are captured. There is also a separate System B training course now available for budget managers.

Head of Finance – Children, Education and Families.

2. Satisfactory Budget Tools

Finding

To evaluate if there were satisfactory budget management tools in place to facilitate effective budget monitoring, we met with a selection of new budget holders operating in the 2022-23 FY. Through discussion with the Head of Finance, Budget Holders and Senior Accountants, it was noted that whilst quarterly reports were being produced consistently by the budget holders for review by the Finance Team, there was no standardised approach implemented by all budget holders in formulating the reports. Three Budget Holders noted that they were left to their own approach/preferences to ensure funding and income were distributed and tracked appropriately. Through our testing, we also found that little extra guidance was provided between April 2022 – January 2023, with two out of three budget holders interviewed having liked more training through the last 12 months to facilitate the unavailability of the System B module.

In one instance, we found that a budget holder has been employed for over nine months and was still unaware of their total budget, the budget holder advised us that this has led to feeling unprepared for the quarterly meetings with the Finance Team.

Risk

Without consistent and reliable tools, there may be inconsistencies and inaccuracies in budget tracking, leading to overspending or non-compliance with financial regulations. Moreover, budget holders may be unable to identify areas where cost savings or efficiencies can be made. The lack of standardisation can also make comparing budgets across different departments difficult, making it challenging for senior management to assess financial performance across the Council and make informed decisions.

Recommendation

All budget holders should be made aware of their budget and communication with the Finance Team should be more frequent than every quarter for those who need additional support. This will allow Managers to express concerns about budgetary position or request extra training.

Management should consider implementing a standardised suite of budget reports for budget holders to monitor their position. Budget holders should use this set of monitoring reports and data from the Finance System to report

Rating

Priority 2

spend and commitments, analyse variances and produce reliable forecasts of spend to minimise the risk of a budget under/overspending and provide Finance with the management information required to produce reliable budget spend and predicted outturn reports.	
Management Response and Accountable Manager Budget holders are made aware of their budgets, finance produce a budget book each year and their budgets are uploaded onto the system for them to view. In terms of frequency, this is already taking place. We report to Executive and PDS committees on a quarterly basis, but budget managers are in contact with finance on a regular basis as and when required. There is a standard set of monitoring reports on the new system that are available to budget holders to use which allow them to view all aspects of their finances. Finance also, depending on the complexity of the particular area, produce information above and beyond this to assist the budget managers where necessary.	**Agreed timescale** Done

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.