

Causeway Coast & Glens Borough Council

Budgetary Control

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Contents

Executive Summary.....	3
1 Objectives	5
2 Background	5
3 Risks.....	5
4 Audit Approach	6
5 Audit Findings.....	7
5.1 Risk 1 - Inadequate planning for the estimates process.	7
5.2 Risk 2 - Ineffective management and monitoring of the budget.	9
Appendix A – Assurance Ratings	12
Appendix B – Summary of Controls Reviewed.....	13
Appendix C - Limitations and responsibilities	14

Executive Summary

Internal Audit Opinion / Assurance Rating

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2023/24. This report summarises the findings arising from a review of the Budgetary Control arrangements. The table below summarises the key areas of potential risk which were considered and reviewed (controls considered and tested for each risk are detailed in **Appendix B**):

Risks Reviewed	Number of Recommendations and Priority Rating		
	1	2	3
There may be inadequate time and resources for preparing the annual budget, and assumptions made when preparing the budget may not be clearly defined or supported, leading to inaccurate information being used during the estimates process and the rates not being struck on time.	-	2	-
Budgets may not be effectively monitored or managed leading to poor decision making, the inefficient use of Council resources and unnecessary expenditure prior to the year-end.	-	2	-
Total Recommendations made	-	4	-

Based on our audit testing we are able to provide the following overall level of assurance:

SATISFACTORY	Overall, there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified, this should not significantly impact on the achievement of the system objectives.
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Definitions of levels of assurance and the priority ratings for recommendations are included in **Appendix A**.

We reviewed all the controls outlined for each risk in Appendix B. Our detailed audit findings are noted in **Section 5**. Only controls where issues were identified are included within Section 5, all other controls reviewed were found to be operating effectively.

The weaknesses identified during our audit have been brought to the attention of Management. The weaknesses outlined are those, which have come to our attention during the normal audit work and are not necessarily all the weaknesses, which may exist.

The content of this report has been discussed with officers and management to confirm factual accuracy. The assistance and cooperation received during our review is gratefully acknowledged.

1 Objectives

To ensure that:

- There are adequate arrangements in place to ensure a joined-up approach to budgetary control.
- Budgetary control is effectively planned, monitored, and reported.

2 Background

Financial resources play a central role in enabling Causeway Coast and Glens Borough Council to fulfil its responsibilities. The Council utilises public funds and therefore has a public responsibility to ensure Council finances are appropriately managed. Effective financial management enables the Council to deliver key services within the borough. The Council's budget is set to align spending plans with corporate objectives and policy decisions, strengthening the link between resources and priorities.

The Chief Finance Officer (CFO) is responsible for the coordination of the annual budget setting process. The Chief Executive, Directors and Heads of Service (HoS) are responsible for overseeing and preparing the annual budget to facilitate the setting and striking of the borough rate and the subsequent monitoring of the budget throughout the year. The budget will reflect the Medium Term Financial Plan (MTFP) which clearly states that effective financial management and the MTFP contributes to achieving the priorities in the Corporate Plan. (The MTFP will be updated to reflect future Corporate Plans and after the annual estimates process).

The recently approved MTFP includes a high-level schedule of key dates for the estimates preparation and rates strike process 2024/25. The MTFP and other estimates papers contain assumptions underpinning the annual budget. The risks behind the high-level budgetary assumptions are also considered in the MTFP.

During the financial year each budget holder is responsible for managing his/her own budget and Finance is responsible for reporting financial management information to the Finance Committee.

3 Risks

This audit will consider what actions are underway within Council in relation to key aspects of budgetary control:

- There may be inadequate time and resources for preparing the annual budget, and assumptions made when preparing the budget may not be clearly defined or

supported, leading to inaccurate information being used during the estimates process and/or the rates not being struck on time.

- Budgets may not be effectively monitored or managed leading to poor decision making, the inefficient use of Council resources and/or unnecessary expenditure prior to the year-end.

4 Audit Approach

We conducted our internal audit work in accordance with the Public Sector Internal Audit Standards ("PSIAS"). We planned and performed our work to obtain assurance over the operating effectiveness of arrangements in place to address the agreed risks. However, you should not rely on our work to identify all instances of fraud or error which may exist. The responsibility for these matters rest with management of the organisation.

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job Title
Chief Finance Officer
Management Accountant

5 Audit Findings

5.1 Risk 1 - Inadequate planning for the estimates process.

Issue 1 – Financial Regulations and Documented Procedures

a) Observation- Our review of the Financial Regulations found them to be comprehensive in relation to budget preparation e.g. section 7.2.2 states that the CFO shall maintain a full audit trail including an analysis of adjustments and savings.

The Financial Policy Manual includes Section 11 on Budget Setting - The CFO will issue an estimates timetable to budget holders and finance staff in September/ October each year. The timetable will include deadlines for each stage and detailed procedures and information will be developed for Officers and Members to facilitate the budget setting process. This Policy Manual was last reviewed in 2021.

There is also a document called Budgetary Procedures, which contains all relevant information from the Financial Regulations relating to budget management.

A new Finance System, TechOne, has been introduced within Council and the system's Budget Module for budget preparation will be used in planning the budget and estimates for 2024-25. Budget planning has begun using spreadsheets and these spreadsheets will be uploaded onto the TechOne budgetary module as soon as the module is made available by TechOne.

The Budgetary Procedures have not been updated, yet, to reflect the adoption of TechOne.

b) Implication- In the absence of up-to-date documented budgetary procedures there is a risk that finance staff and other staff involved in budgetary control may not be fully aware of their role and responsibilities.

c) Priority Rating- 2

d) Recommendation- A simple documented budget procedure containing all key responsibilities, steps and timelines within budget management could be summarised from the existing documentation and adapted to include the use of the budget module in TechOne. This could be incorporated into the Finance Policy Manual (other sections of which should also be updated to reflect the adoption of TechOne). The update to the

documented budget procedures should be prepared in consultation with all stakeholders involved in budget management i.e. finance officers and operational officers (budget holders) and should be reviewed and updated every few months until the TechOne budget module has been fully adopted. Council should consider a working group to revise and update the Finance Manual (and other relevant documented finance procedures) to reflect any changes resulting from the adoption of TechOne.

e) Management Response- Following the conclusion of the current budgetary process and a review of the first run of the process using the new software manuals and procedures will be updated in time for the next budget setting process.

f) Responsible Officer & Implementation Date-

CFO – June 2024

Issue 2 – Introduction of new Budget Module in TechOne

a) Observation- A new Finance System, TechOne, has been introduced within Council and the Budget Module for budget preparation will be used in planning the budget and estimates for 2024-25. As noted above (Issue 1) budget planning 2024-25 has begun using spreadsheets and these spreadsheets will be uploaded onto the TechOne budgetary module as soon as the module is made available by TechOne.

The CFO and finance officers received introductory training on the new budget module as part of the initial TechOne training. It is planned that they will receive refresher and more detailed training on the budget module and then they will provide on the job training to other operational officers (budget holders) as the 2024/25 budget is prepared using the new TechOne budget module.

At the time of audit, the training on the new Budget module was yet to be agreed.

b) Implication- If training is not delivered in a timely manner to the finance officer(s), who will support the wider operational officers involved in budget preparation, there is a greater risk of problems when using the new budget module. This increases the risk of delays and/or errors in the budget and estimates for 2024-25.

c) Priority Rating- 2

d) Recommendation- Training should be arranged as soon as possible on the TechOne budget module for the Council's finance officers.

e) Management Response- Tech 1 are currently preparing the budget module for first use, once completed training will be arranged for all relevant staff.

f) Responsible Officer & Implementation Date-

CFO – Dec 2023

5.2 Risk 2 - Ineffective management and monitoring of the budget.

Issue 3 – Timetable for Service Level Monitoring

a) Observation- The Financial Regulations (section 7.2.5) state that the Chief Finance Officer will provide a timetable of events that will be circulated to Budget Holders and Directors. Timetable will include review times with Senior Management and a feedback loop to Budget Holders. Section 7.3.1 state that Management Accounts will be produced in line with the timetable issued by the Chief Finance Officer to meet the Committee reporting cycle. Management Accounts will reflect the format agreed by Council and shall report annual and profiled budget and any approved variations during the year, actual to date and variances.

We reviewed e-mails to the Senior Management Team from Finance (31/08/2023) advising of meetings to discuss the financial information for period 5-7. There is however no pre-agreed timetable circulated to Budget Holders and Directors at the beginning of each year by Finance.

We reviewed the Excel spreadsheet prepared for Service level management and budget holders and note that it does contain detail of actual expenditure against budget and variances. However, there is no evidence that projected out-turns have been discussed and recorded.

b) Implication- In the absence of a timetable of events being circulated to Budget Holders and Directors, which would include review times for Senior Management and deadlines for feedback from Budget Holders, there is a possibility that feedback on draft management accounts is not obtained in a timely manner by Finance. Such a timetable should also include details of what feedback is expected from budget holders and SMT, including variances and projected out-turns. The absence of a documented timetable including key requirements at key dates, there is an increased risk of inaccuracies or incomplete

information in the management accounts, or delays in finalising management accounts for committee.

c) Priority Rating- 2

d) Recommendation- We recommend that a timetable of events which would include management accounts review times with Senior Management and deadlines for feedback from Budget Holders be circulated to Budget Holders and Directors early in the Financial Year. The timetable should also include details of what feedback is expected from budget holders and SMT, including variance explanations and projected out-turns.

e) Management Response- Meetings to review the Management Accounts with SMT are scheduled, currently up to and including Dec 2023, the schedule for the remainder of the Financial year to be put in place in the next week or so. We will from 1 April 2024 expand on this to include budget holders so they can arrange for relevant variance narratives to be provided to their Directors in advance of finalisation of the Management Accounts report for Councillors.

f) Responsible Officer & Implementation Date-

Management Accountant – Dec 2023 (part 1) – April 2024 (Part 2)

Issue 4 – Projected Out-turn

a) Observation- The Financial Regulations (section 7.2.5) outline the need for significant variances to be reported and explained and details of action to be taken to address these. The Financial Regulations also require services to provide a forecast of financial performance against budget to the year-end.

There is no projected out-turn included in the Finance excel spreadsheets used for management accounts which we reviewed.

We note that the management accounts we reviewed for P4 and P6 23/24 did contain detail of actual expenditure against budget and variances and were reported in detail to the Finance Committee. We reviewed the minutes of the Finance Committee, and associated management accounts reports and found explanations of variance per Directorate were provided by the CFO.

The Terms of Reference for Finance Committee (last reviewed in June 2023) state that this Committee should perform a Monthly review of the management accounts; to include a summary by service area of income and expenditure, with commentary on positive or negative outcome on their budgets.

We reviewed the minutes of the Finance Committee and any management reports that were discussed at the respective meetings (from January 2023 to date). We found that the Finance Committee met every 2 months between January and June 2023 and that management accounts for the year 2022-23 were discussed; with the Period 12 (31st March) figures being presented in June 2023. After the summer hiatus:

- the financial position as at Period 4 (31st July) was discussed at the Finance Committee on 14th September 2023.
- the financial position as at Period 5 (31st August) was discussed at the Finance Committee on 12th September 2023.
- the financial position as at Period 6 (30th September) was discussed at the Finance Committee on 9th November 2023.

The management accounts reports are comprehensive and provide detail per Directorate and Service Area, including actual expenditure against budget, variances and discussions on key variances and other points of note.

While there is occasional high-level projection of out-turn there is no consistent reporting of projected out-turn per Directorate.

There is some limited reference to the final overall high level Council position noted within the Management Accounts reports that go to Finance Committee.

b) Implication- If projected out-turn is not tracked at the correct level and reported to the Finance Committee there is a risk that opportunities to take corrective action or to re-prioritise Council resources in-year are overlooked or do not occur in a timely way.

c) Priority Rating- 2

d) Recommendation- We recommend that budget holders are required to consider known and emerging income and expenditure when reviewing the management accounts information, and that SMT inform Finance during the budget feedback meetings of projected out-turn based on this. The projected out-turn should be reported to the Finance Committee in the second half of the year.

e) Management Response- Projected out turn will normally commence period 6 onwards, management accounts to include this projection on a best/worst/likely case with assumptions for each scenario being set out. Projected outturn will be discussed at FMT meetings with Directors to ensure their views and assumptions can be built into those projections.

f) Responsible Officer & Implementation Date-
CFO – Dec 2023

Appendix A – Assurance Ratings

The framework for audit assurance is set out in DAO 07/16 and summarised below:

Level of Assurance	Definition
Satisfactory	Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified, this should not significantly impact on the achievement of the system objectives.
Limited	Evaluation Opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to system objectives not being achieved.
Unacceptable	Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

The priority ratings are also set out in DAO 07/16. They are intended as guidance to help prioritise the impact and implementation of each finding identified, and recommendation made:

Key:

Priority	Corresponding level	Definitions
1	High	Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.
2	Medium	Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.
3	Low	Failure to implement could lead to an increased risk exposure.

Appendix B – Summary of Controls Reviewed

Risk	Key Areas & Controls Tested
<p>There may be inadequate time and resources for preparing the annual budget, and assumptions made when preparing the budget may not be clearly defined or supported, leading to inaccurate information being used during the estimates process and the rates not being struck on time.</p>	<ul style="list-style-type: none"> • The Council identifies areas in which budget savings and/or efficiencies can be made. • The assumptions upon which the budgets are based are detailed and reasonable. • Budgets are consistent with approved corporate plans. • All officers involved in budget preparation within finance, budget holders etc. have received training on budget preparation using the new system – Recommendation made. • There are appropriate budget manuals, documented financial procedures/guidelines available to management and staff to support budget preparation - Recommendation made.
<p>Budgets may not be effectively monitored or managed leading to poor decision making, the inefficient use of Council resources and unnecessary expenditure prior to the year-end.</p>	<ul style="list-style-type: none"> • The budget management process is documented and available to relevant staff e.g., finance, budget holders - Recommendation made. • Roles and responsibilities for budget management are clearly understood by all relevant Council staff. • Actual expenditure against budget is tracked and monitored at appropriate levels. • Reports of expenditure to date against budget includes projected expenditure to year end - Recommendation made. • Financial information produced by the finance team provides sufficient information and is produced in a timely manner to enable effective decision-making. • Significant budget variances and predicted shortfalls are reported to management and Councillors. • In-year amendments to budgets (i.e., reallocation of funds to other cost codes) receive appropriate prior authorisation in line with Council’s delegated limits and relevant policies and procedures. • The role of the Finance Committee and the Corporate Policy and Resource Committee in budgetary control is clear. • Finance Committee receives appropriate management information in a timely manner and proper frequency

Appendix C - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.