

Causeway Coast and Glens Borough Council

Internal Audit Report Review of Prior Year Recommendations – Budgetary Control

November 2017
Final

MOORE STEPHENS

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1 Introduction

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18.

This report summarises the findings arising from a review of the progress made by CCAG BC in implementing the prior year internal audit recommendations; this was allocated 5 days.

1.1 Objectives and Scope

The scope of this audit was to review the progress made by Council in implementing prior year internal audit recommendations in the area of Budgetary Control

The agreed audit objective was therefore to confirm that the internal audit recommendations have been or are being implemented.

1.2 Background

Council is committed to ensuring that key risks are identified and addressed as far as possible, the system of internal control is adequate and operating effectively and the policies and procedures in place are up to date and being followed.

As Internal Audit reports and findings identify possible risk areas, an important part of the internal audit service is to review the progress made in addressing prior year recommendations.

In 2016/17, the following recommendations were made following a scheduled internal audit of the Budgetary Control process:

| Risk | Number of recommendations | | | Total |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|------------|----------|
| | Priority 1 | Priority 2 | Priority 3 | |
| There may be inadequate time and resources set aside 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 | - | 2 |
| Budgets may not be effectively monitored or managed by budget holders leading to the inefficient use of Council resources and unnecessary expenditure prior to the year-end. | - | 1 | 1 | 2 |
| Insufficient financial information may be provided to management and Councillors leading to poor decision making. | 1 | 2 | - | 3 |
| Total | 1 | 5 | 1 | 7 |

The above recommendations have been revisited as part of this year's internal audit work programme. For each recommendation, we have discussed progress with the relevant officer and reviewed evidence of progress.

2 Results of Review

We reviewed the progress made in implementing the recommendations. The table below notes overall progress against recommendations at the time of our review (November 2017).

| Status | Number of Recommendations | | | Total |
|-----------------------------------|---------------------------|------------|------------|----------|
| | Priority 1 | Priority 2 | Priority 3 | |
| Issue addressed | - | 2 | 1 | 3 |
| Issue being addressed | 1 | 3 | - | 4 |
| Issue not yet addressed | - | - | - | - |
| No longer a priority issue | - | - | - | - |
| Total | | | | 7 |

Priority 1 Recommendations

There was a single Priority 1 recommendation made and this is currently being addressed.

Priority 2 Recommendations

The table above shows that 2 of Priority 2 recommendations have been addressed and 3 are in the process of being addressed.

Priority 3 Recommendations

In relation to Priority 3 recommendations, the table above shows that the single recommendation has been addressed.

3 Update on Prior Year Recommendations

3.1 Budgetary Control

| Recommendation | Priority Rating | Management response & deadline | Position at November 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>All assumptions made when preparing the budget should be recorded, shared with all budget holders and fully understood by SMT and Councillors. This will reduce the risk of inaccurate information being used during the estimates preparation and when striking the rates.</p> | <p>2</p> | <p>All assumptions have been clearly set out, in detail, in the rates papers provided to Council to remove any ambiguity for the 2017/18 rates strike (CFO – January 2017)</p> | <p>All assumptions (for 2017/18) have been included in the rates papers provided to Council during the rates striking meeting (February 2nd, 2017). Audit reviewed the minutes and papers from that meeting and found all key assumptions referred to.</p> <p>Audit also reviewed the summary paper prepared for the first cut of the 2018/19 budget and found a list of assumptions had been included:</p> <ul style="list-style-type: none"> • MRP increased by £400,000 in line with annual cap • Wages increased by 2% to cover pay award, 1% employer pension increase, 1% to cover additional increments, etc • Vol Living wage included • Additional £500,000 to cover brown bin introduction • Rates Support Grant reduced by 10 % • Insurance costs increased by 10% <p>Audit was advised that all assumptions included in first cut of rates (2018/19) have been communicated to senior management and budget holders through meetings. (No minutes are retained of these meetings).</p> <p>Issue addressed (but it would also be useful to ensure an e-mail summarising all assumptions is provided to the Senior Management Team and budget holders)</p> |

| Recommendation | Priority Rating | Management response & deadline | Position at November 2017 |
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| <p>Management and budget holders should be provided with annual budget preparation guidance notes, which would include indicative rates, all deadlines during the estimates and rates preparation process, budget assumptions and details of any savings plan. These annual guidance notes would be in addition to any Budget Manual.</p> | <p>2</p> | <p>With the continued population of the organisation structure the budgetary process continues to evolve becoming more inclusive and more in depth together with the now up and running management accounts reporting. In addition, as financial reporting procedures/manual are being developed budgetary processes will be included in this.</p> <p>Chief Finance Officer – part 1 of this recommendation has already been implemented and budgetary preparation procedures will be developed by September 2017</p> | <p>Audit was advised that draft Financial Regulations have been prepared but have not yet been adopted by Council. The SMT need to review the draft Financial Regulations and be satisfied with the content before it goes to Council; there is currently no deadline for finalizing the regulations.</p> <p>Audit was advised that guidance on budget preparation is discussed at SMT and each Director is responsible for disseminating the information to budget holders within their Directorate. Business Partners (senior finance staff) provide ongoing support to Directors, Heads of Service and other personnel involved in budget preparation. This support is provided through meetings at the service level and audit was advised that assumptions were discussed at these meetings (no minutes are kept at these meetings).</p> <p>There is a dedicated Business Partner for each of the directorates (and Environmental Services has 2). David Wright also holds one on one meetings with service level personnel as required e.g. this year a meeting was held with Community Funding to discuss how to discuss uncertainties and reductions in grant finding.</p> <p>The Efficiency Sub-Committee has now been established and budget preparation is now being reported to this committee. The sub-committee comprises 6 elected members; the CEO; plus, the Chief Finance Officer and Corporate Performance and Improvement Officer.</p> <p>The budgetary preparation process is still evolving and the changes mentioned above reflect the fact that the process is more consultative than in prior years. However, a formal annual budget guidance note/document is yet to be developed. Section 7.2.1 of the draft Financial Regulations state that “the Chief Executive and Chief Finance Officer will provide services with detailed guidance</p> |

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| | | | <p>on the completion of the budget and service plan". The detailed guidance is yet to be formalized – although Finance keep SMT and budget holders informed of assumptions, deadlines and details of savings needed during the preparation of the budget via meetings, e-mails and telephone communication.</p> <p>Once the Financial Regulations are approved Finance will prepare a formal short guidance note each year which would include indicative rates, all deadlines during the estimates and rates preparation process, budget assumptions and details of any savings plan.</p> <p>Issue being addressed.</p> |
| <p>A budget manual should be developed to document the complete budget cycle from preparation to monitoring and reporting. The manual should be circulated to all budget holders and considered for upload onto the staff intranet. This should include timetables for budget preparation and monitoring, reporting responsibilities and frequencies, the use of TOTAL budget reports, details on how to resolve budget variances, defining significant variances, the policies around overspends, deficits and budget amendments, and describing the roles and responsibilities of all respective budget cycle stakeholders i.e. Corporate Policy & Resources Committee, SMT, Heads of Service and</p> | <p>2</p> | <p>A Budget manual and procedures will be drawn up (CFO – September 2017)</p> | <p>Audit was advised that a budget manual will be developed once the Financial Regulations are finalised and approved by Council (see comments on previous recommendations).</p> <p>Issue being addressed</p> |

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| <p>budget holders in the process. Note, this is not an exhaustive list of content.</p> | | | |
| <p>The updated coding structure should be made available to all persons who code expenditure and income for entering onto TOTAL. Finance should also compile lists of regularly recurring coding errors and circulate to relevant staff. In addition, consideration should be given to the need for training on the coding structure for all who use and assign codes.</p> | 3 | <p>Coding structure to be made available to all budget holders and processors. Training of budget holders and manager already underway and will be completed June 2017 (CFO June 2017)</p> | <p>Audit was advised that the coding structure has been made available on the Council intranet so any staff involved in budgeting and/or coding of expenditure/income can easily access this. Finance officers continue to support relevant staff with advice and guidance. More users are being given access to and being trained on the use of Financial software</p> <p>Issue Addressed</p> |
| <p>To ensure Councillors receive the level of financial information required for effective and timely decision making a process should be put in place whereby quarterly management accounts are prepared in a timely manner. A first draft of quarterly management accounts should be provided to Directors (in a timely manner) for review and feedback. Deadlines for feedback and explanation of variances from budget holders via Directors to Finance should be established. Where no response is received from a Director, a reminder email should be sent. The management accounts should then be finalised (incorporating explanations of significant variances), discussed at SMT and presented to the Corporate Policy & Resource Committee within 4-6 weeks of a quarter end.</p> | 2 | <p>P8 draft accounts have been circulated, P9 are being prepared. Managers have 10 days to provide feedback/comments upon receipt of which the accounts are updated as necessary. Following this update, a second draft is issued to managers and once agreed (within 3 days) the final accounts are issued to Councillors. A summary page will be developed for elected members and detailed accounts for budget holders. (CFO-Already under development to be finished June 2017)</p> | <p>As mentioned earlier the Efficiency Sub-Committee has now been established and comprises 6 elected members; the CEO; plus the Chief Finance Officer and Corporate Performance and Improvement Officer. Audit reviewed the Terms of Reference (ToR) for the Efficiency Sub-Committee which was approved at its inaugural meeting on 29th August. The minutes of this meeting were ratified by the Policy and Resource Committee and then Council (26th September 2017).</p> <p>The ToR explains that the sub-committee's role is to advise on controlling costs, managing expenditure and identifying possible additional revenues. To do this, one of the activities of the sub-committee will be to review management accounts in order to identify potential cost savings. This process is yet to be fully established.</p> <p>Audit was advised that the Period 5 (up to end of August) management accounts for 2017/18 were issued on the 20th October 2017. Period 6 figures are currently being finalized.</p> |

| Recommendation | Priority Rating | Management response & deadline | Position at November 2017 |
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| <p>The format of the management accounts should be improved to ensure each level of user obtains the level of financial information they need to support proper management of the budget and appropriate decision-making.</p> <p>The Management Accounts for Directors and budget holders should clearly identify all variance, highlight significant variances (as defined in a budget manual) and should allow recording of how variances will be resolved. The Management accounts presented to the Corporate Policy & Resources Committee should include (or comprise solely of) a summary of key financial information, including significant variances, and predictions of the year end position.</p> | | | <p>The e-mail circulating the Period 5 management accounts and the management accounts for Period 5 and draft for Period 6 were reviewed by audit. The format of the management accounts has not changed since the 2016/17 recommendation was made.</p> <p>It is hoped that the final version of the Period 6 management accounts will include some additional variance analysis and there are plans to develop a narrative section as part of the management accounts over time.</p> <p>Issue being addressed</p> |
| <p>Changes to the budget approved by Council at the time of striking the rates should be discussed and authorised at the appropriate level by both management and Council. A policy and procedure should be developed and approved by Council to govern budget adjustments/virements. The accuracy of the figures within TOTAL should also be reviewed to ensure consistency with approved Council estimates.</p> | 1 | <p>No changes were made to budgets agreed at the Rates Estimates, however earlier versions of Management Accounts contained an error in the total budget line. This error was £562k and not £631K as initially reported. A full reconciliation of the adjustment has been provided which included 4 items, the budget as reported via the management accounts and the budget agreed at rates estimates now agree fully. This was not reported to Council or Committee as the overall agreed budget at rates estimates has not changed. (CFO February 2017)</p> | <p>Audit was advised that once the rate was struck for 2017/18 the budgets were fixed and that there were no issues with adjustments to 2017/18 budgets or management accounts.</p> <p>Audit reviewed the 2017/18 budget figures presented to Council when striking the rates (2nd February 2017) and compared the totals to the budget figures in the Period 5 management accounts (generated by the TOTAL financial system). No discrepancies or issues were noted.</p> <p>Audit also reviewed the draft Financial Regulations prepared in May 2017 and noted the inclusion of section 7.5 on Virement. This section includes criteria for and details on authorisation of budget virements. Once the Financial Regulations have been approved</p> |

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| <p>The financial information presented in each set of management accounts should be reviewed for completeness and accuracy. For example, a checklist could be developed for the finance officer who prepares quarterly management accounts e.g. have all commitments/accruals been included, do the assumptions for YTD budget require updating, review of debtors and creditors lists etc.</p> | <p>2</p> | <p>With feedback from budget holders the coding and accounts are continually being revised and refined to remove any such discrepancies</p> | <p>an appropriate policy will be in place to govern adjustments/virements</p> <p>Issue being addressed</p> <p>Audit was advised that before issuing the management accounts that the management accountant reviews the figures for large over/under spends which may indicate errors in coding or a need for realignment of the budget to reflect seasonal activities. As the format of the management accounts develops; additional checks will be performed.</p> <p>Issue addressed</p> |

Appendix I: Hierarchy of Findings

This audit report records only the main findings. As a guide to management we have included the categories of recommendations that were applicable at the time of the prior year audits (note: these were revised in 2016 following guidance from the DFP):

Priority 1: Major issues which require urgent attention and the implementation of agreed audit recommendations in the short term.

Priority 2: Important issues which require immediate attention and the implementation of agreed audit recommendations in the short to medium term.

Priority 3: Detailed issues of a less important nature which require attention and the implementation of agreed audit recommendations in the medium to long term.

Appendix II: Our Approach and Staff Interviewed

Our audit fieldwork comprised:

- Reviewing progress against recommendations via discussions with key staff
- Examining relevant documentation
- Testing controls and accuracy of records.

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

| Job title |
|-----------------------|
| Chief Finance Officer |
| Financial Accountant |