



Internal Audit Report

Final

Chief Executive's

Budgetary Control

May 2010

1. BACKGROUND

- 1.1 The audit of Budgetary Preparation has been included within the Annual Audit Plan for 2009 – 2010. The focus of this review is to review virement approval procedures, budget variance reporting and the budget cut off process.
- 1.2 In June 2009, KPMG carried out a review of Budgetary Preparation. This audit related to the 2008 – 2009 Audit Plan but as it was carried out in late May 2009. This caused the audit for 2009 – 2010 to be scheduled toward the end of this financial year to allow implementation of agreed audit recommendations covering processes and controls between corporate and departments. The timing of this years audit coincided with a council modernisation programme and an ongoing review of the budget monitoring process the results of which, will be implemented in the 2010 – 2011 financial year along with new processes and procedures. This made it prudent to test specific controls and processes to ensure that they were operating effectively and to schedule a comprehensive review for 2010 – 2011.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The following 3 areas were reviewed and sample tested by Internal Audit:

Virement approval:

- Ensure that a sign off procedure has been introduced.

Budget variance reporting:

- Management review the budget variance reporting trigger mechanism;
- That budget variance pro-forma's are used consistently by departments.
- A record of discussions with budget holders regarding variances is kept with the variance report.

Budget cut off process:

- A corporate timetable for budget process includes critical dates relevant to each service.

3 RISK ASSESSMENT

- 3.1 As part of the audit process and in conjunction with our CIPFA Systems Based Auditing, ICQ approach, the Strategic Risk Register was reviewed to identify any areas that required further update. Presently, there are no changes required.

4 CORPORATE GOVERNANCE

- 4.1 There are no Corporate Governance issues to be reported.

5 MAIN FINDINGS

- 5.1 Internal audit enquired as to whether a corporate timetable for a budget cut off process included critical dates relevant to each service. Internal Audit established that a report entitled "Planning and Budget Process 2010-11" was presented to the Strategic Management Team (SMT) for approval on 14 September 2009. This document listed a corporate timetable with details of critical dates.
- 5.2 The KPMG report for June 2009 recommended that management should consider reviewing the budget variance reporting trigger mechanisms. That a percentage system along the same lines as the overall service budgets reporting mechanism (5% variance greater than £100,000) should be considered by the Council. Internal audit has established that this has been implemented and is presently ongoing.
- 5.3 KPMG also recommended that a sign off procedure be introduced for virements. Internal Audit established that a sign off procedure has been introduced, for virements processed within a budget monitoring month. The current procedure is being further developed with regard to virement amounts and who should authorise them.
- 5.4 Internal audit reviewed as to whether budget variance pro-forma's are being used consistently by all departments, and that a record of discussions with budget holders regarding variances, is kept with monthly variance reports. Internal Audit established that budget variance pro-forma's are used by all departments and a record of discussions with budget holders is kept with the monthly variance reports.
- 5.5 However, it was noted that not all budget holders have been responding in accordance with the required return date. This issue is being addressed within the overall review of the budget monitoring process which is currently ongoing for implementation in 2010 – 2011.

6 RECOMMENDATIONS

- 6.1 Internal audit have no recommendations at this time.

7 AUDIT OPINION

- 7.1 Based on the findings we can conclude that budgetary control is well controlled. That at present there is ongoing development of the budget monitoring process that will be introduced for the 2010 – 2011 financial year. It is therefore concluded that an overall audit review of Budget Preparation be carried out in 2010 – 2011 to establish whether current developments have improved the budget preparation and monitoring processes, and controls are providing assurance and operating effectively.

8 **ACKNOWLEDGEMENTS**

- 8.1 Thanks are due to the Finance Manager - Service Development for her co-operation and assistance during the Audit.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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