



## **Internal Audit Report**

Chief Executive's Unit  
Revenue Budget Monitoring and Control

March 2013

## **1. INTRODUCTION**

- 1.1 As part of the annual audit plan for 2012/13 internal audit undertook a review of the Revenue Budget Monitoring and Control process. Internal audit noted that a revised budget monitoring process was introduced for the 2012/13 financial period.
- 1.2 In the financial year 2012/13 a new risk matrix was assigned to each cost centre or group of cost centres, and depending on the scoring of that cost centre the level of engagement with the budget holder was derived i.e. monthly, bi monthly, 6 monthly.
- 1.3 In addition, budget holders are no longer required to fill in comments regarding variances against their cost centres and return them to Strategic Finance. Instead it is the responsibility of budget holders and finance contacts to engage with one another, be it via face to face meetings, telephone calls or e-mails, etc. These engagements should be recorded on an engagement log which would detail any actions required or not as the case may be.
- 1.4 The Council has a policy to carry forward funding into the following financial year via the mechanism of ear marked reserves. This policy agreed by SMT allows for funding using ear marked reserves in six situations namely.
- Unspent Grant
  - Unspent third party contributions
  - Unspent budget within the devolved management of resources scheme of delegation for schools
  - Chord
  - Where Council has previously agreed to ear mark a general fund balance for a particular purpose
  - Existing Legal commitments
- 1.5 Internal audit are cognisant of the fact that the whole budget monitoring system is undergoing further review and development and that there will be working groups set up to ascertain whether the new changes have been effective and indeed what other changes should be implemented. Consequently the thrust of the audit was to concentrate on whether the new procedures laid out have been implemented as stated above.

## **2. AUDIT SCOPE AND OBJECTIVES**

- 2.1 An Audit Agreement Document (AAD) was prepared and forwarded to the Financial Managers for their agreement. The Agreement set out the main objectives of the audit approach and scope. The following areas were agreed to be looked at:

- To assess the risk matrices associated with the Councils cost centres with a view to reasonableness
- To review the existing budget monitoring procedures and assess whether it provides budget holders with the necessary information required to monitor and control income and expenditure;
- To review the ear marked reserves carried forward and to ensure that proper business cases have been prepared and that they meet the criteria as laid out in Council Policies.
- Recommendations from the 2011/12 audit report have been implemented.

### **3. RISK ASSESSMENT**

- 3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;  
RA03: Inaccurate management information.

### **4. CORPORATE GOVERNANCE**

- 4.1 There were no Corporate Governance issues to be reported as a result of this audit.

### **5. Main Findings**

- 5.1 A new risk matrix has been assigned to each cost centre or group of cost centres. Internal audit reviewed the 10 factors used to assign risk to the cost centres and consequently what level of engagement should follow, and found that they gave a result consistent with budget monitoring output reports.
- 5.2 Strategic Finance was found to be properly engaging with budget holders but that the recording mechanism for the engagement varied between departments.
- 5.3 The timetable to reflect the various steps in the monthly revenue budget monitoring does not reflect the new procedures.
- 5.4 The payroll report forwarded to budget holders should include a cost centre description field.
- 5.5 Ear marked reserves as at January 2013 were reviewed to ensure that they fell within the criteria laid out in Council policies. For those balances where a business case was required to justify the ear marking, Internal Audit reviewed the business

cases to ensure that they met the criteria laid out per the Strategic Management Team (SMT) policy document.

## 6. RECOMMENDATIONS

- 6.1 Three recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one medium and two low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## 7. AUDIT OPINION

- 7.1 It is Internal Audits view that based on the findings of the audit that there are sufficient controls in place to ensure that relevant and detailed financial monitoring reports are made available to budget holders and that ear marked reserves as at 31 March 2012 meet the criteria laid down by Council.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer(s) within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8. ACKNOWLEDGEMENTS**

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Finance Managers
  - Departmental Accounting staff
  - Budget Holders
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives set out in Section 2 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2**

**ACTION PLAN**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>AGREED ACTION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
2	The timetable for budget monitoring still reflects the various processes specific to last year's procedures.	Medium	The timetable be updated to reflect the new budget monitoring procedures.	Finance Manager Corporate Support	Implemented