

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVE'S UNIT
AUDIT DESCRIPTION	FINANCIAL SYSTEM AUDIT
AUDIT TITLE	BUDGET PREPARATION AND CONTROL
AUDIT DATE	MARCH 2014

2013/2014



1. AUDIT SCOPE AND OBJECTIVES

This report has been prepared as a result of the Internal Audit review of Budget Preparation and Control within Strategic Finance as part of the 2013/2014 Internal Audit programme.

The main objectives of the audit are to assess and report on the following areas:

- Appropriate methodology is established and documented for Budget setting and approval;
- Budget holders are established within all areas of responsibility and are aware of their responsibilities;
- Budget Monitoring reports for both budget holders and Senior Management and Members are prepared and issued timeously and that relevant information is supplied;
- Engagement log records are completed and that the information contained therein is relevant and complete; and
- Procedures and guidelines for budget changes and approvals are recorded and authorised appropriately.

2. RISKS IDENTIFIED

- Budget setting and approvals processes are inadequate.
- Roles and responsibilities for budgets are not clearly defined.
- Budget monitoring reports are not adequate for budget decisions and changes.
- Budget changes are not performed in a timely fashion or appropriately approved.

3. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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:-

<p>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;</p>
<p>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;</p>
<p>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.</p>

4. FINDINGS

The following findings were generated by the audit:

- There are budget holders identified within all service areas. We reviewed the Strategic Finance survey of budget holder results and found that of the 161 budget holders 49 completed the survey. Of those 49 only 2 felt they lacked understanding of their roles and responsibilities, the remaining 47 are engaged in the monitoring process. Of the 49 budget holders, 30 felt they would benefit from further training and assistance. Strategic Finance staff are currently compiling an e-learning module for budget holders to assist them within their roles.
- The procedures and processes with regard to budget preparation are not documented, Strategic Finance staff and budget holders are aware of the generic tasks and these are completed on an ongoing basis with budget holders receiving instructions from the finance contacts as part of the engagement process. The whole process of budget preparation is influenced by the political process with instructions coming directly through SMT to Strategic Finance and on to the finance contacts. Budget preparation is due to be reviewed within the service prioritisation project.
- Budget monitoring guidance and procedures for Strategic Finance staff and budget holders are comprehensive and clearly defines areas of responsibility.
- We reviewed the budget monitoring reports for 2013-2014 and found that these are prepared and issued timeously and contain all the relevant information for budget holders, Senior Management and Members.
- Strategic Finance has established an engagement log to record contact between the finance contact and the budget holder. A risk assessment process is used for each cost centre to establish the frequency that contact is required for the cost centre e.g. monthly, quarterly or six monthly; the logs are then completed on a scheduled basis. There are 2132 cost centres and a monthly report is issued by Strategic Finance to the budget holder for each cost centre or group of cost centres. The engagement logs monitor the level of contact and ensure that any areas of concern are acted upon. Meetings between budget holders and finance contacts can cover a number of cost centres, depending on those allocated to each budget holder. It was noted that in some instances the logs were not completed as frequently as required and in other instances the information was not as comprehensive. Strategic Finance should review the procedures and format for their completion; consistency of where records are saved may also be beneficial for monitoring purposes.

- Procedures and guidelines for budget changes and approvals are in place. These and other records were reviewed to assess whether changes are recorded and authorised appropriately; all changes are recorded in logs and a proforma is completed for authorisation.

5. GOOD PRACTICE

- Strategic Finance issued a survey to all Executive Directors and Heads of Service and a similar survey to all budget holders. On review of the survey results it was noted that there were very positive comments around the Strategic Finance budget contacts and their input in assisting budget holders and management support for Executive Directors and Heads of Service.
- Within the Community Services (Argyll House) engagement log there is an example of how more detail might be achieved with least additional work, some staff are using links to e-mails between them and budget holders summarising their meeting and asking if they have any additional comments, we felt this could be used as an example of best practice and may work across services.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There were two recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There was one medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. There is one low recommendation which is not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Strategic Finance staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures and guidelines		High/ Medium or Low		
The engagement log recording contact between the finance contact and the budget holders, monitors the level of contact and ensures areas of concern are acted upon. We noted that in some instances the logs were not completed as frequently as required and in other instances the information was not as comprehensive	If engagements do not take place, Strategic Finance will be unaware of under or over spend leading to inaccurate reporting.	Medium	Revised guidance on engagement logs should be developed and issued.	Finance Manager, Departmental Support 30 June 2014

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