BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

15th December 2008

AUDIT PLANNING AND THE AUDIT REPORT

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

1. **SUMMARY**

1.1 To present an explanation as to how audits are selected for inclusion into the Annual Audit plan and how the subsequent report is compiled.

2. **RECOMMENDATION**

2.1 The Audit Board is recommended to review both the:

- Explanation as to how an audit is selected for inclusion in the audit plan.
- Audit Report for Budgetary Control detailed in Appendix A.

3. **BACKGROUND**

3.1 Bromsgrove District Council has adopted a risk based approach to audit planning, this is recommended by Cipfa (Chartered Institute of Public Finance and Accountancy) and the IIA (Institute of Internal Auditors) as a best practice approach.

3.2 This report explains how Council systems are selected for inclusion within the Audit Plan and how the decision is made as to the regularity with which they will be audited. During this assessment process the controls operating within the systems will be considered to ensure compliance with all necessary guidelines eg Cipfa standards, Council Standing Orders and Financial Regulations, etc.

4. **ASSESSMENT OF AREAS FOR INCLUSION IN THE ANNUAL AUDIT PLAN**

4.1 Each service area within the Council is identified to assess the risks associated with the services being provided to both the Internal and External markets, and the impact of service delivery upon the Council as a whole. Each area is then assessed to determine the risk level inherent to the system and what would be the possible impact to Bromsgrove District Council and its residents if the system controls were to fail. This risk assessment is based on the following :

- Budget – the total levels of budgeted income and expenditure passing through the system.

- Number of employees working within the service area.
- Impact on the organisation – The profile of the service area ie whilst housing benefit payments are always of importance to the public, during times of recession it may be considered that its profile raises even higher.
- Volume of Transactions – The more transactions that pass through a system the greater the risk of error occurring
- Third Party Sensitivity - the impact on the public or other third parties.
- Standards of Internal Control – this is based on auditor knowledge of the system, during previous audits the Auditor will have assessed the reliance that can be placed on this system.
- Likelihood of risk occurrence

4.2 Each of these areas will be scored, the higher the score the greater the perceived level of risk attached to the system. Those systems identified as being high risk will be audited on an annual basis, those with lower scores and therefore lower perceived risks will be audited on a less frequent basis with the lowest risk systems audited once every three years.

4.3 The Council is required by the External Auditor to audit certain systems (ie Council Tax System) every year as these are considered by them to be fundamental to the opinion that they give on the Statement of Accounts. Non-compliance with this requirement could lead to qualification of the Accounts and a reduced score on the Use of Resources Assessment. All fundamental systems are agreed in advance with the External Auditor and reviewed during the financial year.

5 COMPILATION OF THE AUDIT REPORT

5.1 Attached at Appendix A is an audit report on the Budgetary Control system operating within the Council. The audit report includes the following details:

- **Introduction**

  This details the reason for carrying out the audit, the Auditor undertaking the work and the period covered by this work.

- **Scope**

  This explains the areas of the system that will be subject to review as part of the audit. As part of the pre-audit meeting with the Service Manager, if any issues are raised, then the Auditor will increase the scope of the work to cover any additional perceived risks.

- **Management Summary**

  This section of the report is where the Auditor gives their overall opinion on the effectiveness of the controls operating within the system – this opinion is backed up by the detail within the action plan.

- **Control Objective Summary**

The opinion in the management summary is then further broken down to each of the control objectives (these were originally detailed in the scope). A separate opinion is then given for each objective these are as follows:

- Operating effectively – Overall, the controls that are in place provide a level of assurance that the system's objectives will be met

- Basically Sound – Although the basic level of controls are in place, improvements are required to ensure the system fully meets its objectives.

- Identified Weakness – The controls in place do not provide an acceptable level of assurance that the system's objectives will be met.

- **Action Plan**

  Each finding is detailed with an explanation as to the risk that the Council could be subjected to. The Auditor then makes a recommendation as to the action required to improve the levels of control. This is discussed with the Service Managers to assess if implementation is relevant or desirable ie the cost of implementation may be excessive when compared to the level of risk. A priority is given to each recommendation to determine its importance. The priorities given are as follows:

  Priority 1:   Recommendations that are **<u>fundamental</u>** to improving the controls within the system.

  Priority 2:   Recommendations that are **<u>important</u>** to improving the controls within the system.

  Priority 3:   Recommendations that are **<u>desirable</u>** to improving the controls within the system.

Prioritising recommendations enables Heads of Service and Managers to implement recommendations based on importance, in order to improve control within their systems and processes.

The Auditor and Service Manager will then agree what action should be carried out to eliminate or reduce the risk with an officer assigned to the task required and a date by which it should be actioned.

5.2   Heads of Service and Managers are contacted on a quarterly basis and an update is requested on each key "priority one" recommendation included on their audit reports. Progress is monitored along with any action completed.

6.   FINANCIAL IMPLICATIONS

6.1   None outside existing budgets.

7.   LEGAL IMPLICATIONS

7.1   The Council is required under Regulation 6 of the Accounts and Audit Regulations 2006 to "maintain an adequate and effective system of internal audit of its accounting

records and of its system of internal control in accordance with the proper internal audit practices".

8. COUNCIL OBJECTIVES

8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT

9.1 The main risks associated with the details included in this report are:

- Non-compliance with statutory requirements.
- Ineffective Internal Audit service.
- Lack of an effective internal control environment.

9.2 These risks are being managed as follows:

- Non-compliance with statutory requirements:

  Risk Register: Financial Services
  Key Objective Ref No: 3
  Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service:

  Risk Register: Financial Services
  Key Objective Ref No: 3
  Key Objective: Efficient and effective Internal Audit service

- Lack of an effective internal control environment:

  Risk Register: Financial Services
  Key Objective Ref No: 3
  Key Objective: Efficient and effective Internal Audit service

9.3 Service specific improvements and actions are also monitored as part of each individual service risk register.

10. CUSTOMER IMPLICATIONS

10.1 No customer implications.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 No equalities and diversity issues.

12. VALUE FOR MONEY IMPLICATIONS

12.1 Although there are no obvious value for money implications, implementing recommendations should improve the Council's overall control environment.

13. OTHER IMPLICATIONS

Procurement Issues: None
Personnel Implications: None
Governance/Performance Management: Effective governance process.
Community Safety including Section 17 of Crime and Disorder Act 1998: None
Policy: None
Environmental: None

14. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	Yes
Chief Executive	Yes
Executive Director (Services)	No
Executive Director - Partnerships and Projects	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal, Equalities & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

15. WARDS AFFECTED

15.1 All Wards are affected.

16. APPENDICES

16.1 Appendix A: Recommendation Tracker Report.

17. BACKGROUND PAPERS

17.1 None.

CONTACT OFFICER

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Final Report

Review of the Budgetary Control System

1.   Introduction

As part of the Internal Audit Plan for 2007/08, a review was carried out into the operation and management of the Budgetary Control System.

This review was undertaken by Tom Delaney during December 2007 to March 2008.

2.   Scope

The review was designed to test controls in place in the following areas:

- Process documentation and procedures.
- Budget preparation.
- Budget approval.
- Budget monitoring.
- Budget report and Information.
- Computer system security

3.   Management Summary

Our overall opinion is that the controls operating within the Budgetary Control System are operating effectively (opinion based on section 4).

We have arrived at this opinion based on the sample testing completed for each control objective. A summary of each control objective is detailed in Section 4.

We did, however, identify certain areas where you could make further improvements to your systems. The key issues are detailed below, with our findings and recommendations detailed in the Action Plan in Section 5.

Ensure that:

- Procedures are created that cover all aspects of the budgetary system.
- Budget setting is focused towards the councils key objectives and value for money
- Relevant budget virement documentation is completed and correctly authorised

4.   Control Objective Summary

Based on our sample testing, we are able to form the following opinion on each control objective. Please see the Action Plan in Section 5 for detailed findings relating to each control objective.

No.	Control Objective	Opinion	Recommendations
1	To ensure that adequate procedure manuals and processes are in place.	Identified Weakness	1 - 2
2	To ensure that correct procedures are followed when preparing annual budget.	Operating effectively	3
3	To ensure that the annual budget was approved and entered on the financial system on a timely basis.	Operating effectively	4
4	To ensure that Budgets are monitored on a regular basis and any variances are managed.	Basically Sound	5
5	To ensure that up to date financial information is reported to the appropriate level.	Operating effectively	N/A
6	To ensure that sufficient system controls are in place and information is suitably backed-up.	Basically Sound	N/A

Opinion Descriptions:

Operating Effectively: Overall, the controls that are in place provide a level of assurance that the system's objectives will be met.

Basically Sound: Although the basic level of controls are in place, improvements are required to ensure the system fully meets its objectives.

Identified Weaknesses: The controls in place do not provide an acceptable level of assurance that the system's objectives will be met.

5.	**Action Plan**

Ref.	Audit Finding	Risk	Priority	Recommendation	Response	Who	Whe
1	**Process and Procedures** **found that the following accepted recommendation detailed in the 2006/07 report has not been implemented;** **cedure Manual be created and distributed to all relevant staff.** **manual should include:** **spects of the budget setting and monitoring process; and** - All relevant operations fulfilled by the section.	Inconsistent approach.	2	We recommend that process documentation is compiled detailing all aspects of the roles undertaken within the section. **documents should be:** - **Easy to follow with the use of visual aids to assist;** - **Password protected with a version control;** - **Document owner noted; and** - **Subject to regular review.**	This has been started but will take a reasonable amount of time to complete due to the varied and complex nature of the tasks undertaken by the Section. It is viewed as important and will be dealt with as soon as time constraints allow.	D Randall (Accountancy Services Manager)	Mar. '10

Ref.	Audit Finding	Risk	Priority	Recommendation	Response	Who	Whe
2	**Budget Holder List** We found that the list of Budget Holders downloaded from Agresso during this review was not up to date. The list contained officers who had left the authority or were not budget holders.	Inaccurate management information	2	We recommend that: - The accountancy section is informed of personnel changes of officers who have budget responsibilities. - If appropriate, this may take the form of Heads of Service being advised of the process via e-mail.	This information would be useful for the control of information and access to the system. However, the Section can not control the receipt of this information. The Head of Financial Services will be requested to e-mail all Heads of Service to request this information, but its receipt will be dependent upon others obtaining and forwarding the required information.	D Randall (Accountancy Services Manager)	Jul. '08

Ref.	Audit Finding	Risk	Priority	Recommendation	Response	Who	Whe
3	**Budget Holder Accountability** As recommended in the 2006/07 report, a form has been introduced in the 2007/08 Budget Holder Pack which Budget Holders are required to sign to show they agree with their allocated budget. Our review identified that there is no monitoring process in place ensuring signed forms are being returned to the accountancy section.	A lack of Budget Holder accountability.	3	We recommend a procedure is introduced whereby the relevant officer in accountancy ensures all forms are returned completed for the service areas they are responsible.	Not agreed – Officers are responsible for their designated budgets whether or not they sign the form. Non compliance with BDC budgetary control requirements would result in disciplinary action.	N/A	N/A
4	**Budget Approval** Of the 10 approved cost centre budgets sampled during our review, 5 approved budgets did not match the amounts in Agresso and it was unclear as to why these amounts differed. During discussions with the Accountancy Trainee Officer, reasons for the discrepancies were advised; however, no audit trail had been maintained to evidence these differences.	Insufficient audit trail of changes made to the budget	2	**recommend that when an amount is 'biffed' (the process for interfacing the spreadsheet with the financial system) and a change to the budget amount takes place, this should be clearly noted within the virements folder and annotated on the 'biff' printouts to give a clear audit trail of funds.**	ed. To be implemented.	D Randall (Accountancy Services Manager)	Jul. '08

Ref.	Audit Finding	Risk	Priority	Recommendation	Response	Who	Whe
5	**Virements** From 10 virements reviewed 4 instances were found where either appropriate authorisation was not in accordance with Financial Regulations or the reason for the virement was not clearly stated.	Non Compliance with Financial Regulations	2	**recommend that all virement forms state the reason for virement creating a more detailed audit trail and that appropriate authorisation is obtained, in accordance with the Councils Financial Regulations.** We further recommend a review of documentation used for both virements and correction entries is undertaken. The forms to include at a minimum: - Reason for transfer - Authorisation - **Transaction details where appropriate**	eed. e implemented	D Randall (Accountancy Services Manager)	Jul. '08

Priority Descriptions:
Priority 1:   Recommendations that are **fundamental** to improving the controls within the system.
Priority 2:   Recommendations that are **important** to improving the controls within the system.
Priority 3:   Recommendations that are **desirable** to improving controls within the system.