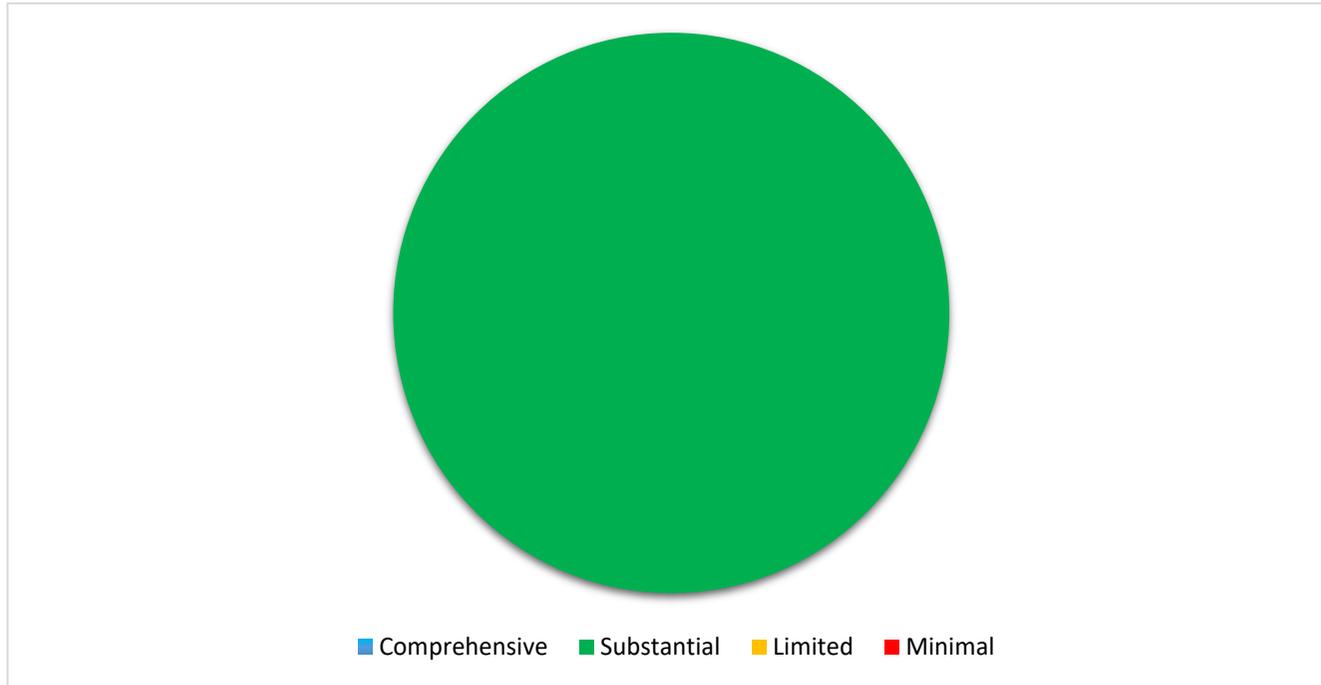


Report Summary for Financial Services Review 19/20



Comprehensive Assurance	Substantial Assurance	Limited Assurance	Minimal Assurance
	<p>All areas within the report gained an Audit Opinion of Substantial.</p> <ul style="list-style-type: none">• Medium Term Financial Plan• Budget and Forecasting• Fraud• Benchmarking		

Guide to the audit assurance opinions	
Comprehensive	There is a sound system of controls designed to meet objectives, manage risks and controls are consistently applied in all the areas reviewed.
Substantial	There is a good system of controls and risks are managed. However, there are opportunities for improvement in the design or consistency of application that will assist in the achievement of objectives identified as being at risk in the areas reviewed.
Limited	Key controls exist to help achieve objectives and manage principle risks. However, there are opportunities for improvement in the overall control environment which would enhance the design and application of controls, thereby assisting the achievement of objectives identified as being at risk in the areas reviewed.
Minimal	The absence of basic key controls or the inconsistent application of key controls is so severe that the audit area is open to abuse or error. Risks to objectives are not being managed.

Scope and objective
<p>Internal audits mission is to enhance and protect organisational value and support the Council Plan by providing risk based and objective assurance, advice and insight.</p> <p>The Assurance, Risk and Audit Team endeavour to add value and improve Allerdale Borough Council's operations and help to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.</p> <p>As part of the 2019/20 Assurance Risk and Audit Plan, a review has been undertaken of the risk management, controls and processes and procedures in place in respect of the Finance Service. The aim of this review is to provide management with assurance that controls, governance and risk management activities are robust and operating as intended, that mitigating actions are in place to manage risks for this area and provide recommendations for improvements to add value, if appropriate.</p> <p>Information and evidence was gathered using a number of techniques including interviews with key officers testing, observations and questionnaires.</p> <p>Audit testing is identified in the audit scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.</p> <p>Assurance Risk and Audit would like to thank all staff involved during the course of the review for their help and assistance.</p>

Agreed Actions		
High	Medium	Low
0	1	1

Area of Good Practise
The Finance Team have worked together to put some excellent training programmes in place to, inform non finance staff, rectify

previous issues raised and help manage their KPI's showing good management and resourcefulness.

Assurance Area	Risks/Weaknesses	Agreed Actions	Recommendation date and responsibility
<p>Medium Term Financial Plan</p> <p>Audit Opinion Substantial</p>	<p>The review evidenced that Medium term financial planning is an important component of the Council's strategic planning framework. This is produced along with the council budget.</p> <p>2019/20 outturns were not available at the time of testing or writing of the report to compare to the budget, however 2018/19 outturns confirmed expenditure from the capital budget was underspent by £2.55 million, re-profiling of expenditure to subsequent financial years was £2.44 million, resulting in a net underspend of £105k and the Revenue Outturn for 2018-19 showed the revenue budget of £15.084m actual net expenditure, including planned contributions to reserve of £14.708m, showing a net underspend of £376k. Based on the information currently available regarding expected levels of funding beyond 2019-20, the Council's general fund balance (managed by finance) was expected to fall below the minimum balance of £2.7m in 2020-21 and would be fully expended in 2021-22. SMT are responsible for identifying proposals for efficiencies to address any funding gaps within the budget, this is done via weekly SMT meetings and via the budget setting process, however there was an absence of</p>		

	<p>assurances and agreed ways of working to evidence the planned delivery of transformation and savings, against unfilled vacancy costs, however a Transformation Strategy and Plan was currently being produced.</p> <p>Members are involved and updated in regards to the MTFP, both Council and Executive get regular detailed reports and there is also a budget task group established.</p>		
<p>Budget and Forecasting</p> <p>Audit Opinion Substantial</p>	<p>Allerdale has up to date Financial Regulations and a Constitution which documents its budgeting and forecasting processes including clear roles and responsibilities.</p> <p>Each service area has an assigned financial services buddy that they can go to if additional help is required.</p> <p>Reports and forecasting information are available on Total for all budget holders to review as required.</p> <p>Consultation with the public and other key stakeholders is essential to informing the Councils priorities and the financial plans which underpin delivery of those priorities, including the Councils annual budget. Consultations informing the 2019-20 budget process comprised:</p> <ul style="list-style-type: none"> the survey of residents undertaken during June and July 2018 	<p>Budget and Forecasting Agreed Action one, Priority Medium: The organisation should identify the training needs of individual budget holders and implement a formal training programme and manual that results in budget holders taking full responsibility and accountability for their budget management. It is important that all budget holders understand their role in delivering the financial and transformational strategic priorities of the council</p>	<p>Responsibility: Finance Business Partner.</p> <p>Due Date: 31 March 2021</p>

- a budget consultation focusing on specific budget issues carried out during December 2018 and January 2019.

The Council has a statutory responsibility to set a balanced budget for each financial year. The Council's budget, Efficiency Plan and Budget Strategy are easily assessable from the Allerdale website.

Allerdale has a well-established governance structure, including oversight committees and a documented organisational structure with clear lines of responsibility.

Financial regulations require the Section 151 Officer to report regularly (at least quarterly) to Executive, the financial position against budget. Executive agendas evidenced this is done.

Job descriptions are written by the hiring manager, but should the role have budgeting/forecasting responsibilities then that should be included. Five samples were tested, budget responsibility was mentioned in all, although very generally i.e. 'effectively manage budget' and in one older job description it referred to a specific budget (maintenance repair budget) and did not mention the general service budget. Although every job description had an element of budgeting and forecasting included in them they were not clear and thorough and did not relate to each employees responsibilities, roles and accountability for budgeting/forecasting explicitly.

Consideration should be given to employee performance agreements including an element related to budgeting and forecasting accountabilities. This is not done via performance management with individual budget holders, however the budget process itself allows budget monitoring throughout.

This process should identify any performance issues. However a survey sent to budget holders evidenced that only four out of 16 had full understanding of the level of savings their area needed to make for 19/20 and 20/21, three having little understanding and one having none. Nine out of 16 fully understood the process of Budget setting and Forecasting, leaving seven with some to no understanding. Seven out of 16 were not aware of virement amounts and who should authorise them. This evidenced that budget monitoring is currently carried out as an expectation within itself as opposed to contributing to the more effective delivery of council outcomes and objectives.

The process for forecasting budgets across the Council is an essential risk management and governance tool. The audit found that forecasting was evidenced across all services, however there were control weaknesses found that reduced its effectiveness i.e. lack of knowledge and understanding from budget holders, the system was thought to be unnecessarily complex and not user friendly. Budget holders require the help of finance staff

monthly which puts a significant resource strain on the finance department, generally this is to cover the same issues every month.

The new finance system should be procured by April 2021 and a project team has been established to deliver this.

Corporate Procedures state that an official order is always required in respect of goods and services. For one off purchases, old manual orders are used in an emergency, this is to avoid the lengthy process of adding a supplier.

Some orders are still being raised after ordering goods/services and receiving the invoice, there are some cases where goods/services have been received prior to an order or new supplier form being processed both not compliant with financial regulations and policy.

There is a KPI for late payments which shows one of the reasons for late payments is due to invoices being received without an order, there are more invoices without orders than appear on the KPI data, due to them being paid on time however information to monitor this isn't easily available on the system therefore the required data could not be provided in order for us to test further. This shows a system weakness and means that the accuracy of committed expenditure information on the system was found to be open to more error and, therefore, less reliable. The audit found this was a

combination of both a lack of compliance culture (i.e. users not complying with the rules and agreed processes) and a lack of understanding by users of how to apply this requirement whilst delivering services which are often urgent. Finance hoped the new system would mitigate some of these issues.

For accurate planning, the ability to easily compare budgets to actual performance is important, however there is no platform within total that allows budget holders to draw in data from other systems and use that information for accurate calculations and better predictive analysis for the future. Total does however allow budget holders to look at individual past budgets, to use past performance data and allows them to create financial and operational models that can perform “what-if” scenarios to predict the results of business decisions.

A sample test of six virements made within the past 12 months found that the amounts and codes were accurate, the system appeared to be updated within 30 days of the virement having been approved however two did not specify a date on the form so could not be confirmed and one had been overlooked so although the need for the virement was raised in March 19 the virement was not done until August 19. Where Total is not updated to reflect virements and supplements to the budget in a timely manner, there is a risk that budget managers are unaware of the true financial position of their budget codes. This could

	hinder budget monitoring activities, and operations of the Council.		
Fraud Processes Audit Opinion Substantial	<p>Clear policy/strategy available and up to date that makes it clear that fraud and other corrupt practices will not be tolerated. Fraud training is utilised on the statutory E-Learning platform.</p> <p>Talks have been ongoing in regards to cheque processes and the benefits of the council going cheque less. Discussions with the Head of Customer Operations confirmed that Finance have a project team in place mapping out an exit strategy for accepting cheques across the board, Allerdale are aiming to stop accepting cheques by 1st April 2020. This is an excellent step in the right direction for the Council which will alleviate lengthy cheque processes, cheque fraud and input errors.</p> <p>Samples were selected to test for duplicate payments, ghost employees and purchase orders and invoices out of those tested no issues were found.</p> <p>Samples were selected to test for fraudulent suppliers, out of those tested, no issues were found though none of the samples tested showed the requesters details on the form.</p> <p>No substantial risks were identified, official orders were raised and prescribed controls were followed prior to any payment being made, system has the facility to store a full</p>		

	management trail of information for all orders.		
Benchmarking	The review evidenced that although some services do benchmark for specific areas/procurements/fees and charges the majority didn't, however those who didn't expressed interest and thought it would benefit their service to do so.	Benchmarking Agreed Action One, Priority Low: The opportunity to benchmark should be corporately encouraged and utilised where possible, this should include analysis of resources, IT/equipment and costs.	Responsibility: Head of Strategy, Policy and Performance
Audit Opinion Substantial	<p>The Head of Strategy Policy and Performance owns this corporately on performance and strategy supported by The Head of Financial Services. There is currently no corporate approach or expectation for benchmarking work to be done within service areas nor was it built into objectives.</p> <p>Substantially less benchmarking work had been done on the allocation of resources and cost of services.</p> <p>Although the council have access to a lot of information it is not easily extracted and therefore not used as it could be.</p> <p>Benchmarking is seen as beneficial and more work is being done around this currently.</p>		Due Date: 31 March 2021



Public Sector
Internal Audit
Standards Compliant