



Internal Audit

**FINAL**

## Dacorum Borough Council

Assurance Review of Budgetary Control

**2021/22**

February 2022

# Executive Summary

**OVERALL ASSESSMENT**

**ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE**

**SR1** - Funding and income is not sufficient to deliver the Council's Corporate Objectives – Inherent Risk Score (16) and Mitigated Risk Score (9).

**SCOPE**

The review assessed the adequacy and effectiveness of the Council’s budgetary controls.

**KEY STRATEGIC FINDINGS**

- There are policies, procedural documents and guidance in place the Council’s budgetary system, such as, movement from reserves and budget adjustments/virements.
- Budgetary controls are robust and operating as intended by management. For example, authorisation and approval, budget monitoring via monthly budget review meetings with budget holders and budget reports to the Senior Leadership Team, Committees, the Cabinet and Council.
- The 2021/22 financial reserves were agreed as part of the annual budget setting process. They are subject to ongoing review, to ensure the level of reserves remain appropriate.

**GOOD PRACTICE IDENTIFIED**

- Key risks to the Council finance and achievement of the approved budget are identified, managed and reported to relevant Committees across the Council.

**ACTION POINTS**

Urgent	Important	Routine	Operational
0	0	2	0

## Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	<p>The Finance Department maintains a budget monitoring log which records information noted during the monthly budget meetings, held with the budget holders.</p> <p>Following the review of the log, it was noted that some sections of the log are blank.</p>	The Accountant (Finance & Operations) to ensure that all sections of the log are completed.	3	<i>The finance service have implemented a process to ensure all sections of the budget monitoring template are completed. For completeness it is worth noting that there are sections of this report that do not require completion every month or for every service area so a lot of these areas will be completed as not applicable.</i>	30/06/22	Group Manager Financial Services
2	Delivery	<p>In a few cases, monthly budget meetings did not take place, due to the budget holder being on leave or unforeseen circumstances.</p> <p>The Accountant (Finance &amp; Operations) stated that in such instances, the budget is either discussed with a nominated deputy or the budget is emailed to the budget holder for comments. It was noted that evidence to support this action is not routinely maintained.</p>	Where the monthly budget holders meeting does not take place. It must be ensured that evidence of review performed is retained and the budget monitoring log updated accordingly.	3	<i>Data will be recorded accordingly. Divisional monthly reports are presented and approved by SLT on a monthly basis to ensure all budgets are signed off on a monthly basis. A review of budget monitoring meetings will also be undertaken in 2022/23.</i>	30/06/22	Group Manager Financial Services

PRIORITY GRADINGS

**1 URGENT** Fundamental control issue on which action should be taken immediately.

**2 IMPORTANT** Control issue on which action should be taken at the earliest opportunity.

**3 ROUTINE** Control issue on which action should be taken.

## Operational - Effectiveness Matter (OEM) Action Plan

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Ref	Risk Area	Finding	Suggested Action	Management Comments
No operational effectiveness matters were identified.				

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

## Findings



### Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	<b>Governance Framework</b> There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	-	-
RM	<b>Risk Mitigation</b> The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	<b>Compliance</b> Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	In place	1	-

### Other Findings



There are appropriate policies, procedural and governance documents in place with regards to the Council budgetary system, namely:

- the Financial Regulations (incorporates the Scheme of Delegation and Scheme of supplementary budgets);
- Virement Policy;
- supplementary budget policy;
- the Financial Planning and Budgeting Policy Framework; and
- the Budget timetable and templates.



The Section 151 officer, Overview and Scrutiny Committees, Budget Review Group, and the Senior Leadership Team were involved in the annual budget setting process.



The budget setting process is informed by the Council's Vision and Priorities, as stated in the Corporate Plan and the Service Strategies, and is linked to the Council's Medium Term Financial Strategy (MTFS).

## Other Findings



The 2021/22 annual budget was presented to Cabinet on 9<sup>th</sup> February 2021 accompanied by the Corporate Director's (Finance & Operations) statement, which contains amongst other things, the explanation of the assumptions on which the budget was based including assumptions made in relation to loss of income due to covid.



Budget Risk Assessments were completed and the approved budget contains risks to key income streams and the key risks to the achievement of the budget are routinely identified and managed



The arrangements for monitoring the Council's annual budget is formalised and was being complied with by Finance.



Review and testing of a sample of virements confirmed that the Council processes were adhered to and a log of virements is maintained by Finance.



**Delivery Risk:**

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	<b>Performance Monitoring</b> There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In place	-	-
FC	<b>Financial Constraint</b> The process operates within the agreed financial budget for the year.	In place	-	-
R	<b>Resilience</b> Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	2	-

**Other Findings**

-  Regular monthly meetings are held between the budget holder and the assigned member of the Finance team, which is evident from review of the budget monitoring log.
-  The Budget report is presented and discussed at the monthly Senior Leadership meeting, whereas the Budget monitoring report is presented to the:
  - Housing and Community Overview and Scrutiny Committee;
  - Finance and Resources Overview and Scrutiny Committee; and
  - Strategic Planning & Environment Overview & Scrutiny Committee.
 Additionally, the budget report and Financial Monitoring report is presented to the Cabinet meetings.
-  The financial impact of Covid and the Council’s responses to it were taken into consideration when compiling the 2021/22 budget.

## EXPLANATORY INFORMATION

## Appendix A

### Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

### Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

### Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

<b>In place</b>	The control arrangements in place mitigate the risk from arising.
<b>Partially in place</b>	The control arrangements in place only partially mitigate the risk from arising.
<b>Not in place</b>	The control arrangements in place do not effectively mitigate the risk from arising.

### Assurance Assessment

4. The definitions of the assurance assessments are:

<b>Substantial Assurance</b>	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
<b>Reasonable Assurance</b>	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
<b>Limited Assurance</b>	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
<b>No Assurance</b>	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

### Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

### Release of Report

6. The table below sets out the history of this report.

Stage	Issued	Response Received
<b>Audit Planning Memorandum:</b>	8 <sup>th</sup> September 2021	8 <sup>th</sup> September 2021
<b>Draft Report:</b>	12 <sup>th</sup> January 2022	2 <sup>nd</sup> February 2022
<b>Final Report:</b>	2 <sup>nd</sup> February 2022	

# AUDIT PLANNING MEMORANDUM

## Appendix B

<b>Client:</b>	Dacorum Borough Council				
<b>Review:</b>	Budgetary Control				
<b>Type of Review:</b>	Assurance	<b>Audit Lead:</b>	Audit Manager		
<b>Outline scope (per Annual Plan):</b>	<p>Scope: The control objectives that will be considered as part of this audit include:</p> <ul style="list-style-type: none"> <li>Formally approved budgets are set each year, taking into account all relevant income and expenditure</li> <li>All budget adjustments (including virements) are authorised</li> <li>The financial management system accurately reflects the agreed budgets</li> <li>Budgets are allocated to named individuals Budgets are adequately monitored</li> <li>The budget position is regularly reported</li> <li>Appropriate financial reserves are maintained in line with assessed risks.</li> </ul>				
<b>Detailed scope will consider:</b>	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>			
<b>Requested additions to scope:</b>	(if required then please provide brief detail)				
<b>Exclusions from scope:</b>					
<b>Planned Start Date:</b>	18/10/2021	<b>Exit Meeting Date:</b>	02/12/2021	<b>Exit Meeting to be held with:</b>	Group Manager- Financial Services Accountant Finance & Operations

**SELF ASSESSMENT RESPONSE**

Matters over the previous 12 months relating to activity to be reviewed	Y/N (if Y then please provide brief details separately)
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N