

Final Internal Audit Report

Service Based Budget Monitoring Across the Organisation

September 2022

Distribution: Corporate Director of Resources and S151 Officer
 Interim Director of Finance (Deputy S151 Officer)
 Interim Head of Corporate Finance (Corporate Finance)
 Finance Manager (Adult Social Care and Health)
 Head of Finance (Housing and Sustain Croydon)
 Interim Head of Finance (Children’s Social Care)
 Interim Head of Finance (Education)
 Interim Head of Finance (Assistant Chief Executive and Resources)

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	2
	Priority 2	3
	Priority 3	0

[Confidentiality and Disclosure Clause](#)

This report (“Report”) was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

Contents
Page**Executive Summary**

1. Introduction	3
2. Key Issues	4

Detailed Report

3. Actions and Key Findings/Rationale	5
4. Summary of interview from Budget Holders	11

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

1. Introduction

- 1.1. The Council's Chief Financial Officer (CFO) is responsible for ensuring that a revenue budget, capital programme and expense budget are prepared on an annual basis. The full Council may amend the budget or ask the Leader and Cabinet to reconsider it before approving it.
- 1.2. On 11 November 2020 the Council issued a S114 notice on the basis that the Council was not able to balance its budget by the end of 2020/21 financial year. A Report in the Public Interest (RIPI) published by the Council's external auditors, Grant Thornton, confirmed there was 'deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves.'
- 1.3. In March 2022, the Cabinet recommended to Full Council to revoke the S114 notice as a balanced budget was forecast for 2022/23. This was following the Council's request for a capitalisation direction from the Department of Levelling Up, Housing and Communities [DLUHC] of up to £50m for 2021/22 and up to £25m for 2022/23. In addition, there is a 1.99% and 1.00% increase for Croydon Services and Adult Social Care Precept, respectively, in 2022/23.
- 1.4. The Council's intranet explains that, '*My Finance is used by all three major stakeholders to plan, produce and capture the information required to set the budget for the year ahead.*'
 - *Budget holders (Heads of Service, cost centre managers and directors) who are budget holders will project and report on their revenue budget quarterly or monthly.*
 - *Finance staff will support budget holders to monitor their revenue budgets, providing challenge and value-added insight to those projections.*
 - *Corporate finance will collate the reports provided by budget holders to aggregate the council's budget forecast'*
- 1.5. In May 2021 Internal Audit Issued an audit report on Services Based Budget Monitoring with eight findings (three priority 1, four priority 2 and one priority 1).
- 1.6. This audit follows on for the May 2021 audit. A sample of 14 Budget Managers were interviewed as part of this audit (out of 163 Budget Managers listed within 'My Finance'; the Council's budget monitoring system) as at 18 February 2022. Further detail on the feedback received during interviews has been included at Section 04 in our report and used to inform our findings accordingly.
- 1.7. While our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.8. This audit was undertaken as part of the agreed Internal Audit Plan for 2021/22 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

- 2.1 The key issues identified are as below. Issues 1 to 4 are similar to those which were raised in the May 2021 audit report

Priority 1 Issues

There is a lack of guidance and training provided to budget holders in relation to budget setting and monitoring processes. **(Issue 1)**

Based on interviews, 29% of the Budget Managers did not believe that they had sufficient financial information to discharge their duties. In addition, 57% of the Budget Managers suggested that timely financial information was not provided prior to any significant impact on their budget. **(Issue 2)**

Priority 2 Issues

14% of the sample of Budget Managers interviewed did not know of the budget setting timetable along the appropriate level of input required. **(Issue 3)**

14% of Budget Managers interviewed did not feel that they had appropriate consultations with the Central Finance Team prior to ratification of the budget. **(Issue 4)**

Agenda and actions arising from (monthly or quarterly) meetings between Budget Manager and Finance are not documented for future reference. **(Issue 5)**

3. Actions and Key Findings/Rationale

Control Area 1: Regulatory, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1				
1	<p>Corporate Finance team have embarked on a project to improve financial management within the organisation. The improvement plan focuses on improving financial management awareness through providing Croydon focused financial training and secondly developing the MyFinance system to be more user friendly. Once the system has been reconfigured/improved a training course on MyFinance will be provided.</p> <p>Further work will be done to improve access to financial information and guidance via the Intranet with a targeted communication plan.</p>	<p>Internal audit interviewed a sample of 14 Budget Managers across the Council. Ten of those interviewed (71%) feedback on the lack of training and guidance pertaining to the use of My Finance (the Council's budget monitoring system), budget setting and monitoring activities within the Council.</p> <p>Lack of training and guidance related to budget setting and monitoring processes can make it difficult to ensure that a consistent approach is applied across the Council. This can potentially lead to errors and inconsistencies in the budget setting and monitoring activities. Additionally, this can also make it difficult to ensure that all Budget Managers are consistently following the recommended policies and procedures, potentially resulting in difficulty meeting budgetary expectations.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Interim Head of Corporate Finance</td> <td>31/03/2023</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Interim Head of Corporate Finance	31/03/2023	
Responsible Officer	Deadline					
Interim Head of Corporate Finance	31/03/2023					

Control Area 2: Access to Financial Information

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	<p>The Corporate Finance team have improved how month end information is captured and provided to Finance teams and budget holders. This is currently provided via Finance teams. Going forward Corporate Finance will provide these directly to budget holders and ensure more and frequent engagement directly from Corporate Finance to the whole Council.</p> <p>As per the previous recommendation improvements to the MyFinance system along with training to budget holders will improve access to financial information.</p>	<p>The Council's Financial Regulations include as a responsibility of budget holders that they ensure that <i>'plans and realistic prudent profiled budgets exist for the delivery of the medium-term financial strategy and to report year to date variances and forecast outturn adverse or favourable variances immediately they exist'</i>.</p> <p>Budget Managers were asked whether they felt that they had sufficient financial information to discharge their duties. From the sample of 14 Budget Managers interviewed:</p> <ul style="list-style-type: none"> • 9 (64%) Managers stated 'Yes'. • 4 (29%) Managers stated 'No'. Comments provided included lack of enough information on the system which requires manual reconciliations and lack of support from the finance team. • 1 (7%) Manager stated 'N/A', where the question was not applicable as this was a grant funded cost centre controlled externally and not by the Council. <p>A second question also asked, was whether they were provided with timely financial information, prior to any significant impact on their budget. The results were that:</p> <ul style="list-style-type: none"> • 5 (36%) Managers stated 'Yes'. • 8 (57%) Managers stated 'No'. Comments included lack of real time information, information being scattered online (information on the system) and offline (information on spreadsheets), very slow system and over-reliance on the finance team to generate ad-hoc reports. • 1 (7%) Manager stated 'N/A', where the question was not applicable as this was a grant funded cost centre controlled externally and not by the Council.

Service Based Budget Monitoring Across the Organisation 2021-22

Responsible Officer	Deadline	
Interim Head of Corporate Finance	31/03/2023	Where Budget Managers do not have access to sufficient financial information on a timely basis, there is a risk that they are unable to properly manage their budgets and of inaccurate reporting leading to incorrect assumptions of overall spend and future forecasting.

Service Based Budget Monitoring Across the Organisation 2021-22

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
2	<p>An annual budget setting timetable is produced, and this is shared with all Finance colleagues.</p> <p>Going forward Finance will share the budget setting timetable with all Budget Holders on an annual basis.</p>	<p>The Council's Financial Regulations lay out the broad process for setting the budget, these are supported by more detailed instructions sent out annually at the start of each budget setting process, including budget setting guidance notes and timetable, cabinet member briefings and growth and savings template forms.</p> <p>A sample of 14 Budget Managers across the Council were asked whether they were aware of a budget setting timetable along the appropriate level of input required. The results were that:</p> <ul style="list-style-type: none"> • 5 (36%) Managers stated 'Yes'. • 2 (14%) Managers stated 'No'. Comments provided included not being involved in the budget setting process by the finance team. • 7 (50%) Managers, where the question was not applicable as the Budget Managers were not involved with the budget setting process. 				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Interim Head of Corporate Finance</td> <td>31/10/2022</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Interim Head of Corporate Finance	31/10/2022	<p>Where Budget Managers are not aware of annual budget setting timetable, engagement with the whole process is limited, leading to rushed and poor financial planning for the forthcoming year.</p>
Responsible Officer	Deadline					
Interim Head of Corporate Finance	31/10/2022					

Service Based Budget Monitoring Across the Organisation 2021-22

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4				
2	<p>The Budget Setting process for a large organisation like Croydon makes it difficult to engage with all budget holders for final ratifications. Final ratifications are discussed at CMT level with the consolidated budget.</p> <p>Each Directorate must ensure that proposals generated within the Service are clearly communicate within the Directorate and there is clear buy in from their respective finance teams and budget holders at all levels.</p> <p>Corporate Finance will set out a clear process map on how the budget is assembled and clearly layout the roles and responsibilities of budget holders within the Budget Setting process.</p>	<p>The Council's Financial Regulations detail that, <i>'It is the responsibility of Executive Directors to ensure that budget estimates reflect agreed service plans and are submitted to the Chief Financial Officer. The Chief Financial Officer will provide a detailed Directorate budget book before 1st March relating to the next budget year.'</i></p> <p>A sample of 14 Budget Managers across the Council were asked whether they felt that they had had consultation/s with Central Finance and/or Director and Head of Service prior to ratification of the budget. The following responses were received:</p> <ul style="list-style-type: none"> • 8 (57%) Managers stated 'Yes'. • 2 (14%) Managers stated 'No'. Comments included a lack of consultation from finance with Budget Managers. • 4 (29%) Managers, where the question was not applicable as the Budget Manager was not involved with the budget setting process. <p>Without adequate consultation in the budget setting process, Budget Managers will be unaware of required savings and efficiencies prior to the budget being set or are unable to properly highlight key priorities that should be addressed and there is a risk that the agreed budget plans do not properly reflect agreed service plans.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Interim Head of Corporate Finance</td> <td>30/04/2023</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Interim Head of Corporate Finance	30/04/2023	
Responsible Officer	Deadline					
Interim Head of Corporate Finance	30/04/2023					

Service Based Budget Monitoring Across the Organisation 2021-22

Control Area 3: Budget Monitoring

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5				
2	<p>Corporate Finance team will pick this up as an action with the Service Finance teams.</p> <p>Policies and procedures will be put in place so that Service Finance team document their budget monitoring meetings and mainly the DMT meetings should ensure clear actions and minutes from monthly budget holder meetings.</p> <p>A monthly budget report is produced which is shared with the CMT colleagues.</p>	<p>Each of the 14 Budget Managers interviewed stated that regular (monthly or quarterly) budget monitoring meetings take place between Budget Managers and members of the finance team. However, these meetings have no set agenda and any actions arising from them are not documented.</p> <p>Where budget monitoring meetings are not documented, this can lead to a lack of audit trail regarding decision making. This can make it difficult to identify and resolve budgetary performance issues on a timely basis, potentially resulting in financial issues for the Council.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Interim Head of Corporate Finance / Service Finance Teams</td> <td>31/03/2023</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Interim Head of Corporate Finance / Service Finance Teams	31/03/2023	
Responsible Officer	Deadline					
Interim Head of Corporate Finance / Service Finance Teams	31/03/2023					

Service Based Budget Monitoring Across the Organisation 2021-22

4. Summary of Interviews from Budget Holders

	Yes	No	Uncertain	N/A	Total
To establish whether there is a budget setting timetable that is adhered to and adopted, and which confers the appropriate level of input from budget holders.	5	2	-	7	14
To establish whether appropriate consultations are had with budget holders prior to ratification of the budget.	8	2	-	4	14
To establish whether sufficient financial information is available to budget holders to discharge their duties.	9	4	-	1	14
To establish whether budget holders are provided with timely financial information, prior to any significant impact on their budget.	5	8	-	1	14
To establish whether budget managers are appropriately monitoring their budgets on a regular basis.	13	-	-	1	14
To establish whether budget forecasting is being appropriately undertaken.	12	2	-	-	14
To establish whether there is an effective mechanism for budget managers to identify budgetary variances.	12	1	1	-	14
To establish whether appropriate training and/or guidance is provided.	4	10	-	-	14
Confirm that meetings take place between Finance and budget holders to review individual budgets	11	-	-	3	14

AUDIT TERMS OF REFERENCE

Service Based Budget Monitoring

1. INTRODUCTION

- 1.1 On 11 November 2020 the Council issued a S114 notice on the basis that the Council was not able to balance its budget by the end of this financial year. A Report in the Public Interest (RIPI) published by Grant Thornton confirmed there was ‘deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves.’
- 1.2 In March 2021, Cabinet recommended to full Council to revoke the S114 notice as balanced budget was forecast for 2021/22. This was following the Council’s request for a Capitalisation Direction being formally confirmed by MHCLG on 16 March 2021. This allowed borrowing of £120m – £70m for the financial year 2020-21 and £50m for 2021/22, conditional on the delivery of the Renewal Plan which is inclusive of proposed savings.
- 1.3 Progress of expected savings is monitored by finance teams and reported monthly to Cabinet. As of month 5, the Financial Performance Report indicates a net underspend of £0.086m against the budget for 2021/22, representing a £0.378m positive movement against the Period 4 forecast.
- 1.4 This audit was undertaken as part of the agreed Internal Audit Plan for 2021/22.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

- 3.1 This audit included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	1	0	0





Service Based Budget Monitoring Across the Organisation 2021-22

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Access to Financial Information	1	2	0
Budget Monitoring	0	1	0
Support for Budget Managers	0	0	0
Management actions, and	0	0	0
Reporting.	0	0	0
Total	2	3	0

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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