

# Final Internal Audit Report

## Budget Management: People Department

### July 2018

**Distribution:** Executive Director Resources (Final Only)  
 Executive Director (Interim) Children, Families and Education (Final only)  
 Executive Director (Interim) Health, Wellbeing & Adults (Final only)  
 Director of Finance Investment and Risk  
 Head of Finance

Assurance Level	Recommendations Made	
Limited Assurance	Priority 1	1
	Priority 2	1
	Priority 3	0

#### Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Public Sector Internal Audit Ltd. 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, 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.....	2
2. Key Issues .....	2

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### Detailed Report

3. Actions And Key Findings/Rationale .....	3
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### Appendices

1. Terms Of Reference
2. Definitions For Audit Opinions And Recommendations
3. Statement Of Responsibility

## Executive Summary

### 1. Introduction

- 1.1 Each year in Croydon the annual budget is set for the following year. The process of budget setting begins in October and will continue until fully agreed by Cabinet the following February.
- 1.2 This audit focused on the management of the budget in relation to the 'People' department specifically and how the budget is set, monitored and reported on.
- 1.3 The audit looked at both the overall budget process for 'People' in addition to specific areas to help assess how robust the budget setting and budget monitoring process is. Areas to be specifically focused on will include, but are not exclusive to: cost drivers with respect to children's social care services, in addition to adult social care services.
- 1.4 The budget for 'People' for the financial year 2016/17 was £184,235,705 with a final outturn at the year-end of £194,233,842 resulting in a 5% variance. The current budget for the financial year 2017/18 for 'People' is £187,675,724.
- 1.5 The audit has been performed as part of the agreed Internal Audit Plan for 2017/18.

### 2. Key Issues

<b>Priority 1 Issue</b>
In Children's Services, only external local placements were being monitored, the data for the other types of placements being considered inaccurate, <b>(Issue 2)</b> .
<b>Priority 2 Issue</b>
Examination of a sample of proposed budget savings found that there was limited detail to substantiate how these were calculated and the documents did not detail whether lead times were required and had been properly considered in achieving these savings, <b>(Issue 1)</b> .

3. Actions and Key Findings/Rationale

<u>Control Area 1: Budget Setting</u>		<b>Detailed Finding/Rationale – Issue 1</b>
<b>Priority</b>	<b>Action Proposed by Management</b>	
2	<p>It should be noted that working papers for 18/19 were significantly improved from previous years, with joint working between finance and the service.</p> <p>Due to timing and confidentiality, it is not always possible to show the detailed workings on templates e.g. details of staffing could not be given on the template as consultation had not taken place at that point and the majority of the savings are from already vacant posts to be deleted so no consideration of phasing or costs was required.</p> <p>Though not explicit on the completed template, the service and finance are fully aware of the impact of phasing on savings.</p> <p>For 19/20 budget setting we will include further details of phasing and other factors.</p>	<p>Instructions are annually sent out to the respective Heads of Finance on the budget setting process for the year. For the 2018/19 budget setting process, this included guidance notes, a timetable and growth and savings templates.</p> <p>Examination of the completed savings templates for a sample of five of the proposed savings submitted and approved by Cabinet on 26 February 2018 found that:</p> <ul style="list-style-type: none"> <li>- Breakdowns were provided to substantiate how the savings had been calculated, but these were limited and did not properly detail the assumptions these were based on.</li> <li>- There was limited indication as to whether any lead time had been considered for any of the savings, e.g. for staff redundancies, did these need to occur at the beginning, middle or end of the year to achieve the proposed savings?</li> <li>- It was not clear whether proposed savings were net of the additional costs required to deliver these.</li> </ul> <p>Where it is not clear how all the savings have been calculated, there is a risk that not all factors were considered in calculating these savings and these may not be achievable.</p>
<b>Responsible officer</b>		
Head of Finance	<b>Deadline</b>	
	End December 2018	

<b>Control Area 2: Budget Control and Variance Analysis</b>					
<b>Priority</b>	<b>Action Proposed by Management</b>				
1	<p>All the placements are monitored monthly just not in the same way. What is missing on 'in-house adoption', 'Connected Carers or Reg 24', 'Adoption', 'CAO' and 'Special Guardianship' is a list of children/activity data so these areas are/were monitored based on actual to date (extrapolated to year-end).</p> <p>Going forward, there is expectation that activity data will be provided for these placements (started at Period 2 monitoring) in order to provide a more robust forecast that links activity data to spend.</p> <p>Commissioning and Procurement are in the process of employing a Commissioning Placements Project Manager who as part of their role will be responsible for implementing full use of CrontronCC. Once this is set up and in place for all placements it will improve monthly forecasting.</p>				
	<p><b>Detailed Finding/Rationale – Issue 2</b></p> <p>In order to be able to properly predict expenditure, the cost drivers need to be understood and these appropriately monitored.</p> <p>It was identified that there are high risk budgets in both Adults and in Children's Services, related to placements. In Adult Services, the placements were all monitored monthly with the respective Services; however, in Children's Services, only external local placements (i.e. 'IFA', 'Residential', 'Semi-independent', 'Secure Remand' and 'Secure Welfare') were being monitored. The data for the other types of placements (i.e. 'In-house adoption', 'Connected Carers or Reg 24', 'Adoption', 'CAO' and 'Special Guardianship') being considered inaccurate.</p> <p>It is acknowledged that the external local placements are significantly more expensive than the other placements in Children's Services, notwithstanding, in order to properly monitor and manage the budget, all placements should be monitored.</p> <p>Where not all placements are monitored monthly, there is a risk that these budgets are not properly monitored, managed and controlled.</p>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Head of Finance</td> <td>October 2018</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Head of Finance	October 2018
<b>Responsible officer</b>	<b>Deadline</b>				
Head of Finance	October 2018				

## TERMS OF REFERENCE

### Budget Management – People Department

#### 1. INTRODUCTION

- 1.1 Each year in Croydon the annual budget is set for the following year. The process of budget setting begins in October and will continue until fully agreed by Cabinet the following February.
- 1.2 This audit is focusing on the management of the budget in relation to the 'People' department specifically and how the budget is set, monitored and reported on.
- 1.3 This audit will aim look at both the overall budget process for 'People' in addition to specific areas to help assess how robust the budget setting and budget monitoring process is. Areas to be specifically focused on will include, but are not exclusive to: cost drivers with respect to children's social care services, in addition to adult social care services.
- 1.4 The budget for 'People' for the financial year 2016/17 was £184,235,705 with a final outturn at the year-end of £194,233,842 resulting in a 5% variance. The current budget for the financial year 2017/18 for 'People' is £187,675,724.
- 1.5 This audit is being undertaken as part of the agreed 2017/18 Internal Audit Plan.

#### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is 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:





Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Budget Setting	0	1	0
Budgetary Control and Variance Analysis	1	0	0
Management Reporting	0	0	0
<b>Totals</b>	<b>1</b>	<b>1</b>	<b>0</b>



## DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## 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 Public Sector Internal Audit Limited 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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