



CROYDON

Final Internal Audit Report

Financial Planning and Forecasting (Adult's Services)

September 2020

Distribution: Executive Director Health Wellbeing and Adults (Final only)
Director of Operations
Director of Finance Investment and Risk and S151 Officer
Head of Finance
Finance Manager

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

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.

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

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Executive Summary

1. Introduction

- 1.1 Adult's Social Care is a key area of activity for the Council and serves to provide care and other social care services to the most vulnerable in society. With increased budgetary pressures caused by the requirement to improve quality and provide increased care to an aging society, budget overspends have been occurring.
- 1.2 The Financial Forecasting and Financial Planning audit was performed to help ensure that controls have been adequately designed and implemented to ensure effective budgetary setting and control.
- 1.3 It should be noted that the completion of this audit was delayed by the Coronavirus pandemic and subsequent government advice and lockdown measures (Covid-19).
- 1.4 A separate report on Financial Planning and Forecasting (Children's Services) has also been issued.
- 1.5 The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 1 Issue

Demand growth and savings figures associated with the Health, Wellbeing and Adult's budget had not been properly substantiated or evidenced despite issues being identified in an earlier audit. **(Issue 1)**

Priority 2 Issues

The Health, Wellbeing and Adult's Director Leadership team (DLT) had not been receiving regular budget reports. **(Issue 2)**

Quarterly budget monitoring reports replaced monthly reports every 3 months and these did not provide adequate detail to enable the consistent budget monitoring from month to month which is necessary for such a high risk department. **(Issue 3)**

Budget monitoring reports did not always provide enough context via the use of notes to individual cost centres for users to gain a full understanding of the true financial position of the Council. **(Issue 4)**

The Priority 3 issue is included under section 4.

3. Actions and Key Findings/Rationale

Control Area 2: Budget Setting		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1	<p>ASC has been historically underfunded, with net growth awarded not meeting the spending levels of the department. There has been an over reliance on ambitious savings programmes and non-recurrent funding to bring spend within budgets.</p> <p>In light of the Council's response to the Covid 19 pandemic, and the need to ensure a sustainable Council Budget, the Corporate finance review programme has been established to develop and deliver plans to address the £60m financial challenge ahead. Projects include the staff review, stopping non-essential spend, partnerships, contracts review etc.</p> <p>There has been and continues to be a significant focus on the Mid Term Financial Strategy for 2020/21 and beyond, with additional and dedicated Financial resources secured to bring improved rigour, transparency and shared understanding and responsibility to the process with</p>	<p>Demand growth and savings targets are established prior to the establishment of the Council's annual budget. A Revenue Savings and Growth Report (RSGR) is compiled and provided to Cabinet for review prior to the recommendation being made that the Council approves the budget. The savings and demand growth figures reported are required to be challenged and scrutinised through consultations with the Finance Department via the use of Project Initiation Documents (PIDs).</p> <p>Examination of the RSGR that went to Cabinet on 25 February 2019 and the electronic record of PIDs held, where the demand growth and savings figures are planned and explained, identified only one case where the demand growth figures as per the RSGR and the PIDs matched. In the two other cases (detailed below), no PIDs were available to establish what planning was in place to manage the demand growth in these areas, nor what assumptions had been made and how these had been challenged. These were:</p> <ul style="list-style-type: none"> • 25-65 Disability Demand (£4.000m demand growth), and • Mental health Demand (£0.738m demand growth). <p>It was also established that the exercise to determine the savings and demand figures for the 2018/19 budget setting process were for a two year period and thus the demand figures used in the 2019/20 budget were based on this exercise. However, as the Peoples Department: Budget Management 2017/18 Audit Report highlighted issues with how the proposed 2018/19 savings were substantiated and calculated, it is expected that the exercise to determine the savings and demand figures would have been re-performed.</p>

	<p>proposals being worked up March to August 2020 and presented to members for approval September – November 2020.</p> <p>The long term impact of Covid 19 on adult social care services is unknown, with demand forecasts required to feed into budget setting proposals. The department will be working with health, communities and voluntary sector partners to devise and deliver proposals that meet these demands, ensuring we are spending within our means. Through the Alliance, a shadow health and care budget working group has been established of which one workstream is on Planning Together, where all priorities and any plans must address the council and system financial pressures.</p>	<p>It is acknowledged that with the subsequent Covid-19 lockdown these demand and savings figures will need to be revised.</p> <p>Where demand growth figures are not properly substantiated and where management and financial challenge has not been recorded, there is an increased risk that savings and demand figures included and planned for are unrealistic, resulting in a reduced capacity to effectively monitor in-year budgets.</p>
Responsible officer	Deadline	
Director of Operations / Head of Finance	Ongoing	

Control Area 3: Budget Monitoring and Adjustments		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
2	<p>There has been significant time, resources and effort spent across the service and finance on providing visibility, understanding and confidence in the HWA forecast since Quarter 2 (October 2019).</p> <p>There has been Autumn sprints, deep dive sessions and extraordinary HWA DLT finance meetings to strengthen budget monitoring and identifying actions plans to manage in year pressures. Following this oversight actions to control spending were put in place, such as new or amended placement spend in 2019/20 requiring ED or Director approval. These meetings were most likely either not minuted or have yet to be shared. Going forward the department will ensure minutes/actions are taken at all key finance meetings.</p> <p>The department will continue to build on the good working relationship with finance business partners. With monthly monitoring with budget holders on all budgets, monthly reports going to the Adult Social Care Senior</p>	<p>The Council's Financial Regulations detail that, '<i>Executive Directors are responsible for:</i></p> <ul style="list-style-type: none"> • <i>controlling income and expenditure within their area and monitoring performance, taking account of financial information provided by the Chief Financial Officer and / or their own systems;</i> • <i>quarterly and monthly reporting for areas of high financial risk, in accordance with the agreed corporate format and timetable, on variances within their own areas;</i> • <i>taking any action necessary to avoid exceeding their budget allocation and alerting the Chief Financial Officer as soon as possible if this cannot be achieved;</i> <p>Examination of six sets of minutes of the Health, Wellbeing and Adult's Director Leadership Team meetings held between 3 September 2019 to 12 November 2019 identified that the budget was only discussed at one of these (8 October 2019).</p> <p>Where management and directors do not receive regular (at least monthly) budget updates, there is an increased risk of reduced management oversight and ineffective budgetary control.</p>

	<p>Management Team (SMT) and HWA DLT for review and approval.</p> <p>There is a central Placements team, so there is no longer risk of placement/care package price being negotiated locally by social workers. The implementation of the Dynamic Purchasing System's for Health and Social Care Services this year will provide an effective procurement system to call-off significant volumes of care, which have not only passed a quality threshold but also has provider costs built in, driving mini-competition rather than providers naming their price. These actions will continue to ensure we are providing services at the lowest possible costs and there is an improved grip and control on spending.</p> <p>In addition, the implementation of the new Social Care system this Autumn 2020 will increase the confidence in control of expenditure and the data quality, data usability and accessibility leading to improved spend forecasting.</p>	
Responsible officer	Deadline	
Director of Operations	October 2020	

<u>Control Area 3: Budget Monitoring and Adjustments</u>				
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3		
2	<p>The monthly monitoring of high risk areas continues to be a priority for the department with the provision of reasons for variances and mitigation plans.</p> <p>With the move to monthly monitoring on all budgets from 2020/21, budget monitoring reports will be provided to SMT, HWA DLT and reported to the Executive Leadership Team (ELT).</p> <p>Budget monitoring reports have been standardised across the council, hence the corporate template will now be used going forward. This template includes reasons for variances, variances due to Covid 19, comparison of variances with previous month, risks, opportunities, mitigation actions against forecasts and any corporate adjustments. More detailed departmental specific monitoring (such as care package budget monitoring reports) will still be available to the department as they will feed into the corporate monitoring.</p>	<p>The Council's Financial Regulations detail that, '<i>Executive Directors are responsible for...quarterly and monthly reporting for areas of high financial risk, in accordance with the agreed corporate format and timetable, on variances within their own areas.</i>'</p> <p>The Care Packages budget has been identified by the Service and central Finance to be a high financial risk and therefore should be monitored monthly.</p> <p>It was confirmed that monthly budget reports for the Care Packages budget were produced monthly by central Finance for the Service, except for Periods 3 and 6, when the Care Packages budget was reported on as part of the amalgamated quarterly budget reports.</p> <p>A comparison between the monthly Care Package budget monitoring reports, and the amalgamated quarterly budget monitoring reports established that the monthly Care Package budget reports were more detailed, splitting budget monitoring across each cost centre and providing explanations for significant variances. In the quarterly amalgamated budget reports, the HWA budget is split across service lines and therefore does not allow for the same level of detail when reporting on Care Packages.</p> <p>Where high financial risk area budget monitoring reports provide less detail at quarterly intervals, there is an increased risk of reduced management awareness and oversight on significant variances associated with these specific high financial risk cost centres in these periods.</p>		
	<table border="1"> <tr> <td>Responsible officer</td> <td>Deadline</td> </tr> </table>	Responsible officer	Deadline	
Responsible officer	Deadline			

Head of Finance	September 2020	
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Control Area 3: Budget Monitoring and Adjustments		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 4
2	<p>Budget monitoring reports include variance analysis for year to date and comparison against previous quarter, not in-period.</p> <p>The department will continue to work with finance to strengthen budget monitoring by:</p> <ul style="list-style-type: none"> • performing regular deep dives into high risk areas, ensuring budgets and activity driving spend are known • Better and shared understanding of real spend levels vs mitigated forecasts • Provision of good quality commentary of variances <p>Actions plans to manage overspends will be more transparent, assumptions and delivery challenged at SMT and DLT before there is confidence to reduce reported overspends. Progress on action plans will also be monitored monthly, reported at SMT/DLT and forecasts updated accordingly.</p> <p>Any 'corporate adjustments' following submission of the final departmental</p>	<p>Budget monitoring is performed on an accruals basis.</p> <p>Budget monitoring reports include a variance analysis that provides detailed explanations for in-period and year-to-date variances between budgeted and actual expenditure. This enables users of budget monitoring reports to take decisive action to prevent any continued overspend and re-allocate unused financial resources.</p> <p>Examination of the HWA 2019/20 Q1 budget monitoring report established that:</p> <ul style="list-style-type: none"> • Cost centre C1410Q was not being consistently reported on an accruals basis. The actual spend to date was misleading as the payment arrangements mean that most of the expenditure associated with this cost centre is paid at the year-end, however the overhead charges are associated with business activities throughout the year, and therefore the actual spend to date in accruals accounting terms may be much higher than actually reported. Unless all users of this report are aware of these payment arrangements (i.e. all members of the Senior Management Team and Director Management Team), the figures reported may be misleading, despite no variance being predicted. • For cost centre C1420Q, a year-to-date spend of £711,847 was reported in Q1 against an annual budget of £731,000. It is unclear how this resulted in the estimated year-end forecast variance of a £1,000,000 underspend. It is also unclear whether Revenue Savings and Growth Report (RSGR) in-year projected savings of £1,000,000 have been included in this forecast. <p>Where budget monitoring figures presented to users of reports do not represent the true financial position of the Council in respect to certain cost centres, or do not provide sufficient clarity on how forecast amounts have been calculated, there is an increased risk that financial decisions are made that will impact negatively on the service's budgetary position.</p>

	forecast will also be shared, approved and owned by the department.	
Responsible officer	Deadline	
Director of Operations / Head of Finance	September 2020	

4. Priority 3 Issues

Action Proposed by Management	Findings
<p>Finance will be addressing training needs across the council, training on Local Government finance as well as My Finance training.</p> <p>The impact of covid 19 will require training to be delivered remotely. Plans to deliver an adequate corporate training programme to train new and existing staff on the system will be developed and delivered over the next 3 months, tailored to departmental needs.</p> <p>Delivery, success and compliance will be monitored, with recommendations on improvements sought via SMT.</p>	<p>The Council migrated from OneOracle to My Resources in April / May 2019, which changed the budget monitoring reports available and required that budget managers complete training. Accountants will also, where requested, provide additional one to one training sessions and support to budget managers to go into more detail around the technical aspects of budget management.</p> <p>Discussions with the Head of Health, Wellbeing, and Adult's (HWA) Finance confirmed there will be a record of all budget managers who completed the initial training on My Resources when the new system was implemented, but not of those who have received one to one sessions with accountants that go into more detail where required, nor of any new budget managers who have started their post since the implementation of the new system.</p> <p>Where no record is maintained of new budget managers who have and have not completed My Resources training, there is an increased risk management are unaware of budget managers operating without having received training to do so effectively.</p>

TERMS OF REFERENCE

Financial Forecasting and Financial Planning – Children's and Adult's

1. INTRODUCTION

- 1.1 Children's and Adult's Social Care are key lines of business and are established to provide care and other social care services to the most vulnerable in society. With increased budgetary pressures caused by the requirement to improve quality and provide increased care to an aging society, budget overspends have been occurring.
- 1.2 The Ofsted inspection of Croydon's services for children in need of help and protection, children looked after and care leavers took place between 20 June and 13 July 2017. The report was published on 4 September 2017. The inspection judged services to be inadequate; with poor quality social work practice and weak managerial oversight leaving too many children at risk of harm. An Improvement Plan for Children's Services and the Croydon Safeguarding Children Board has been developed in response to the Ofsted report findings, including the 21 specific recommendations, and in recognition of the council's ambition to improve services for vulnerable children.
- 1.3 The Financial Forecasting and Financial Planning (Children's and Adult's) Audit will be performed to ensure that controls have been adequately designed and implemented to ensure effective budgetary setting and control.
- 1.4 This audit is part of the Internal Audit Plan for 2019-20 as agreed by the General Purposes and Audit Committee.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective of this audit is to provide an objective independent opinion on the adequacy and effectiveness of the control environment with regards to the Forecasting and Financial Planning for Children's and Adult's.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate audit testing.
- 2.3 The key findings, conclusions, and subsequent recommendations arising will be discussed with management at an exit meeting, followed by the circulation of a draft report for consideration, prior to agreement and issue of the final audit report.

3. SCOPE





- 3.1 This audit examined the Council's arrangements in relation to Financial Forecasting and Financial Planning Adult's, and included the following areas (and findings):

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Operational and Management Requirements	0	0	1
Budget Setting	1	0	0
Budget Monitoring and Adjustments	0	3	0
Variance Analysis	0	0	0
Data Quality	0	0	0
Management Information and Reporting	0	0	0
TOTAL	1	3	1

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 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 identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	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.

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