

Internal Audit Report

To: Head of Direct Services, Gedling Borough Council
Subject: Direct Services – Budgetary Control
Audit report ref: IAR0607-22(A)
Date: 2nd May 2007

Control objective 1: There is an appropriate Manager who is responsible for each Budget.			
Risk: Overspending or uncollected income as a result of failure to control budgets because of lack of clarity over responsibility.			
Expected control	Audit findings	Expected control met	Audit recommendation and management response, officer responsible and date for implementation
1.1 There is a clear 'Chart of Accounts' covering all areas of income and expenditure.	There is a full chart of accounts available, showing cost centre, account code and the responsible officer.		
1.2 Each budget head is allocated to a single Budget Manager with appropriate authority and responsibility for managing the activity.	There are four budget holders within the Direct Services Department. The Business Support Manager oversees the budgets for the whole Department. Although some of the budgets are managed by two budget holders there are defined separations. For example, some Waste Budgets – Strategic and customer based ones are managed by the Business Support Manager while the operations side is managed by the Fleet and Cleansing Manager.		

Control objective 1: There is an appropriate Manager who is responsible for each Budget.

Risk: Overspending or uncollected income as a result of failure to control budgets because of lack of clarity over responsibility.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
<p>1.3 The role and responsibilities of Budget Managers is clearly understood by all Budget Managers.</p>	<p>Although no procedure notes have been issued to Budget Managers, there are 'Budget and Service Plan Process Guidance Notes' issued from Finance Services every Autumn to all budget holders giving the time scales for setting the budgets for the following financial year.</p> <p>In addition, Financial Services are in the process of producing guidance notes for Budget Managers. It is hoped that these procedure notes will be available for distribution in time for the first budget monitoring meeting of the new financial year 2007/08.</p>	<p>Mostly</p>	
<p>1.4 Relevant training issues have been identified and addressed.</p>	<p>The 'Trainee Accountant' has given training to the Budget Managers at Direct Services on various dates throughout the past financial year. The training included the setting of the annual budget and its management. There has also been additional training on the new financial system 'Agresso'.</p>		

Control objective 2: Budgets are properly planned, compiled and approved.

Risk: Overspending or uncollected income as a result of unrealistic budgets.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
2.1. Comprehensive guidance has been issued to all budget managers and other relevant staff.	The 'Budget and Service Plan Process Guidance Notes' are issued in the autumn to all Budget holders. Although there are no actual procedure notes for the setting of the budgets. See 1.3 above.		
2.2. Clear and realistic time-scales have been defined for each stage of the process.	The relevant dates and timetable for the completion of the budget process for the coming financial year are set out within the 'Budget and Service Plan Process Guidance Notes'.		
2.3. All known changes to planned activity from the previous year have been taken into account.	The changes from the previous financial year are input to the proposed budget for the following year. The previous years budget is rolled forward as the default for the new year's budget setting, any proposed changes are made by the appropriate Budget Holder in consultation with the Head of Service and the Business Support Manager.		
2.4 Budgets are reviewed and approved by Senior Managers / Members within time-scales.	The budgets for the financial year 07/08 have been approved by Gedling Borough Council's Cabinet on the 15/02/07 and then presented to the Full Council on the 01/03/07.		

Control objective 3: Income and expenditure is accurately and promptly recorded against budget headings.

Risk: Overspending or uncollected income as a result of income or expenditure not matched against correct budget headings. Budget reports lack credibility because they are inaccurate or incomplete.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
3.1. All costs and income are recorded, completely, accurately and promptly into correct account codes.	All costs and income codes are put on to the original documentation at the point of origin in the Departments. The information is taken off the original documentation and input by Creditor Services. Creditor Services have no authority to alter these codes, so any miscoding is posted to the suspense account. Any incorrect coding is the responsibility of the originating officer, and it's the Departments responsibility to check the suspense account and clear any entries on a regular basis.		

Control objective 3: Income and expenditure is accurately and promptly recorded against budget headings.

Risk: Overspending or uncollected income as a result of income or expenditure not matched against correct budget headings. Budget reports lack credibility because they are inaccurate or incomplete.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
3.2. The use of suspense accounts is minimised.	At the time of the audit visit there was balance of over £38,000 in the Direct Services suspense account, which was made up of over 40 transactions. Some of the items had been posted to the suspense account in April 2006.	X	<p>Every effort should be made to ensure transactions are correctly coded and the use of the suspense account should be kept to a minimum level. <i>(Medium Risk)</i></p> <p><u>Management Response</u> This was due to a lack of understanding by the officer involved. Also as Agresso was so time consuming this action got missed. Transactions have been cleared for year-end, and, in future, will be minimised and cleared promptly.</p> <p><u>Officer Responsible for Implementation</u> Caroline McKenzie - Business Support Manager</p> <p><u>Date for Implementation</u> 26/02/07</p>
3.3 Suspense accounts are cleared promptly.	<p>At the time of the audit visit the suspense account had not had any transactions cleared by Direct Services during the current financial year. It was cleared during the audit visit, however since then there has been further transactions posted but not cleared.</p> <p>As per para 2.8 of the year end closedown notes it is essential that all error suspense accounts continue to be cleared on a weekly basis’.</p>	X	<p>All transactions should be cleared from the suspense account on a weekly basis. <i>(Medium Risk)</i></p> <p><u>Management Response</u> As 3.2 above.</p> <p><u>Officer Responsible for Implementation</u> Caroline McKenzie - Business Support Manager</p> <p><u>Date for Implementation</u> 26/02/07</p>

Control objective 4: Variances are reported, investigated and addressed.

Risk: Overspending or uncollected income as a result of failure to address variances from budget.

Expected control	Audit findings	Expected control met	Audit recommendation and management response, officer responsible and date for implementation
4.1. Budget Managers receive monthly budget monitoring reports.	Budget monitoring reports are sent out to the Budget Managers every month. A meeting is held with the Business Support Manager to discuss the latest reports. Quarterly budget monitoring reports are also sent to Cabinet meetings for their appraisal and discussion.		
4.2. Variances are reported for both current month and cumulative to date.	Cumulative variances are reported each month.		
4.3. The causes / reasons for significant variances are investigated / explained and reported to senior managers and members promptly.	Explanations for all variances are documented on the monitoring forms and cabinet papers.		
4.4. Outturn re-forecasts are prepared quarterly for senior managers.	Projected outturns are included in the monthly budget monitoring reports and also the quarterly budget monitoring reports which are sent to Cabinet meetings. These re-forecasts are also used in setting the following years budgets		
4.5. Actions planned as a result of variances is clearly documented.	The reasons for the variances and the actions to be taken are documented in the right hand column of the monitoring reports.		
4.6. There is evidence that action is effective.	Monthly monitoring and at the close down at the end of the financial year confirms that the variances and action taken has been completely successful.		

Control objective 5: Amendments to budgets (virements) are properly controlled.

Risk: Overspending or uncollected income as a result of inappropriate amendments to budgets.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
5.1. There are clear rules for virement of budgets.	<p>There are clear guidelines for the virement of budgets see Managing Expenditure section 1.12 through to 1.21 of Gedling Borough Councils Standing Orders.</p> <p>Virement forms are down loaded and printed off as required from the Councils Intranet. The rules for the approval of virements are printed on the top of every form used.</p>		
5.2. Authority for virements is vested at an appropriate level e.g. Chief Officer / Members	Portfolio Holders can authorise the virements from their budgets up to the value of £50,000. Over this amount all virements have to be approved by the Personnel and Resources Committee.		

Control objective 5: Amendments to budgets (virements) are properly controlled.

Risk: Overspending or uncollected income as a result of inappropriate amendments to budgets.

Expected control	Audit findings	Expected control met	Audit recommendation <i>and management response, officer responsible and date for implementation</i>
<p>5.3. Virements are formally recorded and held by the Finance Manager and relevant Budget Holders.</p>	<p>In 2006/07 at the time of the audit visit, four virement forms have been completed for the Direct Services Department. However, the Accounting Section are not always able to process the virements promptly due to inaccuracies in their completion.</p> <p>Since the audit visit two of these virement forms have been cancelled with new virement forms being raised due to errors in the original completion.</p> <p>Any variances highlighted in future budget monitoring will have new virement forms raised.</p>	<p>X</p>	<p>All virement forms should be checked for errors by the budget holders before being submitted for authorisation. This will ensure that virements can be processed promptly and accurately by the Accounting Section. (Medium Risk)</p> <p><u>Management Response</u> The errors were not due to completion but to a lengthy delay in authorisation due to the portfolio holder being out of the country. In the meantime expenditure had been incurred on the codes. This will not happen again as forms are now more tightly controlled.</p> <p><u>Officer Responsible for Implementation</u> Caroline McKenzie - Business Support Manager</p> <p><u>Date for Implementation</u> 01/02/07</p>