

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	29 September 2021
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2110 – Bon Accord Care Budget Monitoring
<b>REPORT NUMBER</b>	IA/AC2110
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Colin Harvey
<b>TERMS OF REFERENCE</b>	2.2

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Bon Accord Care Budget Monitoring.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of Bon Accord Care Budget Monitoring.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required

## 9. APPENDICES

- 9.1 Internal Audit report AC2110 – Bon Accord Care Budget Monitoring.

## 10. REPORT AUTHOR DETAILS

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## **Internal Audit Report**

### **Bon Accord Care**

### **Budget Monitoring**

**Issued to:**

Gail Woodcock, Interim Managing Director – Bon Accord Care

Neil Gauld, Finance Director – Bon Accord Care

Steven Whyte, Director of Resources

Sandra MacLeod, Chief Officer ACH&SCP

Alex Stephen, Chief Finance Officer ACH&SCPP

Fraser Bell, Chief Officer – Governance

Jonathan Belford, Chief Officer – Finance

External Audit

## **EXECUTIVE SUMMARY**

### Background

As an Arm's Length External Organisation (ALEO) of Aberdeen City Council, Bon Accord Care is required to break-even each financial year, with any under/over spend for the company as a whole being transferred to/from reserves. Budgeted turnover and operating cost for 2020/21 were set at £30.3 million each, with an overall breakeven position planned.

### Objective

The objective of this audit was to provide assurance over Bon Accord Care's budget monitoring procedures, including monitoring of its savings programme.

Budget monitoring provides fundamental financial governance that is important for controlling and managing the company's finances in accordance with agreed annual budgets. It is a key internal control which enables the Management Team to track income and expenditure against budget, put in place corrective actions where necessary, and informs the Directors enabling them to assure stakeholders of the company's financial position and forecast outturn.

### Assurance

Budget monitoring procedures are in place, and are scheduled for periodic review. The financial monitoring procedures clearly detail responsibilities within the monitoring process. The Finance Director has overall responsibility for financial management within Bon Accord Care / Bon Accord Support Services. The Finance team is responsible for issuing the reports, ensuring that all variance reports have been returned, that all questions / queries have been answered and that all comments have been noted. Budget Holders are responsible for monitoring their budget, completing and returning their variance reports prior to the due date.

However, the primary focus of the procedures is on variance reports and staffing costs. Procedures used in forecasting, monitoring of savings and budget virements were not documented, presenting a risk to the completeness and consistency of practice in these areas.

### Findings and Recommendations

Recommendations have been made in respect of documenting the processes currently in place, including: task scheduling, journal entries (manual adjustments to accounting balances) and supporting records, back-posting (adjusting prior period's figures), variance reporting including savings, processing virements (budget adjustments), and forecasting: including methods and ownership by Budget Holders.

### Management Response

Bon Accord Care has agreed to document or enhance documentation of its budget monitoring procedures to reflect the areas highlighted by Internal Audit.

# 1. INTRODUCTION

- 1.1 Bon Accord Care is a key provider of social care services for vulnerable people and their families with a range of needs living in Aberdeen City.
- 1.2 Bon Accord Care is an Arm's Length External Organisation (ALEO) of Aberdeen City Council, with two registered limited companies. Bon Accord Care (BAC) (responsible for adult care/learning and the majority of front line staff) and Bon Accord Support Services (BASS) (responsible for administrative staff and costs) are the means by which services are commissioned by Aberdeen City Council. For operational purposes, Bon Accord Care is used as a collective term to reflect both companies.
- 1.3 Budgeted turnover and operating cost for 2020/21 were set at £30.3 million each, with an overall breakeven position planned.
- 1.4 As an Arm's Length External Organisation (ALEO) of Aberdeen City Council, Bon Accord Care is required to break-even each financial year, with any under/over spend for the company as a whole being transferred to/from reserves.
- 1.5 The objective of this audit was to provide assurance over Bon Accord Care's budget monitoring procedures, including monitoring of its savings programme.
- 1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Neil Gauld, Finance Director, Bon Accord Care.

## **2. FINDINGS AND RECOMMENDATIONS**

### **2.1 Written Procedures**

- 2.1.1 Budget monitoring provides fundamental financial governance that is important for controlling and managing the company's finances in accordance with agreed annual budgets. It is a key internal control which enables the Management Team to track income and expenditure against budget, put in place corrective actions where necessary, and informs the Directors enabling them to assure stakeholders of the company's financial position and forecast outturn.
- 2.1.2 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.
- 2.1.3 Budget monitoring procedures are in place, and are scheduled for periodic review. The financial monitoring procedures clearly detail responsibilities within the monitoring process. The Finance Director has overall responsibility for financial management within Bon Accord Care / Bon Accord Support Services. The Finance team is responsible for issuing the reports, ensuring that all variance reports have been returned, that all questions / queries have been answered and that all comments have been noted. Budget Holders are responsible for monitoring their budget, completing and returning their variance reports prior to the due date.
- 2.1.4 However, the primary focus of the procedures is on variance reports and staffing costs. Procedures used in forecasting, monitoring of savings and budget virements were not documented, presenting a risk to the completeness and consistency of practice in these areas. Specific recommendations have been made in respect of each of these below.

### **2.2 Scheduling**

- 2.2.1 The Finance Policy, which is a separate document to the Financial Monitoring procedures, states that: "budget holders will receive appropriate, regular reports of income and expenditure against budget. The Management Team will receive:
- Monthly reports of income and expenditure versus budget - within 7 working days of the month end.
  - Weekly snapshot of hours worked compared against budget."
- 2.2.2 Budget monitoring is prepared and submitted, along with savings updates, to the Management Team monthly and to each Board meeting. Quarterly management reports are sent to Aberdeen City Council to provide updates on the financial position. The annual report for Bon Accord Care is presented to the Integration Joint Board. These reports are developed from, and supported by, details from the financial ledger system.
- 2.2.3 However, there were no available schedules for the various elements and actions which complete the monthly monitoring process, or the associated savings monitoring, to contribute towards achieving the Management Team and Board deadlines. There is therefore a risk of key steps not being completed on time, presenting a risk to meeting deadlines or to the accuracy and completeness of the reports.

<b><u>Recommendation</u></b>
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BAC should ensure key tasks are scheduled to meet reporting deadlines.
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**Service Response / Action**

Agreed. The BAC Finance Team has significant experience in delivering monthly management accounts and associated reporting. To date, deadlines are generally always met, and we have not had any issues with regards to the accuracy and/or completeness of our reports. However, we recognise that a detailed month end timetable would be useful and we will enhance our current month end timetable to include all tasks and associated reporting.

**Implementation Date**

September 2021

**Responsible Officer**

Finance Manager

**Grading**

Important within audited area

**2.3 Accruals and Adjustments**

2.3.1 Accruals (moving income or expenditure from one period to another to reflect when it was earned or incurred, rather than when money was exchanged) are part of the monthly monitoring process, for which there are specific procedure notes. These are processed to the financial system using a 'journal entry' adjustment.

2.3.2 However, the procedure notes mention 'budget journals', whereas they are accrual journals affecting reported 'actual spend', not budgets. By using this terminology there is a risk of a budget virement (moving budgets between spend categories) being processed rather than an accrual.

**Recommendation**

BAC should ensure that the Monthly Accruals procedures are clear about the type of journal being actioned.

**Service Response / Action**

Agreed. The BAC Finance Team is clear around the distinction within the Efinancials system with regards to the posting of journal entries and how these are named within the system. We will review the wording within our relevant processes to ensure that the description is clearly relatable to the terminology used by Efinancials.

**Implementation Date**

September 2021

**Responsible Officer**

Finance Manager

**Grading**

Important within audited area

2.3.3 A sample of 10 in-year accruals was selected and supporting evidence sought from the Service to demonstrate the reason for the accrual being posted, and to ensure the value was reasonably estimated. Supporting detail was only available for 4 of the 10 accruals, and explanations were limited to lists of further transactions.

2.3.4 In the absence of supporting detail and explanations for accrual entries, there is reduced certainty that they were required and have been calculated on a reasonably accurate basis. The quality, accuracy and consistency of budget monitoring reports may be affected.

**Recommendation**

BAC should ensure all journal entries are adequately supported.

**Service Response / Action**

Agreed. All of our journal entries should have physical supporting evidence/documentation, although we recognise this may not always have been the case. The Efinancials system does not allow for this to be uploaded with each journal

entry. We will amend our procedures to reflect that each journal entry should be supported by appropriate supporting detail.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
November 2021	Finance Manager	Significant within audited area

- 2.3.5 Controls over back and forward posting to the ledger (i.e. attributing costs or income outside of the current reporting period) are also not documented. In the absence of restrictions or checks over potential activity outside of the reporting period, there is a risk the budget monitoring may present an inaccurate or incomplete position.

**Recommendation**

BAC should ensure controls over back and forward posting are in place and documented.

**Service Response / Action**

Agreed. The ledger is closed each month following completion of the month-end. Permission to open a previously closed period has to come from ACC Finance and is only used in exceptional circumstances around the financial year end. We do not make any forward period posting entries. We will however amend our procedures to have independent Finance approval of any journal entry that is for a back/forward posting.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2021	Finance Manager	Significant within audited area

## 2.4 Variances

- 2.4.1 Forecast variances from budget indicate a need for management action, e.g. to address the issues resulting in a variance, or to review budget provision through approved virement (see 2.5 below). A variance report is provided by the Finance team to Service Managers each month detailing any over/under spends that have occurred in the previous month to obtain comment on the reasons for this variation, how they plan to resolve the issue, and if it was a one-off instance or is anticipated to be recurring.
- 2.4.2 For services that are under/overspent this is reported to the Board, Directors and managers. If overspent, reasons for the overspend and how to mitigate it in the following year are discussed and considered. Finance reports provide details about the main variances that have occurred in the relevant period, such as the value, how they happened and whether anything is to be done to adjust for them in the future.
- 2.4.3 However, not all variances will be material in size or nature. Although the financial monitoring procedure mentions materiality of variances, it does not set out whether variances exceeding a specified value or proportion of a budget require particular attention and action. This leads to a risk that not all variances that should be reported will be, or that resource might be used inefficiently reviewing and addressing minor variances.

**Recommendation**

BAC should consider establishing and documenting materiality levels for variances.

**Service Response / Action**

Agreed. We believe our history of tackling budget variances highlights that our working materiality levels have generally been appropriate. However, adverse budget reporting at Board level may benefit from application of more clearly defined materiality levels. This will be reviewed in advance of the September 2021 Board meeting.

<b><u>Implementation Date</u></b> September 2021	<b><u>Responsible Officer</u></b> Finance Director	<b><u>Grading</u></b> Important within audited area
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## 2.5 Virement

2.5.1 Virements (budget transfers) are a movement of budget from one budget line or service to another budget line or service. Virements may be required when there is a change to the company structure or transfer of staff posts between services. They might also be used to address recurring variances by transferring budget to where it is most needed.

2.5.2 As this can result in a change to the budget from that originally agreed by the Board, and it can change the detail of the budget monitoring report, it is important that there are controls over this activity. In practice, the Finance Manager prepares a budget transfer journal when information is received from the Directors and / or Managers of a requirement for a virement. The journal is then approved by a Finance Officer. However, the virement process is currently not documented, which could lead to virements being processed without the correct workflow and approvals.

### **Recommendation**

BAC should ensure that there are procedures in place for virements (budget transfers) and that authorisation levels are identified.

### **Service Response / Action**

Agreed. The most common virements that BAC would process are budget amendments following staff transfers. This requires the approval of both budget holders and also independent Finance confirmation. These virements do not affect the overall budget position. This is not yet fully documented, and will be reviewed as part of other updates to the financial procedures.

Virements that would affect the overall budget position, for example an organisational restructuring would require approval from either our Audit and Assurance Committee and/or Board. This is already reflected in the scheme of delegation, which has recently been refreshed.

<b><u>Implementation Date</u></b> September 2021	<b><u>Responsible Officer</u></b> Finance Manager	<b><u>Grading</u></b> Important within audited area
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## 2.6 Forecasting

2.6.1 An important part of the budget monitoring process is determining the forecast year end position. This can only ever be a best estimate, based on professional judgement and knowledge of the service, and consultation with Budget Holders, however it is key to ensuring that the organisation's budget is met. Management may need to take action in response to forecast budget variances, in order to resolve them before the end of the financial year.

2.6.2 Each month management accounts, which include forecasts, are emailed to Service Managers along with variance reports. On the variance reports provided, Managers are asked to confirm if any over/under spends highlighted on these reports will then have an impact on the forecast for the year.

2.6.3 Forecasts are currently updated by the Finance Manager, with limited involvement from Service Managers. Forecasts are based on a mixture of the following methods; last year's spend/income, year to date spend/income, last month's spend/income and known

commitments in the pipeline. However, these acceptable methods are not documented in the monitoring procedures, therefore there is a risk that methods might vary between periods and depending on the individuals completing the process. Workings and commentary with regard to forecasts should be recorded so that they can be referred to at a later date and queried if necessary. This will also promote consistency.

<b><u>Recommendation</u></b>		
BAC should ensure that forecasting responsibility and acceptable methods are documented within the Financial Monitoring Procedures.		
<b><u>Service Response / Action</u></b>		
Agreed. We will amend our Financial Monitoring Procedures accordingly.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
September 2021	Finance Manager	Important within audited area

- 2.6.4 Whilst the Finance Manager will be able to provide consistent forecasts based on knowledge and professional judgement, ownership of and accountability for the budgets rests with the Budget Holders, and with Finance support they will be better able to gauge the financial impact of current and future activity. With clear guidance on suitable methods for forecasting, a requirement to maintain workings and commentary to a suitable standard, and critical appraisal from the Finance Manager, Budget Holders' involvement in the process could be enhanced.

<b><u>Recommendation</u></b>		
Bon Accord Care should review Budget Holders' responsibility for forecasting.		
<b><u>Service Response / Action</u></b>		
Agreed. We are actively working towards Budget Holder involvement on a half yearly basis. The current month end timetable does not permit Budget Holder involvement.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
October 2021	Finance Director	Important within audited area

## 2.7 Savings

- 2.7.1 Savings are monitored each month as part of the monthly monitoring process and are reported to the Managing Director and the Board. However, this is not documented in written procedures. Therefore, there is a risk that the process could be carried out inconsistently.

<b><u>Recommendation</u></b>		
Bon Accord Care should ensure that the monitoring of savings is formalised and documented as part of the monthly monitoring procedures.		
<b><u>Service Response / Action</u></b>		
Agreed. We will amend our Financial Monitoring Procedures accordingly		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
September 2021	Finance Manager	Important within audited area

**AUDITORS:** C Harvey, T Wight, R Brand

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
<b>Major at a Service Level</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.