

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	30 June 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2208 – Revenue Budget Monitoring
<b>REPORT NUMBER</b>	IA/AC2208
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Jamie Dale
<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 Revenue 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 Revenue 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 AC2208 – Revenue Budget Monitoring

## 10. REPORT AUTHOR DETAILS

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## **Internal Audit Report**

### **Governance**

## **Revenue Budget Monitoring**

**Issued to:**

Steven Whyte, Director of Resources  
Jonathan Belford, Chief Officer - Finance  
Fraser Bell, Chief Officer - Governance  
Lesley Fullerton, Finance Operations Manager  
External Audit

## EXECUTIVE SUMMARY

### Background

The Local Government (Scotland) Act 1973 requires every local authority to make proper arrangements for their financial affairs and to keep accounts of all transactions relating to all funds of the local authority. The Council's net revenue expenditure budget for 2021/22 for the General Fund is £499.56 million (Function and Corporate Budgets) and gross expenditure for the Housing Revenue Account (HRA) is £94.68 million.

Budget holders across each Function have been assigned responsibility for specific budget areas of income and expenditure. Finance supports budget holders by providing access to budget monitoring information including year-end budget to forecast outturn figures and year to date budget to actual figures. Finance, in consultation with relevant budget holders, then prepares revenue budget monitoring reports for the Council's Performance Board, and the City Growth and Resources Committee, highlighting spending patterns and forecast variations from budget in order to demonstrate performance and advise on any areas of risk and corresponding management action.

### Objective

The objective of this audit was to ensure that robust procedures are in place for monitoring the revenue budget.

### Assurance

In general, revenue budget monitoring arrangements are robust, with budget responsibility adequately allocated, regular budget holder reports issued and budget holder meetings taking place.

Assurance could be enhanced through improved procedures, including: example budget monitoring reports and explanations on their use; accruals and budget profile arrangements, and making procedures available to budget holders via the staff intranet. Agreeing clear reasons for material outturn to budget variances and associated mitigating actions, with budget holders and Senior Management, for reporting to Committee; and ensuring the Council's Scheme of Virement is adhered to, will also improve assurance over this area.

### Findings and Recommendations

Whilst Finance's Budget Monitoring procedures cover the budget monitoring process generally, they could be improved by: a clearer structure that includes headings describing what is being covered; describing arrangements for profiling budgets; including accrual recording and back up requirements; including examples of the reports issued to budget holders, Senior Management and the Committee reports, with details of how to interpret these; and by making these available to Council officers and Elected Members on the staff intranet. These improvements would reduce the risk of budget monitoring and budget management requirements not being understood. A recommendation graded 'Significant within audited area' was raised for Revenue Budget Monitoring procedures to be reviewed, updated and shared with relevant staff.

Finance is required to agree outturns, reasons for material (£50k or more) outturn to budget variances at an individual cost centre / account (subjective) level and related mitigating action, at budget holder meetings. Whilst meeting minutes reviewed included a 'Revenue Outturn' agenda item, they did not always include agreement of the outturn, reasons for material outturn to budget variances identified and related

mitigating actions. This increases the risk of subsequent reporting errors. A recommendation graded 'Significant within audited area' was raised with the Service for budget holder and Senior Management Team agreement to be obtained and documented for, outturns, reasons for outturn to budget variances and related mitigating actions.

In breach of Financial Regulations, budget virements were applied without the necessary approvals by Committee / reporting to Committee, meaning budget has been transferred for an alternative use without Committee's required knowledge or approval where required. A recommendation graded 'Significant within audited area' was raised with Finance for virements to be processed in accordance with Financial Regulations.

#### Management Response

Finance has agreed to review, update and share budget monitoring procedures as appropriate. Finance will also seek agreement of Cluster outturns, and associated reasons and mitigating action for material outturn to budget variances, from Chief Officers, following agreement of outturns by Service Managers. In addition, Finance will review the requirements of the Council's Scheme of Virement to ensure compliance.

## **11. INTRODUCTION**

- 11.1 The Local Government (Scotland) Act 1973 requires every local authority to make proper arrangements for their financial affairs and to keep accounts of all transactions relating to all funds of the local authority. The Council's net revenue expenditure budget for 2021/22 for the General Fund is £499.56 million (Function and Corporate Budgets) and gross expenditure for the Housing Revenue Account (HRA) is £94.68 million.
- 11.2 Budget holders across each Function have been assigned responsibility for specific budget areas (cost centres) of income and expenditure. Finance supports budget holders by providing access to budget monitoring information including year-end budget to forecast outturn figures and year to date budget to actual figures. Finance, in consultation with relevant budget holders then prepares revenue budget monitoring reports for the Council's Performance Board, and the City Growth and Resources Committee, highlighting spending patterns and forecast variations from budget in order to demonstrate performance and advise on any areas of risk and corresponding management action.
- 11.3 The objective of this audit was to ensure that robust procedures are in place for monitoring the revenue budget
- 11.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jonathan Belford, Chief Officer – Finance, and Lesley Fullerton, Finance Operations Manager.

## **12. FINDINGS AND RECOMMENDATIONS**

### **12.1 Written Policy, Procedures and Training**

- 12.1.1 Comprehensive written policies and procedures, which are easily accessible by all members of staff, can reduce the risk of errors and inconsistency. These are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff; importance increased in the event of an experienced employee being absent or leaving.
- 12.1.2 The Council's Chief Officer – Finance's responsibilities are described generally under Section 95 of the Local Government Act 1973 (Scotland), which requires every local authority to ensure that the proper officer has responsibility for the administration of the Council's financial affairs. In addition, the Council's Financial Regulations describes, at a high level, budget monitoring roles and responsibilities of the Chief Officer – Finance, Chief Officers, budget holders, and the respective Committees (City Growth and Resources Committee and the Pensions Committee).
- 12.1.3 Under the Financial Regulations, the Chief Officer – Finance is required to provide Chief Officers and budget holders with up-to-date financial information on income and expenditure compared to the approved budget. Furthermore, the Chief Officer – Finance is required to report on a quarterly basis, a comparison of actual figures to year-to-date budget and a full year forecast, to the City Growth and Resources Committee, for the General Revenue Fund, Housing Revenue Account and the Common Good Fund. Chief Officers and budget holders are required to assist by monitoring their respective budgets using the Council's approved financial systems and notifying the Chief Officer – Finance of any changes to forecast. Furthermore, the Committee may seek explanations and action as highlighted by the Chief Officer – Finance.
- 12.1.4 Financial Regulations also includes a clear Scheme of Virement, describing the procedure for moving budgetary provision from one budget head to another, including the required authorisation.
- 12.1.5 A budget monitoring procedure titled 'Budget Monitoring Process 20/21' is also available, which Finance advised is available to Finance staff as well as budget holders; this describes the budget monitoring process in more detail. A comprehensive procedure is also available to Finance staff, describing how to post a journal for the purposes of updating the general ledger.
- 12.1.6 The Budget Monitoring Process 20/21 procedure includes an explanation of the required outcomes of monthly budget holder meetings, including the need for budget holders to explain forecast to budget variances of greater than £50k, as well as the related mitigating action to be undertaken where appropriate, with budget holder minutes used to update the quarterly 'Highlights report', to be agreed with the respective Chief Officers and Senior Management, prior to the financial position being reported to Committee. In addition, the procedure covers the requirements of the Council's Scheme of Virement.
- 12.1.7 Whilst the Budget Monitoring Process 20/21 procedure covered the process generally, it could be more clearly structured, including headings to describe what is being covered. Whilst the budget holder meetings and virements are adequately described, there is no explanation of how year to date budgets are established or the requirements relating to accruals in terms of threshold and required supporting documentation, increasing the risk the year-to-date budget and actual position will not be reported correctly. The procedure also does not include examples of the reports issued to budget holders, the Highlights report or the Committee reports, nor do they explain how these should be interpreted by budget holders / Chief Officers / Directors. Furthermore, Finance's budget monitoring

procedures could not be accessed via the staff intranet. This increases the risk budget monitoring and budget management requirements will not be understood by respective Council officers and Elected Members.

<b><u>Recommendation</u></b>		
Revenue Budget Monitoring procedures should be reviewed, updated and shared with all relevant staff.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
June 2022	Finance Operations Manager	Significant within audited area

- 12.1.8 Records of formal training were not available, however Finance advised informal training is provided via monthly budget holder meetings. More formal guidance and training would ensure the requirements of budget holders are better understood, improving the completeness and accuracy of budget monitoring information and explanations of variances.

<b><u>Recommendation</u></b>		
Formalised training should be introduced for budget holders explaining budget monitoring requirements and related reports.		
<b><u>Service Response / Action</u></b>		
Agreed. Finance can confirm that we will maintain training as part of our Business Advice meetings generally and formalise this process by documenting the training undertaken in the related minutes.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
June 2022	Finance Operations Manager	Important within audited area

- 12.1.9 Officer responsibility for managing budgets is recorded at Function (level 3); Chief Officer (level 4); Service Manager (level 5 and level 6); and Budget Manager (level 9) cost centre levels within the Council's Integrated Financial System (IFS). If a budget holder leaves the Council and no replacement is identified or recruited, then the responsibility is temporarily assigned to the officer responsible for the next higher cost centre level. All cost centres had been allocated a responsible officer with the exception of one Common Good cost centre (Q77365) where a responsible officer had not been allocated; however, a suitable officer was responsible for a higher cost centre level for monitoring purposes.

## 12.2 Interfaces and Period End Ledger Closedown

- 12.2.1 Transaction data is held within the integrated financial system. The system is regularly updated with new transactions, for example: invoices, payroll, and journal entries (financial adjustments). At the end of each month checks are carried out and the current period is closed for new transactions, balances are rolled forward, and all new transactions will be posted to the next period.
- 12.2.2 The Accounts Payable module, Accounts Receivable module, General Ledger and Purchase Ordering and Receipting system interfaces were reviewed as part of Internal Audit 2203 Financial System Interfaces and Reconciliations. The accuracy of financial information transferred into the Council's IFS was found to be well controlled based on a review of a sample of 51 interface batches. However, it was agreed updated procedures,



improved Digital and Technology (D&T) records of interface adjustments, and a system of review for interface adjustments prepared by D&T and Finance would enhance assurance over this area.

12.2.3 Internal Audit 2203 also covered Accounts Payable and Accounts Receivable sub-ledger reconciliations; no exceptions were noted. At period end the accounts payable and accounts receivable sub-ledgers are closed down and reports are run to confirm that this has taken place successfully; the sub-ledgers were closed timeously in July and August 2021 and system exception reports, which included a check of sub-ledger totals to general ledger control account totals, had been run on the same day the sub-ledgers were closed down and no exceptions were reported. More detailed reconciliation reports of accounts payable and accounts receivable sub-ledgers to their respective general ledger control accounts for July and August 2021 were also reviewed as part of Internal Audit 2203. These had been completed in a timely manner and no reconciling differences were noted.

**12.3 Budget Monitoring Reporting Timetable**

12.3.1 A reasonably comprehensive budget monitoring reporting timetable is in place for 2021/22 covering the following deadlines / dates by period:

- Budget holder meeting
- Budget holder meeting minutes completed
- Outturns (forecasts per budget holder meeting) in ledger
- Pre-Highlights meeting (within Finance)
- Ledger close date
- Accruals processed
- Committee draft report to Director
- Highlights reports issued
- Highlights meeting
- Committee draft out for consultation
- Committee draft report deadline
- Pre-agenda meeting
- Performance Board date
- Committee final report deadline
- Committee date

12.3.2 However, it was noted that the timetable did not cover the schedule for issuing BOXI system budget monitoring reports to budget holders, increasing the risk budget monitoring reports will be issued prior to necessary checks and updates being completed or that reports will not be issued as required.

<b><u>Recommendation</u></b>		
The Quarterly Reporting Timetable should be reviewed and updated as appropriate with consideration given to BOXI reporting deadlines and related checks.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
Implemented	Finance Operations Manager	Important within audited area

**12.4 Budget Holder Meetings**

12.4.1 As stated in the 'Budget Monitoring Process 20-21' procedure:

*“The budget holder meeting is the key forum for communication of finance related issues between Finance and budget holders across the Council. All Functions have a nominated Finance Service contact for their budget holder meetings. The first point of contact for finance related queries is the Accounting mailbox, thereafter the input of the Finance contact may be sought. The budget-holder meeting may be face to face, by telephone or Teams and the frequency will be determined by the Finance Partner/Accountant according to risk assessment of the budget area, with consideration given to requests made by budget holders”.*

- 12.4.2 The required outcomes from the budget holder meetings include:
- Finance to advise on latest financial position for the Council
  - Budget holder to advise on current key business issues - for 2020/21 this includes looking separately at Covid and non-Covid issues
  - Agreement on forecasts
  - Budget holder update on reasons and mitigating action relating to material variances
  - Finance to provide appropriate challenge to budget holder forecasts
  - Discussion on current year budget milestones (e.g. savings achieved, grant funding received) and future years demand data and proposals
  - Finance to highlight any financial control issues e.g. Following the Public Pound
  - Finance update on capital, balance sheet, earmarked reserves and technical issues
  - Budget holder to provide update on staffing, including resignations, filling of posts, maternity leave and staffing plans
- 12.4.3 Finance also maintains a spreadsheet ‘Budget Holder Meetings KPI’s 2021/22’. This details all budget holders, frequency of meetings, finance contact, the meeting date and the date minutes were sent, with the spreadsheet tracking whether or not minutes were supplied within 5 days of the meeting concerned based on dates entered. Internal Audit compared the budget holders listed in the integrated financial system with the schedule and noted that all budget holders were included in the schedule. A sample of 10 meetings was selected from the KPI schedule and minutes were available that confirmed meetings had taken place as described in the KPI schedule.
- 12.4.4 As stated at paragraph 2.4.2, it is a requirement of Finance’s budget monitoring procedures to discuss current year budget milestones at the budget holder meeting. Seven of 10 budget meeting minutes recorded budget milestone updates with three indicating there were no updates applicable.
- 12.4.5 Of the 10 minutes reviewed, none of the reports formally noted the budget holder’s agreement of the reported year to date budget position. Finance advised the Council’s budgets are not specifically profiled over the year but are split evenly based on number of months to date at time of reporting, meaning, there is no need for budget-holders to agree the year-to-date budget position. This is because a system of accruals is in operation to reflect income and expenditure yet to be incurred / received. Accruals are considered further at paragraph 2.5.5.
- 12.4.6 Finance is required to agree outturns, reasons for material (£50k or more) outturn to budget variances at an individual cost centre / account (subjective) level and related mitigating action, at the budget holder meetings. Whilst all 10 meeting minutes described at paragraph 2.4.4 above included a ‘Revenue Outturn’ agenda item, 4 did not include agreement of the outturn, and of the 5 with material outturn to budget variances identified, 2 did not include all required reasons, and 3 did not include related mitigating action. Where this detail is not agreed there is a greater risk Senior Management and Committee

will not receive sufficient information about the Council's financial position and of necessary corrective action not being taken where required.

- 12.4.7 Finance advised that Chief Officers do not provide agreement of their respective Cluster's forecast at their budget holder meetings, since outturns are agreed at a lower level by the respective Service Manager; despite budget monitoring procedures requiring Chief Officers to agree all forecasts with the respective Chief Officer. The meetings are instead regarded as an overview for the Chief Officer. However, this is not explained in the Budget Monitoring Process 20-21 procedure. Furthermore, in the absence of Chief Officer 'sign-off' of a Cluster's outturn, there is increased risk a Chief Officer will not understand their Cluster's forecast financial position and progress with required mitigating actions, resulting in Committee reporting errors and uncorrected financial pressures. Finance also explained that outturns are not always agreed at budget holder meetings generally since they are dependent on the timing of meetings relative to associated work by Finance and of Service cooperation to provide necessary information. However, the Budget Monitoring Process 20-21 procedure requires agreement of: forecasts, material outturn to budget variances and reasons for these variances, with budget holders, as an outcome of budget holder meetings.

**Recommendation**

Budget holder agreement of outturns, reasons for outturn to budget variances and related mitigating actions to correct material outturn to budget variances should be agreed and the outcome documented.

**Service Response / Action**

Agreed. Finance procedures will be updated to require that Chief Officers obtain agreement of outturns, reasons for budget variances and related mitigating actions to correct material outturn to budget variances at a cost centre / account level, from Service Managers, when the Highlights Reports are issued to Chief Officers. Chief Officers will then be required to respond with an email confirming the agreed position.

**Implementation Date**

June 2022

**Responsible Officer**

Finance Operations  
Manager

**Grading**

Significant within audited area

**12.5 Budget Holder BOXI Reports**

- 12.5.1 Revenue budget monitoring reports are issued to budget holders using the BOXI system on a monthly basis; the level of reporting depends on the seniority of the officer concerned with full year budget compared to full year 'outturn' (forecast) and year to date budget compared to actual by expenditure and income category (e.g., staff costs, premises costs, supplies and services, customer receipts, government grants etc), at all reported budget levels. Directors receive the Council's consolidated position; position by general fund, HRA and trading accounts; Function consolidated position; and their respective Cluster / Chief Officer financial positions. Chief Officers receive their respective general fund, HRA and trading account Cluster financial positions and the financial positions for each of their respective Service Areas; and Budget Managers receive their consolidated general fund, HRA and trading account financial positions for their respective budgets and the same for their respective Service Areas.
- 12.5.2 The level of detail included in budget monitoring monthly reports emailed to budget holders, depends on the level of responsibility defined in the financial ledger system as described at paragraph 2.1.9 above. All budget holders receive a BOXI report for their area of responsibility. At level 9 budget responsibility is defined at a cost centre level and the associated budget holders receive level 9 cost centre and account BOXI reports, covering their allocated cost centres at an account (subjective) level, a transactional ledger

report showing the actual income and expenditure incurred, as well as details of outstanding PECOS orders, and Covid budget transactions were applicable. Level 6 and level 5 Service Managers and level 3 Chief Officers and Directors also receive a BOXI report and any Covid transactions they are responsible for at an account (subjective) level, unless they also have level 9 responsibility for any cost centres, in which case they will receive BOXI reports for their allocated level 9 cost centres also.

- 12.5.3 As stated in paragraph 2.3.2 above, deadlines are not formalised for BOXI based budget reporting however a sample of 25 BOXI budget monitoring reports was reviewed and all had been issued to budget holders in advance of that month's scheduled Highlights meeting and in the case of the periods when quarterly Highlights reports were required to be issued (period 3 and 6), all had been issued in advance of the Highlights report deadline (Highlights reports are considered at section 2.6 below).

#### Budget

- 12.5.4 It was not possible to verify the accuracy of the reported annual budgets in the sample of 25 BOXI reports below Function level since budgets are not agreed by Council / Committee below this level. The Function level General Fund and total HRA 'Original Budgets' according to the Integrated Financial System agreed to the budget position reported City, Growth and Resources as part of the quarter 1 2021/22 Projected Financial Position statement.

The Function level General Fund and total HRA 'Original Budgets' according to the Integrated Financial System were also compared to the General Fund and HRA budgets agreed by Council in March 2021 however the opening general fund Function level 'Original Budgets' differed to that agreed by Council in March 2021 (Commissioning £539k lower, Customer £74k higher, Operations £4.58 million higher, Resources £244k higher and Corporate £4.04 million – net total difference £319k in line with General Fund surplus reported to Council in March 21). This indicates virements affecting the Original Budget have been processed after the budget was agreed in March; approval of virements is considered further in section 2.8 and a related recommendation has been made to ensure the Council's Scheme of Virement is complied with.

#### Actual Expenditure and Income

- 12.5.5 Actual expenditure and income figures reported via BOXI will include accounts payable, accounts receivable, and payroll transactions as well as accrued / anticipated expenditure and income recorded in the ledger. The actual expenditure figures were reviewed for the sample of 25 BOXI reports and were agreed to the general ledger.
- 12.5.6 Included within reported actual expenditure figures are 'accruals'. An accrual is an accounting term for including transactions completed to date but not yet recorded in the financial system, within the current period's results. Accruals may be processed for items which have been purchased and received, but not yet invoiced – in order to reflect the current level of expenditure. Similarly spend committed via Purchase Order may be accrued for in advance in order to demonstrate that the remaining budget has been reduced. It may also be appropriate in some instances to process a negative accrual (a prepayment) where expenditure has been incurred but the value is still to be received.

However, since accruals are not separately identified in BOXI budget monitoring reports, but are instead reflected in the reported actual figures, they can mask the variable nature of expenditure throughout the year, and should they be unsupported, can risk the year end actual position not being in line with expectations. A schedule of accruals included within actual figures reported to budget holders since April 2021 was obtained from Finance and a sample of 20 was selected for review. All were adequately described in the

ledger and supported.

### Forecast Outturns

- 12.5.7 The deadline for budget holder meetings and updating the outturn in the Council's integrated financial system precedes budget holder BOXI reports being issued, so the reports reflect the correct outturn position. However, a BOXI report is issued prior to the budget holder meetings for information. As stated in paragraph 2.4.2 above, revenue outturn is a standing agenda item for budget holder meetings; results relating to a sample of 10 meetings are described at paragraphs 2.4.5 to 2.4.9 above, including a recommendation to formalise agreement of outturns which would help ensure the accuracy of the reported position via BOXI.

## **12.6 Financial Performance Reporting – Senior Management**

- 12.6.1 A Highlights Report is produced by the designated Accountant for each quarter per the timetable described at paragraph 2.3.1 above. The budget holder meeting minutes are used to inform quarterly Highlights Reports. The Highlights Reports are prepared by Function, with each Function Highlights Report detailing:
- The full year budget and outturn and year to date budget and actual by Cluster
  - Assumptions and risks
  - Earmarked reserves spend
  - Analysis of significant variances (i.e. over £50k) with reasons and related mitigating action so outturn is contained within the approved budget
  - Details of Covid related costs
  - Analysis of spend to date
- 12.6.2 On reviewing the Highlights Reports for the first quarter of 2021/22 it was noted that whilst the budget and outturn position according to the five Function Highlights Reports agreed to that reported to the City, Growth and Resources Committee on 10 August 2021, the reasons for overspent positions in the Highlights Reports were not always explained and mitigating action was often not included. Examples include:
- Operations - 'Children's Social Work' £185k – *'This includes £1.2m overspend on OOA and £806k underspend on fostering service.'*
  - Resources - 'Asset Man Planning' £173k – *'The majority relates to a final electricity bill for the AECC building of £222k. Hire of accommodation underspent by £50k'*
  - Commissioning – 'Assurance' £115k – *'There is a forecasted overspend in staffing of and an under recovery of income in relation to licensing.'*
- 12.6.3 Where underlying causes for outturn to budget variances and corrective action is not clearly documented as required, there is a greater risk budget pressures will not be addressed.
- 12.6.4 Finance is required to agree the reported position in the Highlights Report with the respective Chief Officers. However, as highlighted in paragraph 2.4.7 this is not done in practice. A recommendation has already been made at paragraph 2.4.9 to address the need for agreement of outturns, reasons and mitigating action with Chief Officers.
- 12.6.5 The Performance Board, co-chaired by the Director of Resources and Chief Operating Officer, considers various aspects of Council performance including financial performance. Quarter 1 and quarter 2 financial positions were reported to the Performance Board as required, with the need to control expenditure conveyed by the Chief Officer – Finance to the Board.

## **12.7 Financial Performance Reporting – Committee**

- 12.7.1 Section 8.3.2 in the Councils Financial Regulations states that the Chief Officer – Finance is required to report on a quarterly basis, a comparison of actual figures to year-to-date budget and a full year forecast, to the City Growth and Resources (CG&R) Committee, for the General Revenue Fund, Housing Revenue Account and the Common Good Fund and to provide revenue budget monitoring updates on the North East Scotland Pension Fund to the Pensions Committee. With the exception of quarter 1, where related reporting to City, Growth and Resources Committee was impacted by Covid-19, the Projected Financial Position was reported quarterly to the City Growth and Resources Committee and as required to the Pensions Committee for 2020/21.
- 12.7.2 The Q1 Projected Financial Position for 2021/22 reported to City, Growth and Resources Committee on 10 August 2021 was reviewed; this covered General Fund, Housing Revenue Account and Common Good revenue budgets (as well as Earmarked Reserves and the General Fund and HRA Capital Programmes).
- 12.7.3 The HRA forecast was equal to budget whilst the Common Good revenue budget had a net underspend of £65k that was explained. A deficit of £13.60 million was reported as at 30 June 2021 on the General Fund Financial Reporting Summary explained generally as being due to the impact of COVID-19 on income levels, with Earmarked Reserves as a result of Scottish Government funding in place to address this.
- 12.7.4 The three largest overspends / under-recoveries of income as at 30 June 2021 were reviewed (Operations - £5.56 million; Resources - £2.97 million; and Council Tax - £5 million). Whilst reasons for overspends were reasonably well explained, some mitigating action was not well explained. For a Council Tax £5 million under-recovery of income for example, the mitigating action described was “Additional work is being undertaken to improve collection levels”, with no explanation of what the “additional work” was. The Chief Officer – Finance’s view is that there is a limit to the information that can be provided in the Committee report to maintain a concise, high-level overview. Details of overall mitigating actions are given which provide an explanation of how the overspend will be dealt with in each Committee Report; this was the case for the position reported to 30 June 2021 reviewed.
- 12.7.5 On reviewing the financial position for 2020/21 reported to City Growth and Resources Committee as part of the 2020/21 quarter 4 financial performance update, the note for a £37.71 million underspend against Miscellaneous Services explained the underspend as largely relating to capital financing costs, however the Service explained this should have been reported as largely relating to an underspend associated with unused Covid-19 grant funding moved to earmarked reserves. The Covid-19 grant underspend contribution to earmarked reserves was however explained elsewhere in the Financial Position 2020/21 report.

## 12.8 Budget Virements

- 12.8.1 The term “virement” refers to the transfer of budgetary provision from one budget head to another. The Council’s Scheme of Virement, including related limits and authorisation requirements, is described in the Council’s Financial Regulations as follows:

Scope	Limit	Approval to Vire
1. Within or between Account Code Groupings, within individual budget holder areas of responsibility (e.g., printing & stationery to telephones – within admin costs or Administration	Up to £20,000 or 10% of the budget grouping, whichever is the lesser	Budget Manager
	Up to £100,000	Chief Officer
	Over £100,000	Director, reported to City, Growth and Resources Committee in Financial

<b>Scope</b>	<b>Limit</b>	<b>Approval to Vire</b>
Costs to Supplies & Services)		Performance Report
2. Between Functional Services Budgets but within Chief Officer area of responsibility (e.g., Primary to Secondary Education, Libraries to Community Learning, or Learning Disability to Mental Health)	Up to £20,000 or 10% of the budget grouping, whichever is the lesser	Chief Officer
	Up to £100,000	Director, reported to City, Growth and Resources Committee in Financial Performance Report
	Over £100,000	City, Growth and Resources Committee
3. Between Functional Service Budgets within Function Budgets (e.g., transfer from Education to Environmental Services)	Up to £250,000	Director, reported to City, Growth and Resources Committee in Financial Performance Report
	Over £250,000	City, Growth and Resources Committee
4. Between Function Budgets i.e., across committees (e.g. transfer from Commissioning to Operations)	Up to £500,000	Chief Executive, reported to City, Growth and Resources Committee in Financial Performance Report
	Over £500,000	City Growth and Resources Committee

12.8.2 A sample of five virements processed since 1 January 2021, was reviewed to ensure the virements were processed in accordance with Financial Regulations. This included two category two virements and three category four virements. Whilst it was noted that virements were posted in accordance with Service requests, officers approving virements did not have the delegated authority to do so under the Council's Financial Regulations. Furthermore, two of these virements were not approved by City Growth and Resources and three were not reported to the same Committee as required.

**Recommendation**

Virements should be processed in accordance with Financial Regulations.

**Service Response / Action**

Agreed. Process to be reviewed and updated.

**Implementation Date**

June 2022

**Responsible Officer**

Finance Operations  
Manager

**Grading**

Significant within audited  
area

**AUDITORS:** J Dale  
C Harvey  
A Johnston  
F Magodo

## 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.