



APPENDIX 2

Audit of Financial Sustainability 2023-24

Draft Report Issued: 29th May 2024

Director Draft Issued: 20th August 2024

Final Report Issued: 4th September 2024

Audit Report Distribution

Client Lead:	Chief Finance Officer (S151 Officer) Senior Manager – Finance (Deputy S151 Officer)
Senior Manager:	Chief Finance Officer
Others:	Chief Executive Assistant Chief Executive – Strategy, Policy and Performance Director of Resources Director of Business Transformation and Change Director of Adult Social Care and Housing Director of Children and Family Wellbeing Director of Place, Sustainable Growth and Transport Director of Public Health and Communities Chief Legal Officer (Monitoring Officer) Assistant Director of Programme Management Office Group Accountant - Resources Group Accountant - Financial Systems and Control Group Accountant - Children's Social Care & Education Group Accountant - Adults Group Accountant - Place
Audit Committee:	The Audit Committee due to be held on 17 th September 2024 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1. Introduction

- 1.1 The report summarises findings from the audit of Financial Sustainability. This was a planned audit assignment which was undertaken in accordance with the 2023/24 audit plan.
- 1.2 Financial sustainability is a crucial aspect of achieving Council objectives. Councils need to deliver services within the available financial resources in order to ensure long term service provision.
- 1.3 Robust financial planning is fundamental to financial sustainability and requires an understanding of demand pressures, long term financial resources and how sustainable it is to deliver priorities and services.
- 1.4 There has been a significant rise in the number of Council's issuing S114 notices (where predicted expenditure in the year is expected to exceed available funding (including reserves)). Numerous reasons have been cited for this including external factors such as an ongoing significant reduction in funding available to Councils and a volatile economic climate, but internal factors equating to poor financial management have also been cited for some authorities.
- 1.5 Prior to Local Government Reorganisation, during the year of the Shadow Authority, it became apparent that Cumberland Council was at significant risk of a deficit budget position due to the extensive financial pressures, particularly within Children's Services and Adult Social Care. This resulted in the identification of saving measures included in the first year of the 2023/24 medium term financial plan (MTFP). This audit relates to these 2023/24 savings.
- 1.6 Further savings are included in the 2024/25 budget and MTFP and the Council has submitted and had approved an application for Exceptional Financial Support for 2024/25, which will enable it to utilise up to £41.23M through a capitalisation directive to support service transformation.
- 1.7 One of the conditions of the directive was for the Council to be subject to an external assurance review of its approach to long-term financial sustainability, focusing on an assessment of the governance and risk management arrangements in place, transformation activity, long term financial sustainability, financial management and capital programme. The external report includes recommendations in relation to maintaining financial sustainability, which are in the process of being actioned by the Council. The findings from this internal audit are supplementary to the external assurance review.
- 1.8 Implementation and delivery of the Council's transformation programme is also considered an essential element of maintaining financial sustainability and this is subject to a separate internal audit (ongoing at the time of this audit).

2. Audit Objective

- To review the robustness of Council arrangements for financial sustainability.

3. Audit Scope

- Short term efficiency savings (to inform longer term savings arrangements).
- Medium Term Financial Plan, including items considered when preparing this.
- Financial Sustainability Strategic Risk Management.
- Budget Monitoring and Reporting.

Where relevant, each scope area will include a focus on ensuring the Council has adopted key cultural features of robust financial management, to ensure suitable process, culture, accountability and decision-making is in place, as identified in a recent research piece by the Local Government Association.

4. Audit Limitations

- 4.1 There were no instances whereby the audit work undertaken was impaired by the availability of information. However, a number of items requested to confirm points were not provided prior to the report being written and therefore form part of the audit conclusions.

5. Assurance Opinion

- 5.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 5 levels of assurance opinion which may be applied (See Appendix C for definitions).

From the areas examined and tested as part of this audit review, we consider the current controls operating within Financial Sustainability provide **Reasonable assurance**. As audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

6. Summary of Recommendations

- 6.1 There are two levels of audit recommendation; the definition for each level is explained in Appendix D. Audit recommendations arising from this audit review are summarised below:

Scope areas	High	Medium
1. Short term efficiency savings - (see section 7.1)	2	2
2. Medium Term Financial Plan - (see section 7.2)	-	3
3. Financial Sustainability Strategic Risk Management - (see section 7.3)	-	1
4. Budget Monitoring and Reporting - (see section 7.4)	-	3
Total Number of Recommendations	2	9

- 6.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information. Completion of all actions will be followed up by Internal Audit on a regular basis.

6.3 Findings Summary (good practice / areas for improvement):

Our assessment acknowledges good practice in place around financial sustainability but also recognises a number of financial challenges facing the Council.

An organisation's financial sustainability can change very quickly and historically this can be due

to external factors outside of its control (such as the 2008 financial crash, 2020 coronavirus pandemic or the cost of living crisis).

Key to the financial sustainability of the council is its transformation and savings programme which it is acknowledged will be a significant challenge to deliver. Strong governance and transparent progress and reporting will be vital as will prompt decision making. The transformation programme is subject to a separate internal audit (in progress at the time of reporting).

Improvements in processes relating to the identification, confirmation, monitoring and reporting of savings have been recommended along with ensuring budget managers understand and complete the monthly budget monitoring process and that capital budget monitoring responsibilities are clear to enable more accurate reporting.

Chief Finance Officer (S151 Officer) comments
I accept all the recommendations.

7. Audit Findings and Recommendations

7.1 Short term efficiency savings

- 7.1.1. The 2023/24 Cumberland budget included savings of £24.732m (£15.326m recurring and £9.406m non-recurring). The Chief Finance Officer in their section 25 report, included in the 2023/24 budget and Medium Term Financial Plan (MTFP) report to the Shadow Authority in March 2023, noted there has been limited capacity to identify and develop savings plans or implement service changes required to deliver these savings with emphasis being on delivering a safe and legal position for vesting day. The report also included that savings are estimates and will need reviewed, agreed and action taken to replace them if they are not deliverable. It was also noted that the senior leadership team of the Council were appointed from December 2022, with only three statutory officers allowed to be employed prior to vesting day.
- 7.1.2. Discussions confirmed that the original directorate specific savings included in the 2023/24 budget were not as robust as they could have been as the Senior Leadership Team were not fully in place until after the budget had to be agreed.
- 7.1.3. 2023/24 budget monitoring reports reported that £7.123m of directorate specific recurring savings included in the 2023/24 budget were not going to be achieved and this was built into the recurring growth for the 2024/25 budget. It was stated that initial focus was on ensuring Council services were safe and legal, followed by mitigating the budget overspends identified as part of the quarterly budget monitoring process.
- 7.1.4. The quarter 2 budget monitoring report identified a number of new budget mitigations to be made in year instead, including £8.540m exceptional financial support (EFS – where government permits revenue costs to be met through capital resources) and £12.578m directorate mitigations (£8.178m in Resources, £3.2m in Adults and £1.2m in Children's).
- 7.1.5. The detail behind these figures was requested to determine how robust and achievable the stated savings were.
- 7.1.6. It was stated that there was little information behind the Resources directorate mitigations as they were the result of positive treasury effects (in terms of increased interest rates providing more income and reduced borrowing costs) or decisions taken not to do something that had been planned (e.g. a contribution to reserves).
- 7.1.7. Deep dive sessions were held for the Adult Social Care and Housing directorate and the Children and Family Wellbeing directorate to identify budget mitigations with these being agreed by key members of the Senior Leadership Team who attended alongside relevant Assistant Directors and business partners from Financial Services and the Project Management Office.
- 7.1.8. The Adult Social Care and Housing directorate identified almost £3.2m worth of mitigations as part of its deep dive session. It was stated that figures were supported by Finance staff, calculated in real time when pulling together mitigation ideas for the presentation and were reasonable estimates at the time. There is no audit trail documenting how savings were identified, making ongoing monitoring of achieving the savings harder to verify.
- 7.1.9. The Children's and Family Wellbeing directorate identified potential areas / schemes where savings / mitigations could be made but did not identify a value as part of their deep

dive review. It was agreed they would review high-cost packages for care for children. It was stated the £1.2m value subsequently included in the quarter 2 budget monitoring report was derived from information a Finance Manager who has since left the Council provided and whilst calculations of savings were documented, notes against some future savings raised questions on the likelihood of them being achieved and it was not possible for audit to review the robustness of the estimates.

- 7.1.10. Discussions suggested a more robust approach was undertaken for the identification of 2024/25 budget savings, which is subject to a separate internal audit. Information provided as part of this review showed that at least one of the savings identified in 2024/25 budget would not be achieved, as the actual available savings is significantly lower than the saving stated, and that several projects were in scoping to realise how the savings are going to be achieved. These suggest that improvements could still be made in the process for identifying and approving savings and the process will continue to be reviewed as part of ongoing audits.
- 7.1.11. The audit therefore concludes that while stated savings were identified, they were not fully documented, making it harder to assess progress in achieving these. The Project Management Office have recognised the need to monitor future savings and are developing trackers to improve monitoring. From 2024/25 savings are embedded into service reviews and transformation plans (subject to ongoing internal audit of transformation plan).
- 7.1.12. A recent Local Government Association (LGA) research paper made recommendations following research into a number of Councils that had issued section 114 reports or applied for a capitalisation direction. One recommendation is to adopt processes to ensure there is better scrutiny of savings proposals before they are agreed.

Recommendation 1 – Ensure savings identified are supported by calculations and documentation to demonstrate that they are realistic, robust, achievable and have been appropriately scrutinised before approval.

- 7.1.13. Senior Responsible Officers and lead officers were named for each saving and an Assurance and Efficiency Delivery Board (AEDB) was established in December 2023 and met for the first time in January 2024. The Board meets weekly (with programmes reported 4 weekly) and includes key members of the leadership team as part of its core membership (Chief Executive, Directors of Resources and Business Transformation and Change, Assistant Director of the Programme Management Office, the Chief Finance Officer (S151 Officer) and Chief Legal Officer (Monitoring Officer)).
- 7.1.14. One of the Board's initial purposes was to provide strategic assurance and direction to ensure delivery of projects and programmes to address in year financial pressures during the remainder of 2023/24 to minimise the use of the Council's reserves. Longer term savings were also in the Board's remit and it was stated that it was a key governance board in relation to achieving savings and financial sustainability.
- 7.1.15. Whilst a terms of reference was approved for the Board it was agreed at the meeting 08.03.24 that this would need to be reviewed once the board had a clearer understanding of its direction and purpose.

Recommendation 2 – The Terms of Reference for the Assurance and Efficiency Delivery Board should be reviewed in line with previously agreed actions now the direction and purpose of the board is more clearly understood.

- 7.1.16. Report templates are in place for reporting to the Board and information provided showed that progress against the Adults and Children’s directorate mitigations included in the quarter 2 budget monitoring report was provided.
- 7.1.17. Given the nature of the Resources directorate mitigations (which related predominately to treasury activities) they were not reported to the AEDB but were reflected in budget monitoring reports (they did not require monitoring as they had effectively been achieved).
- 7.1.18. Review of Board information identified that, although slide templates include a brief description of each RAG rating, use of them did not always appear accurate or consistent which could be misleading. These RAG ratings are also used in information reported by the AEDB to the Strategic Programme Panel. Work is ongoing to improve consistency and the Council is investing in an assurance function to facilitate this.

Recommendation 3 – Ensure that RAG rating guidance is clear and obtain assurance that officers understand the RAG ratings and apply them appropriately.

- 7.1.19. Prior to the establishment of the Assurance and Efficiency Delivery Board the Adults directorate savings were monitored initially at a fortnightly efficiencies board (from September 2023) and now at the four weekly Adult Social Care and Housing (ASCH) Leadership Team meetings (as of the end of November 2023). The Leadership Team receives project updates and reviews and agrees the slides prepared on savings to be presented to the AEDB.
- 7.1.20. It was stated that the Children’s savings were not formally monitored or reported on within the directorate but that since January 2024 a Children’s transformation board is now in place which meets every two weeks. Like the ASCH Leadership Team it receives project updates and reviews and agrees the slides prepared on savings before their submission to the AEDB.
- 7.1.21. It was noted that prior to the first information being reported at the AEDB a larger value of in year efficiencies for one project had been reported to the ASCH Leadership Team. It was stated that until recently savings reported were based on information from project leads with limited input from Finance due to capacity issues (see 7.4.10). However, the agreed reduction in the savings reported for this project resulted from challenge by the Finance Team, obtaining and reviewing information and work with the service (some of these savings would have been made as part of business as usual).
- 7.1.22. Children’s savings figures reported for 2023/24 were taken from information maintained by a Finance Manager as there was no formal directorate monitoring in place. It was stated that Finance have raised the importance of directorates monitoring their savings progress and that trackers are in the process of being designed to enable this.

Recommendation 4 – Ensure savings are clearly calculated and valued at the start of the process and consistently reported, including relevant documentation in place to verify variations.

- 7.1.23. The latest reporting to AEDB of these savings before the year end showed that Adults were forecasting to achieve more than £3.2 million savings, though not as originally identified in the deep dive, but had not at the point of reporting. Quarter three budget monitoring showed Adults forecasting an underspend of budget for 2023/24 mostly due to budget mitigation work. Children's had not achieved the full £1.2m saving (£0.671m achieved) with no more forecast to year end and quarter three budget monitoring reported a greater overspend in the directorate partly due to a shortfall in delivery of mitigations.
- 7.1.24. Given the level of savings in the 2024/25 budget and MTFP it will be important to ensure that Members receive clear information on progress against them. It was stated that a governance and reporting process for 2024/25 savings is being agreed by the Programme Management Office team so that the Executive get the information they require and regular progress reporting is in place to the leader.

7.2 Medium Term Financial Plan

- 7.2.1. It is recognised that central government funding has reduced over recent years with the ability to grow and maintain resources raised locally becoming even more important for financial sustainability.
- 7.2.2. The short term, one-year financial settlements from government also makes robust medium term financial planning more challenging, due to ongoing uncertainty over funding provision.
- 7.2.3. The 2024/25 budget and Medium-Term Financial Plan was approved by Council on 6th March 2024 and covers a three year timeframe. In this the Chief Finance Officer makes it clear that the future financial sustainability of the council is vested in the success of its transformation programme and securing capitalisation direction to enable investment in transformation. It is recognised that the delivery of transformation and savings will be challenging as will the need to generate capital receipts to finance the transformation programme from 2025/26.
- 7.2.4. The Chief Finance Officer also recognises experience from other local authorities in that such programmes are often overly optimistic around the timescales and amounts of savings that can be delivered. This links with the LGA paper which references creating savings plans that have realistic lead in times so that savings can be delivered in year and the full year effect of savings can be realised.
- 7.2.5. The 2024/25 budget provides a one-year balanced budget with budget gaps currently shown in 2025/26 and 2026/27. It is noted that in determining projections for 2025/26 and 2026/27 significant areas of uncertainty remain in respect of both funding and spending assumptions and detailed implications for local government remain unclear following the Autumn Statement.
- 7.2.6. The 2024/25 budget and MTFP considers the impact of local and national factors affecting it.
- 7.2.7. Clear recognition is given to reflecting changes in demand particularly related to Adults and Children's service, which are included in the recurring growth built into the budget.

- 7.2.8. There is clear identification and consideration of all income streams and their impact on the 2024/25 budget and MTFP, where appropriate.
- 7.2.9. The 2024/25 budget includes a 3% pay award with assumptions about future years at 3% and 2% respectively. This is lower than the pay rise awarded in the last two years and guidance suggested using 4% but it was stated that this decision was taken at Senior Leadership Team, was risk based and informed by modelling information from Finance, though evidence of this was not provided. The Chief Finance Officer's report included in the budget report acknowledges that approximately £1.5m would be needed for every additional 1% pay award.
- 7.2.10. There are no unidentified savings in the 2024/25 budget but it is recognised that the savings of £37.609m will be challenging to achieve. Savings of £21.450m and £16.150m are included for 2025/26 and 2026/27 respectively. Linked with earlier findings and recommendations made, it needs to be clear how these will be achieved and that appropriate monitoring arrangements are in place for them.
- 7.2.11. It has been assessed that the Council should hold a minimum level of £25 million in reserves. It was stated that this was based on a risk assessment covering several factors but a copy of this assessment was not provided to Audit for review. The 2024/25 budget report notes that whilst reserves may be adequate to support the 2024/25 budget they would drop below the recommended minimum level which is why exception financial support was requested to address most of the budget gap and maintain a legally balanced budget. The exceptional financial support has been confirmed and the quarter 3 budget monitoring information provides an updated forecast position on reserves with it now being estimated that minimum levels would be retained allowing for the smaller budgeted use (£0.964m) to support the 2024/25 budget.
- 7.2.12. The increase in fees and charges in line with the rate of inflation is included in the budget and MTFP report but a schedule of fees and charges was not included for approval, with approval requested to delegate this to the Chief Finance Officer. The Council's own fees and charges policy, approved as part of the 2023/24 budget report, states that 'a schedule of fees and charges for the forthcoming financial year should be presented for approval, as part of the budget report, to Full Council each year'. It was stated that although not originally included (as it was not believed to be a requirement), the schedule was subsequently tabled but was not wanted by Council. Clarity on presenting fees and charges to Council should be sought.
- 7.2.13. Evidence of scrutiny of the 2024/25 budget and MTFP was seen though it was also stated that further scrutiny outside of formal recorded meetings was undertaken. Executive Members receive regular updates on budget and financial performance, but a review of information provided to Members at formal meetings showed that reporting to them could be refined / developed to include more information on scenario planning and sensitivity analysis used on key assumptions and estimates as part of the budget development process. This sensitivity analysis is of particular importance as recent significant events, including Covid and LGR, have distorted baseline data, making it less reliable as a basis for measuring future demand on Council services.

Recommendation 5 – Refine formal reporting to Members on sensitivity analysis and scenario planning undertaken on key assumptions and estimates as part of the

development of the annual budget and MTFP.

7.2.14. Whilst a budget setting timetable was prepared for the production, scrutiny and approval of the 2024/25 budget and MTFP this was the first year of Cumberland undertaking this activity and, although the budget was approved by the required deadline, it has been acknowledged that improvements to the process and timeline can be made. Items including the work required for EFS, responding to the budget overspends identified by budget monitoring and multiple people / areas being involved in the identification and agreement of savings accounted for some of this and original timescales slipping (including a budget strategy report not being provided ahead of an Overview and Scrutiny meeting and an additional meeting, outside of the formal schedule, having to be arranged to enable them to review budget proposals before they were taken to the Executive). This links with the LGA paper which includes ensuring robust scrutiny is factored into the decision-making timescale and implementing stronger project management for statutory processes, including publishing budgets, to ensure the process takes place to agreed timelines. It was stated that a piece of strategic planning work has already started which will record how the process works and identify what actions are required each month and by who.

Recommendation 6 – Ensure strategic planning work is completed timely, that all responsibilities are known and understood by all involved and that arrangements are in place to ensure processes take place to the agreed timeline.

7.2.15. Business and Resources Overview and Scrutiny Committee received some internal training on local government finance and budgets and scrutinised budget proposals before they went to the Executive prior to recommendation to Council, though this final scrutiny was outside a formal meeting due to timescales slipping. No financial training has been provided to other members and given the importance of the 2024/25, and future years, budget savings to the financial sustainability of the council it will be important that they understand and can challenge financial information effectively.

Recommendation 7 – Confirm that Members with responsibility for reviewing and scrutinising financial information have appropriate knowledge to do this effectively.

7.3 Financial Sustainability Strategic Risk Management

7.3.1. Financial Sustainability is included as a risk on the Council’s Strategic Risk Register. The risk is reviewed and updated prior to its reporting to Audit Committee every 8 weeks, with formal reporting beginning in October 2023.

7.3.2. The risk template is appropriately completed and a number of causes of the risk are identified along with key controls in place to manage the risk. The impacts of the risk are identified along with links to the Council Plan Delivery plan.

7.3.3. The risk clearly shows changes made since the previous review and multiple officers have the opportunity to feed into the risk review and update. Strategic risks also now include further planned activity to mitigate risks including an owner, target date, a comment and percentage on progress and a RAG rating for each planned action.

7.3.4. A recent change to the Councils risk appetite and frequency of reviews means that, given its risk score (which has remained unchanged since formal reporting began), the Financial

Sustainability is reviewed at Senior Leadership Team monthly.

- 7.3.5. Whilst improvements have already been made in year to risk processes, information, and reporting, the Council's risk process is still in its infancy and being embedded and it is acknowledged that there is further scope for improvement. For example, challenge and reporting is not currently undertaken on whether mitigating actions identified are in place, appropriately manage the risk or on whether mitigating controls are successful and having the intended outcomes (as recommended in the LGA paper). This is currently limited by capacity and the processes used to review, update and finalise risk registers for reporting.
- 7.3.6. The Council is currently implementing an electronic Risk Management system, which would potentially enable a more efficient risk registration process, allowing additional time for effective scrutiny and challenge to recorded controls.
- 7.3.7. The external assurance review has identified further risk and mitigation actions required by the Council to effectively manage long-term financial sustainability.

Recommendation 8 – Management should consider current risk scoring based on the outcome of the external assurance review and update the risk register to reflect further future mitigating actions that need to be implemented to improve management of this risk.

- 7.3.8. A deep dive presentation on the financial sustainability risk was given to the July 2024 Audit Committee.

7.4 Budget Monitoring and Reporting

- 7.4.1. It is acknowledged that budget monitoring has not been fully embedded during 2023/24 and is still work in progress and that changes to aspects of it are likely in the coming year. Limited resources within Finance and added complications of manifold legacy accounting systems have contributed towards these limitations (see Internal Audit of Financial Services Governance).
- 7.4.2. Quarterly budget monitoring reports have been provided to the Executive, Senior Leadership Team (SLT) and Directorate Management Teams (DMT's), though not all examples requested were provided prior to this report being written. However, it was the intention that SLT and DMT's would receive monthly reports and the Constitution states that revenue expenditure and income against budget will be reported to SLT monthly. It was stated that this remains the intention but that given capacity issues, other priorities and the work required to prepare this information it was not currently possible to provide monthly reports.

Recommendation 9 – Arrangements should be put in place to ensure that the Constitution is complied with in relation to budget monitoring and reporting.

- 7.4.3. Reports provide appropriate budget information including key messages, budget, actual, forecast and variance figures, explanations for variances and changes between quarters. The Council wide reports also include information on taxation and non-specific grant income, impact on reserves, schools and dedicated school grant balances, capital budget and treasury management and the quarter 3 report has taken a more streamlined approach

with tables showing the breakdown of each directorate no longer provided.

- 7.4.4. Budget Manager is used to monitor and manage revenue budgets and was rolled out to budget managers in September 2023, and though there were issues for some which caused delays it was stated that all now have access. Budget managers can access and view their budgets at any time via Budget Manager, which is updated daily with details from the accounting system, and drill down to individual transaction level if required.
- 7.4.5. Each month budget managers are required to review and update / adjust their budget, as required, during a set window before the Assistant Directors and then Directors do the same. It was stated that the timescales for these monthly updates and forecasting are to be reviewed to ensure that they work for everyone.
- 7.4.6. Budget Manager training was identified by Group Accountants and varied across directorates (with some details unclear due to staff having left the Council), as does the support received by budget holders each month during the forecasting window. It was stated that the level of finance support has been affected by capacity issues in some areas (see 7.4.10) but that staff are available to answer questions and provide help if requested. Due to initial Budget Manager access issues for some officers, training / further training on the system is to be provided for forecasting recommencing in 2024/25 (period 2 or 3) as it was felt the benefit of any training provided in period 9 or 10 would be lost prior to this. Reference was also seen in a directorate quarter 3 budget monitoring report to budget managers not completing monthly returns for a number of reasons and as such assurance should be obtained on this.

Recommendation 10 – Assurance should be obtained that all budget managers understand the budget monitoring process, their responsibilities and are completing monthly returns.

- 7.4.7. Capital budget monitoring information was not provided in the first quarterly budget monitoring report to the Executive but has been provided since. The cost centre structure / hierarchy for capital costs centres is not created within e5 so Budget Manager is not currently used for capital monitoring. Instead, a spreadsheet is maintained recording information downloaded from the accounting system (and updated with any known adjustments). It was stated that Budget Manager will be looked into for Capital monitoring but with consideration of how Concerto is currently being used (to avoid duplication of work).
- 7.4.8. It was stated that projects from the capital programme that are recorded in Concerto, and overseen by the Programme Management Office (PMO), have identified Project Leads who prepare BRAG reports on them monthly which include financial information and that a report of all projects is also provided to the Assistant Director – PMO. Where governance boards are in place for programmes or projects these also receive financial information at each meeting. Examples of these reports were requested but not provided before this report was prepared.
- 7.4.9. The number of lines in the capital programme not recorded in Concerto, and their value in relation to the overall capital programme budget, is not currently known though it was stated that it is not large. With these not being recorded in Concerto (and so not having the same PMO oversight) the information on them is less clear and some have been forecast to spend the budget as limited information could be obtained to inform a more

representative forecast. It was also stated that the capital programme appears to include items where there is no project, but that further work is needed to identify these and remove them as appropriate. It is acknowledged that improvements to the budget monitoring and reporting of the capital programme are required and a piece of work has been started to identify / verify budget holders for each line of the programme, establish who is responsible for agreeing the budget within each line (and any changes between projects for each line if applicable), who will be responsible for forecasting in 2024/25, and who can advise on actual spend and commitments against each budget line to confirm the 2023/24 position is accurate and there are no miscodings.

Recommendation 11 – Work should continue on the capital programme and its budget monitoring to ensure responsibilities are clear and information reported fully represents the latest position.

- 7.4.10. Financial sustainability is the responsibility of the entire Council and requires action from all directorates. Finance has an important role, using their collective skills, knowledge and experience, in supporting financial sustainability and ensuring general / wider financial controls are in place. There is currently a temporary finance structure in place and Finance resource / capacity has been raised as an issue in discussions with several staff. It was stated that they are in the process of establishing current roles and functions and clarifying responsibilities and activities undertaken and costing this and a recommendation in this area has been made as part of the Internal Audit of Financial Services Governance.
- 7.4.11. In a similar vein, a comparison of the establishment to the budgeted establishment has not yet been completed though it was stated the information required to perform this has been requested. Having this understanding on a large cost area for the Council will be beneficial and help to inform budget work (and potentially savings projects) moving forward.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Ensure savings identified are supported by calculations and documentation to demonstrate that they are realistic, robust, achievable and have been appropriately scrutinised before approval.	H	Savings not robustly calculated, making achievement difficult to monitor.	Templates will be developed/ updated/ issued as part of 25/26 budget setting / The templates will set out What, How, When, Risk and any additional investment needed	Chief Finance Officer	31 st March 25
Recommendation 2 – The Terms of Reference for the Assurance and Efficiency Delivery Board should be reviewed in line with previously agreed actions now the direction and purpose of the board is more clearly understood	M	Terms of reference do not reflect the changed understanding of the purpose of the board.	Improvement Panel now established and membership agreed. / Draft Terms of Reference completed	Chief Finance Officer	31 st March 25
Recommendation 3 – Ensure that RAG rating guidance is clear and obtain assurance that officers understand the RAG ratings and apply them appropriately.	M	Key reporting information is inaccurate and inconsistent leading to impaired understanding of current savings position.	Clearly defined RAG rating criteria and guidance to officers will be developed and issued through enhanced assurance practices between PMO and Finance.	Assistant Director – Programme Management Office	31 October 2024

Summary of Recommendations and agreed actions

Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<p>Recommendation 4 – Ensure savings are clearly calculated and valued at the start of the process and consistently reported, including relevant documentation in place to verify variations.</p>	<p>H</p>	<p>Inconsistent / inaccurate / unsubstantiated savings information reported.</p>	<p>Programme Boards and savings now aligned to relevant programme board. / Setting up monitoring templates that summarise savings delivery against programme boards. Will develop during 2024/25</p>	<p>PMO/ Finance Business Partners</p>	<p>Implemented</p>
<p>Recommendation 5 – Refine formal reporting to Members on sensitivity analysis and scenario planning undertaken on key assumptions and estimates as part of the development of the annual budget and MTFP.</p>	<p>M</p>	<p>Members outside of Executive do not have full picture on production of budget. / Wider members unable to challenge effectively due to limited information provided.</p>	<p>Will develop as part of Budget process for 25/26 and in year monitoring</p>	<p>Chief Finance Officer</p>	<p>31 March 25</p>
<p>Recommendation 6 – Ensure strategic planning work is completed timely, that all responsibilities are known and understood by all involved and that arrangements are in place to ensure processes take place to the agreed timeline.</p>	<p>M</p>	<p>Delays to budget setting process.</p>	<p>Completed Strategic timeline for 25/256 budget process and agreed with SLT/ Executive</p>	<p>Chief Finance Officer</p>	<p>31 July 24</p>

Summary of Recommendations and agreed actions

Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 7 – Confirm that Members with responsibility for reviewing and scrutinising financial information have appropriate knowledge to do this effectively.	M	Insufficient level of scrutiny and challenge provided.	Training programme for members will be developed	Senior Manager - Finance	28 Feb 25
Recommendation 8 – Management should consider risk scoring based on the outcome of the external assurance review and update the risk register to reflect further future mitigating actions that need to be implemented to improve management of this risk.	M	Severity of risk underestimated. / Actions to improve management of the risk are not taken.	Will consider with external assurance review due to take place and any recommendations from the improvement panel	Chief Finance Officer	31 December 24
Recommendation 9 – Arrangements should be put in place to ensure that the Constitution is complied with in relation to budget monitoring and reporting.	M	Non-compliance with agreed budget monitoring and reporting requirements.	Timetable now agreed for monthly monitoring and reporting to SLT and Executive / Recruitment required to address capacity	Chief Finance Officer	Implemented

Summary of Recommendations and agreed actions

Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<p>Recommendation 10 – Assurance should be obtained that all budget managers understand the budget monitoring process, their responsibilities and are completing monthly returns.</p>	<p>M</p>	<p>Ineffective budget management.</p>	<p>Budget manager training will be rolled out / Refresh finance for non-finance managers</p>	<p>Senior Manager – Finance / Group Accountant – Financial Systems & Control</p>	<p>31 March 25</p>
<p>Recommendation 11 – Work should continue on the capital programme and its budget monitoring to ensure responsibilities are clear and information reported fully represents the latest position.</p>	<p>M</p>	<p>Capital programme budget responsibilities unclear. / Information reported is not as accurate as it could be.</p>	<p>Timeline for monitoring agreed / Work to continue on clarifying roles in finance and capacity</p>	<p>Senior Manager – Finance</p>	<p>31 Dec 24</p>

Appendix B – Advisory Comments

Ref	Advisory Comment
7.2.12	Obtain clarity on presenting fees and charges to Council as part of the annual budget report.
7.4.11	Ensure the work on comparing the establishment to the budgeted establishment is progressed promptly.

Appendix C - Audit Assurance Opinions

There are five levels of assurance used; these are defined as follows:

	Definition:	Rating Reason:
Comprehensive	<p>There is a robust system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are thorough.</p>	<p>The control framework is suitable, complete and consistently applied.</p> <p>Only minor advisory items have been identified.</p>
Substantial	<p>There is a sound system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are advanced.</p>	<p>The control framework is suitable, complete and consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded controls.</p>
Reasonable	<p>There is a satisfactory system of internal control, helping to ensure that service objectives are generally achieved. Some issues have been raised that may increase risk exposure.</p> <p>Risk management processes require some improvements.</p>	<p>The control framework is adequate. Some controls are ineffectively applied and/or insufficiently embedded.</p> <p>Any high graded recommendations relate to a limited aspect of the control framework.</p>
Partial	<p>There is an insufficient system of internal control, reducing the likelihood that service objectives will be achieved. Some areas are satisfactory but a number of weaknesses have been identified.</p> <p>Risk management processes are weak.</p>	<p>The control framework is ineffective and/or inconsistently applied. A significant level of error has been identified.</p> <p>High graded recommendations have been made, covering several aspects of the control environment.</p>
Limited/ None	<p>Fundamental internal control weaknesses have been identified exposing system objectives to an unacceptable level of risk.</p> <p>Risk management is ineffective.</p>	<p>Significant non-existence or non-compliance with basic internal controls, exposing the system to error and/or abuse.</p> <p>High graded recommendations have been made, covering significant aspects of the control environment.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).