



# Hinckley and Bosworth Borough Council

## Internal Audit Final Report

### **Budgetary Control** (2023/24)

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October 2024

#### **Reporting Timetable**

Debrief Meeting: 30/08/2024

Draft Report Issued: 19/09/2024

Comments Received:  
22/10/2024

Final Report Issued: 25/10/2024

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## Contents

01 Summary Action Plan .....	4
02 Value for Money and Sector Comparison.....	5
03 Detailed Action Plan .....	6
A1 Audit Information.....	6
Contacts .....	13

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This report (“Report”) was prepared by Forvis Mazars LLP at the request of Hinckley & Bosworth Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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## Your One Page Summary

Audit Objective: To ascertain that Hinckley & Bosworth Borough Council has adequate and effective key controls in place in relation to budgetary control.

### Audit rationale

#### Why the Audit is in Your 2023/24 Plan

To assess the adequacy of arrangements in place in relation to managing budgetary control.

#### Your Strategic Risk

S.20: Non-compliance with Financial Regulations.

#### Your Strategic / Tactical Objective

N/A - No specific strategic or tactical objective

### Summary of our opinion

#### Substantial Opinion

See Appendix A1 for definitions

X

### Summary of Recommendations

High Priority	-
Medium Priority	-
Low Priority	3

Actions agreed by you	100%
High Priority completion	N/A
Overall completion	April 2025

### Summary of findings

#### Examples of good practice

- Financial Outturn reports are presented on a quarterly basis to the Finance & Performance Scrutiny Committee. Appendices to reports detail forecast year end variations for budget areas, including an explanation of overspends.
- The council maintains a record of all virements. The spreadsheet records the date of the virement, and who requested and approved it. Review of a sample of eight virements found that all had been approved appropriately.
- Review of monthly budget monitoring reports provided to budget holders found that ledger codes with large variances are identified.

#### Highest Priority Findings

- There is not a standardised programme of training in place for all budget holders in accordance with the Financial Procedure Rules.
- Budget monitoring is not recorded consistently, and monthly monitoring spreadsheets were not available for 2 out of 5 of our sample of budgets.

#### Key root causes

- Budget holders receive informal / ad hoc guidance, however this is not formal training such as e-learning and is not monitored.
- No formalised and documented budget monitoring process, such as a budget monitoring procedure document defining how monthly budget monitoring should be carried out and documented.

## 01 Summary Action Plan

Below is a high-level summary of the actions that are intended to support your management of this risk area. Further detail about our findings, which have been discussed with management, are provided in our detailed action plan (see 03 Detailed Action Plan).

Ref	Recommendation	Priority	Responsible Person	Due Date
1	<p>1. The council should develop and implement a standardised budget monitoring process requiring all budget holders to maintain and regularly update monitoring spreadsheets or equivalent documentation. If budget holders monitor directly within the system, a monthly report should still be generated to evidence that a review has taken place (or more frequently if needed).</p> <p>2. Budget related meetings such be formalised and documented through the use of minutes or an action log.</p>	Low	Ilyas Bham Accountancy Manager	01/04/2025
2	The council should develop and implement a comprehensive budgetary control procedure document, outlining key processes, procedures, roles and responsibilities related to budget preparation, monitoring and reporting.	Low	Ilyas Bham Accountancy Manager	01/04/2025
3	The council should introduce a structured and ongoing training programme for all budget holders, including induction training for new budget holders and regular refresher training to existing budget holders. The council should assess the cost versus benefit of implementing such a programme to determine the most effective approach, such as introducing e-learning modules or group workshops to provide a cost-effective solution.	Low	Ilyas Bham Accountancy Manager	01/04/2025

## 02 Value for Money and Sector Comparison

Within each of our reports, we summarise any observations we have made about the effectiveness, efficiency and economy of your operations. This is to support our portfolio of public and social sector organisations with value for money considerations. We also summarise how you compare to similar organisations, which is intended to bring you the benefit of our insight.

### Value for Money



Value for money (VfM) considerations can arise through the efficient use of systems and processes in order to make more efficient use of resources.

The council is kept informed about the current budget situation on a regular basis through

Financial Outturn reports presented to the Finance & Performance Scrutiny Committee, with reports being presented at the meetings taking place in September 2023, December 2023, March 2024 and July 2024. These reports include a summary of budget under and overspends, and explanations for where there have been any variances, helping the council to understand financial risks and pressures.

According to the 2023/24 General Fund Budget, the council has relied on using its earmarked reserves to cover shortfalls. This may not represent good value for money, as it can mean deferring critical investments and could also lead to future financial instability. According to the Local Government Association's Budget Process Guide<sup>1</sup>, there are various alternative approaches to finding savings, such as implementing a longer-term transformation programme which the council could consider.

### Sector Comparison

We have assessed the arrangements in place for Budgetary Control and compared them to those noted in other audits carried out at similar Local Authority clients.

Other councils that we have reviewed generally maintain a budgetary control procedure or manual, defining in detail the control process from initially setting the budget to monitoring the and including clear roles and responsibilities. At Hinckley and Bosworth, we found that an up-to-date budgetary control procedure or manual is not in place, therefore there may be a risk that budgetary control and monitoring processes are carried out inconsistently/ineffectively leading to variances not being identified and resolved promptly (Recommendation 2).

From our reviews of other councils, we have also found that they often have a formal training programme in place for budget holders, which typically consists of e-learning modules supported by informal training and guidance provided by service accountants. At Hinckley and Bosworth, we found that a formal programme of training is not in place, and there may be a risk of budget holders not being trained adequately resulting in ineffective budget monitoring (Recommendation 3).

From review of the 2023/24 General Fund Budget, the council held £6.2m in earmarked reserves on 31 March 2023 and this was projected to drop to £3.8m on 31 March 2024. This represents a substantial drawdown from the 2022/23 General Fund Budget, where it is noted that the council held £7.4m of earmarked reserves on 31 March 2022 and projected this to drop to £6.4m on 31 March 2023.

According to the Local Government Association<sup>2</sup>, reserves are often used by councils to address ongoing budget gaps but states that this is not sustainable, as reserves can only be spent once and could lead to future financial difficulties and calls on the government to come up with a long-term solution and to provide adequate funding.



specific budgetary budget

<sup>1</sup> <https://www.local.gov.uk/publications/must-know-guide-annual-budget-process>

### 03 Detailed Action Plan

We have identified areas where there is scope to improve the control environment. Our detailed findings are provided below. Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

1. Inconsistent budget monitoring process			
Finding(s) and Risk		Recommendation(s)	
<p>According to the Financial Procedures, the S151 Officer and other appropriate officers should supply directors with monthly comparative statements of income and expenditure to budget, and service managers and delegated officers are responsible for ensuring that budgets are not overspent.</p> <p>We selected a sample of five budgets and requested evidence of monthly monitoring being undertaken, such as monthly budget monitoring spreadsheets and evidence of meetings with service accountants. We found that:</p> <ul style="list-style-type: none"> <li>In one case, for the asset management budget, monthly monitoring spreadsheets were not provided, and we were informed that the budget holder directly monitors the budget themselves within the system, and therefore we were unable to confirm that regular monitoring takes place.</li> </ul> <p><b>Risk and Impact:</b> Senior managers are unaware of the overall financial position of the organisation and their area of responsibility resulting in significant budget over/underspends going unnoticed.</p>		<ol style="list-style-type: none"> <li>The council should develop and implement a documented budget monitoring process defining how all budget holders monitor their budgets. If budget holders monitor directly within the system, records (e.g. a monthly report) should be maintained to evidence that a review has taken place.</li> <li>Budget related meetings should be formalised and documented through the use of minutes or an action log.</li> </ol>	
		Root Cause(s)	
		No formalised and documented budget monitoring process, such as a budget monitoring procedure document defining how monthly budget monitoring should be carried out and documented.	
Management Comments / Agreed Actions			
<p>A documented budget monitoring process defining how all budget holders monitor their budgets will be drafted, and evidence of budget holders review evidence will be retained. Budget holders have regular meetings to discuss their budgets with finance staff, hence it is known that reviews taken place.</p> <p>Budget related meetings will be formalised and documented through the use of minutes or an action log</p>			
Responsible Person	Ilyas Bham, Accountancy Manager	Action Due Date	01/04/2025
		Priority Level	Low

## 2. No budgetary control policy / procedure document

### Finding(s) and Risk

As a matter of best practice, a budget management and control manual or procedure should be in place, providing guidance on budget management and control and the budget process to budget holders, as well as roles and responsibilities.

We found that an up-to-date budgetary control procedure document is not in place at Hinckley. Although review of the Constitution and Financial Procedure Rules found that roles and responsibilities for budget management are set out, and that the overall budgetary control process is defined, such as the deadline of 11 March each year for the Council deciding on an approved budget. However, budget management processes such as how monthly budget monitoring should be completed and recorded are not documented.

A budget control procedure document could include the following areas in greater detail to support budget holders in day-to-day budget management:

- Overall budget setting framework and timetable
- Roles, responsibilities and accountabilities
- Day to day budget management and monitoring process
- Reporting on financial performance and production of final accounts
- Processes related to virements, carry forwards, contingency, use of reserves and windfall income
- Signposting to other guidance and key contacts within the council for additional information and training

**Risk and Impact:** The budgeting and forecasting processes are not supported by relevant policies, procedures and guidance materials, potentially resulting in inconsistent application by stakeholders.

### Recommendation(s)

The council should develop and implement a comprehensive budgetary control procedure document, outlining key processes, procedures, roles and responsibilities related to budget preparation, monitoring and reporting.

### Root Cause(s)

A budgetary control procedure was developed previously, however this document is no longer relevant and was last updated more than ten years ago.



### Management Comments / Agreed Actions

The budgetary control procedure document is to be updated in a new drafted as required, outlining key processes, procedures, roles and responsibilities related to budget preparation, monitoring and reporting.

<b>Responsible Person</b>	Ilyas Bham, Accountancy Manager	<b>Action Due Date</b>	01/04/2025
		<b>Priority Level</b>	Low



### 3. No formal training programme in place for budget holders

Finding(s) and Risk	Recommendation(s)		
<p>According to the Financial Procedure Rules, the S151 Officer should ensure that each service manager and appropriate officer receives adequate training to enable them to control the parts of the budget that they are responsible for. Training for budget holders should be in place to ensure that they all receive consistent information and guidance on budget control and management and helps to ensure that budgetary control processes are uniform across different departments.</p> <p>We found that there is currently no standardised training in place for budget holders. We were informed that budget holders receive ad hoc support and guidance from the accountant responsible for supporting the budget holder in monitoring their budget, however, there is no central monitoring of whether this has been delivered to budget holders.</p> <p><b>Risk and Impact:</b> Budget holders have inadequate training, resulting in inconsistent application of budgetary control processes and poor financial management.</p>	<p>The council should introduce a structured and ongoing training programme for all budget holders, including induction training for new budget holders and regular refresher training to existing budget holders. The council should assess the cost versus benefit of implementing such a programme to determine the most effective approach, such as introducing e-learning modules or group workshops to provide cost-effective solution.</p> <tr> <th data-bbox="1234 603 2042 671">Root Cause(s)</th> <td data-bbox="1234 671 2042 807"> <p>Budget holders receive informal / ad hoc guidance, however this isn't formal training such as e-learning and is not monitored.</p> </td> </tr>	Root Cause(s)	<p>Budget holders receive informal / ad hoc guidance, however this isn't formal training such as e-learning and is not monitored.</p>
Root Cause(s)	<p>Budget holders receive informal / ad hoc guidance, however this isn't formal training such as e-learning and is not monitored.</p>		

#### Management Comments / Agreed Actions

A structured and ongoing training programme for all budget holders, including induction training for new budget holders and regular refresher training to existing budget holders will be introduced, with due consideration to the costs and benefits of doing so to ensure a balanced approach is taken to its introduction. Budget holders have regular meeting with finance staff so have ongoing training, albeit on an informal basis.

<b>Responsible Person</b>	Ilyas Bham, Accountancy Manager	<b>Action Due Date</b>	01/04/2025
		<b>Priority Level</b>	Low

# A1 Audit Information

## Agreed Audit Objective and Scope

The objectives of our audit were to assess whether Hinckley & Bosworth Borough Council has in place adequate and appropriate policies, procedures and controls in relation to Budgetary Control with a view to providing an opinion on the extent to which risks in this area are managed. The audit considered the following risks relating to the area under review:

### Regulatory, Organisational and Management Requirements

- The budgeting and forecasting processes are not supported by relevant policies, procedures and guidance materials, potentially resulting in inconsistent application by stakeholders.
- Roles and responsibilities for budget setting and control are not clearly defined and understood.

### Budget Setting

- Budget holders are unaware of their budgets and operational budget constraints / savings are not included in the budget setting process.

### Budget Upload

- Inaccurate / unapproved budgets are loaded onto the financial system.

### Budget Monitoring

- Significant budget over / underspends go unnoticed.

- Senior managers are unaware of the overall financial position of the organisation / their area of responsibility.
- The council does not have sufficient reserves in place to ensure the continuation of core services.

### Alterations and Virements

- Errors in virements may occur which go unnoticed and budget holders are unaware of amendments affecting their budget.

### Budget Savings, Savings Delivery Monitoring and Financial Risk

- Financial resilience of the council is impacted by the failure to achieve the savings required or manage demand pressures to enable a balanced budget and Medium-Term Financial Plan to be delivered.
- Budget savings and efficiencies are not achieved resulting in increased financial pressure and the council being unable to continue operations as it currently does.

## Scope Limitations

In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. Any testing performed was conducted on a sample basis. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

## Definitions of Assurance Levels and Recommendation Priority Levels

Definitions of Assurance Levels	
Substantial Assurance	The framework of governance, risk management and control is adequate and effective.
Moderate Assurance	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited Assurance	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory Assurance	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
High (Priority 1)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Priority 2)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Priority 3)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.	Remedial action should be prioritised and undertaken within an agreed timescale.

## Statement of Responsibility

We take responsibility to Hinckley & Bosworth Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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