

Internal Audit Report

Orbis Integrated Budget Management

Final

Assignment Lead: Paul Fielding, Principal Auditor

Assignment Manager: Mark Winton, Audit Manager

Prepared for: East Sussex County Council, Surrey County Council and Brighton & Hove City Council

Date: 17 September 2018

Internal Audit Report – Orbis Integrated Budget Management

Report Distribution List

Kevin Foster, Chief Operating Officer (ESCC)
Dave Kuenssberg, Executive Director of Finance & Resources (B&HCC)
Michael Coughlin, Executive Director of Customers, Digital & Transformation (SCC)
Ian Gutsell, Chief Finance Officer (ESCC)
Kevin Kilburn, Deputy Chief Finance Officer (SCC)
Nigel Manvell, Deputy Chief Finance Officer (B&HCC)
Graham Liddell, Head of Finance (Technology & Process)
Susan Smyth, Head of Strategic Finance (Business Development & Investment)
Adrian Stockbridge, Head of Strategy, Performance & Change - Orbis
Louise Lawson, Finance Manager

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

East Sussex County Council - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 01273 481447, ✉ russell.banks@eastsussex.gov.uk

Audit Manager: Mark Winton, ☎ 01273 481953, ✉ mark.winton@eastsussex.gov.uk

Anti-Fraud Hotline: ☎ 01273 481995, ✉ confidentialreporting@eastsussex.gov.uk

1. Introduction

- 1.1. The review of the Orbis Integrated Budget Management process has assessed the budget management arrangements since the introduction of Brighton and Hove City Council to the Orbis Partnership. Its aim was to provide assurance on the overall effectiveness of the system's controls and identify areas of concern or weakness where improvements can be made.
- 1.2. The Orbis Partnership is responsible for delivering services from a joint operating budget, which is shared by East Sussex County Council (ESCC), Surrey County Council (SCC) and Brighton & Hove City Council (B&HCC) in accordance with the Inter Authority Agreement (IAA).
- 1.3. The IAA details the responsibilities of the Orbis Joint Committee in respect of the joint operating budget and specifies the services included in the partnership. The joint operating budget must be managed effectively to ensure it is delivered in line with all Councils' expectations and to ensure that its benefits are fully realised.
- 1.4. The gross Orbis joint operating budget for 2018/19 is £76.4m. Income is budgeted at £13.8m, leaving a net budget of £62.6m. Each Council contributes to the net budget on a ratio of 55% SCC, 24% ESCC and 21% BHCC as defined within the IAA.
- 1.5. In addition to our audit testing, we met with seven budget holders who have budget monitoring responsibilities across two or three of the sovereign authorities.
- 1.6. It is important to acknowledge that significant effort has been put into providing an integrated budget and a unified approach to budget monitoring across the Orbis partnership. With the integration of Brighton & Hove City Council budgets coming into effect in April 2018, the combined budgets and use of the new monitoring tool are still in their infancy, and will continue to develop and improve; therefore, we did not expect to see a complete system fully in place. The findings, and by association, the actions agreed within this audit report are designed to add value to further support the development and embedding of the Orbis budget monitoring process.
- 1.7. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.8. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - CO1: Governance structures, including roles and responsibilities, are clearly defined, understood and effective.
 - CO2: Adequate and timely management information is available that facilitates effective decision making.

Internal Audit Report – Orbis Integrated Budget Management

- CO3: Budget management reports contain materially accurate and timely information to facilitate effective budget management.
- CO4: The operating costs of Orbis are identified and apportioned across the three Orbis partners on a consistent basis and are clearly understood. Mechanisms are in place to ensure that all income and expenditure is matched to the correct Orbis partner.
- CO5: Mechanisms are in place to ensure that changes to costs for one partner that are material can be measured and reflected fairly in the agreed contribution ratio.

2.2. This audit did not seek to provide assurance over the following areas, which were excluded from the scope:

- Budget setting;
- VAT;
- Orbis Public Law;
- Pricing Mechanisms.

3. Audit opinion

Partial Assurance is provided in respect of **Orbis Integrated Budget Management**.

This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. We have been able to provide Partial Assurance over the controls operating within the area under review.
- 4.2. We found significant progress has been made in developing a tool that will combine transactions from all three accounting systems to enable budget reports to be produced. The difficult process of combining the three separate accounting systems has been well documented, with appropriate guidance and process maps being made available.
- 4.3. Since the introduction of the new budget monitoring process and integration of Brighton & Hove City Council (BHCC) into Orbis in April 2018, the level of budgetary control is considered by budget managers we interviewed to have reduced. This is in part due to budget managers no longer having clarity over how their budgets have been formed and the budget position, which will make it difficult for budget managers to identify potential budget pressures. Furthermore, while budgets are being assigned at a strategic partnership level, budget managers are being asked to provide responses at an operational level (i.e. staffing in one authority) where budgets have not been apportioned. Budget managers have found it difficult to provide appropriate responses for forecasting in these circumstances, as while they may have sight of the actual costs incurred they are not necessarily aware of whether these are in line with the expected budget. We consider that through the ongoing work being undertaken by the Orbis Finance team to assist budget managers and the further expansion of the new monitoring tool, the level of budgetary control will improve.
- 4.4. The new monitoring tool reports do not provide information in relation to commitments for non-staffing items within the respective accounting systems. We understand this method of reporting has been considered standard practice at Surrey County Council (SCC); however this is not the case for East Sussex County Council (ESCC) and BHCC. We found budget managers do not have access to all three accounting systems and cannot therefore review commitments held at sovereign authorities. Whilst the non-staffing elements are low value in comparison to the gross budget (circa 92% of the Orbis budget is staffing related) the importance of being able to effectively monitor the non-staffing element remains crucial, for which it is clear budget managers rely heavily on commitments.
- 4.5. Where some service areas have had budgets split between Orbis and those referred to as 'managed on behalf of' (MoBo), this has resulted in budgets positions no longer

appearing balanced when viewed in isolation. This is where the costs for a service are within the Orbis budget, but the corresponding recharges are MoBo. While this situation is accepted by Finance and budget managers are still required to monitor against a gross budget, there are concerns that managers have a lack of understanding about the formation of their budgets.

- 4.6. Since the 2016/17 audit of the Orbis Integrated Budget, no progress has been made in the partnership's ability to measure the outputs of Orbis services or in developing a process by which the Agreed Contribution Ratio (ACR) can be reviewed and recalculated. Given the continued budget pressures that all partners are facing, the need for the partnership to be able to react to sovereign authorities requiring additional savings from Orbis activities is of increased importance; with the need for the ability to measure the outputs of services required before the ACR can be accurately recalculated.
- 4.7. All the budget managers we met with throughout this audit, spoke highly of, and clearly relied heavily upon, the work and support provided to them by the Orbis Finance team.

5. Action Summary

| Risk Priority | Definition | No | Ref |
|--------------------------------|--|----|-------------|
| High | Major control weakness requiring immediate implementation | 1 | 1 |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources | 4 | 2, 3, 5 & 6 |
| Low | Represents good practice but its implementation is not fundamental to internal control | 2 | 4 & 7 |
| Total number of agreed actions | | 7 | |

6. Acknowledgements

- 6.1. We would like to thank all staff that provided assistance during the course of this audit.

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|-----|---|--|----------|--|
| 1 | <p>Service Budgets</p> <p>In addition to our audit testing, we met with seven budget holders across Orbis to ascertain their understanding of their budget and the budget position. These discussions were held throughout June and July 2018.</p> <p>It was found that there was confusion and a lack of clarity with regards to how their budget was formed. Managers expressed concern that while they knew what their budget total was for the current financial year, where they now have integrated budgets for three authorities, they are unaware of the detail of how these budgets have been formed and this is making it difficult for them to identify budget pressures in the service and to undertake effective budget monitoring.</p> <p>In addition, while budgets have been assigned at a strategic / partnership level, in some areas budget managers are being asked to provide detailed responses at an operational level where budgets have not been apportioned. Managers have found it difficult to provide responses for</p> | <p>Where budget managers do not have clarity with regards to how their budgets are formed, this has potential to reduce the level of budgetary control, with managers unable to identify pressures within the budget therefore increasing the risk of potential over-spends.</p> <p>Where budgets are not assigned at an operational level, there is a risk that managers will not be able to effectively control their budgets as they would have no awareness of whether expenditure is in line with what is expected.</p> | High | <p>Communicate further guidance to Orbis budget managers, explaining the nature and workings of the Inter-Authority Agreement and the Orbis Joint Operating Budget and provide continued in-person finance support during the bedding in period following the recent addition of BHCC fully to the partnership.</p> <p>Many services are currently in the midst of restructures, once implemented this should help add further clarity for budget holders and their new roles and responsibilities.</p> <p>Roll-out of the budget monitoring tool to all budget holders and undertake a programme of learning and feedback to further refine as required.</p> <p>Ensure that budget managers are not holding on to old, now redundant processes.</p> |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|----------------------|---|--------------------------------|-----------------------------|---------------|
| | forecasting in these circumstances, as while they may have sight of actual expenditure and income, they are not necessarily aware of whether these are in line with what is expected. | | | |
| Responsible Officer: | | Louise Lawson, Finance Manager | Target Implementation Date: | December 2018 |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|-----|--|--|----------|---|
| 2 | <p>Budget Monitoring Reports</p> <p>Since the integration of Brighton & Hove City Council into the Orbis budget, a new spreadsheet based budget monitoring tool has been designed and created by the Orbis Finance team. This tool combines all the transactional data from the three separate accounting systems and is able to produce budget monitoring reports for both operational and strategic levels.</p> <p>However, the monitoring reports provided to budget managers do not provide information in relation to commitments within the respective accounting systems.</p> <p>While this has been considered standard practice at Surrey County Council, this is not the case for East Sussex County Council and Brighton & Hove City Council, where commitments have historically, and continue to be included in non-Orbis budget monitoring, intended to better aid forecasting.</p> <p>In addition, budget managers do not have access to each of the authorities' accounting systems, so it is possible that</p> | <p>Where the responsible budget managers are not able to approve items of expenditure, there is an increased risk of over-spends against budgets as those approving items may not have sufficient oversight of the budget position.</p> <p>Furthermore, while the level of committed non-staffing expenditure is low level compared to the overall Orbis joint budget, where monitoring reports fail to provide information with regards to commitments, this has potential to reduce the reliability of budget forecasts which increases the risk of unforeseen under or over-spends against Orbis budgets.</p> | Medium | <p>To continue providing commitments in managers' "MoBo" management accounts as now.</p> <p>The level of recorded commitments in the Orbis Operating Budget is relatively immaterial to the overall budget. With the use of the risk based approach to monitoring, including commitments may not have a material impact upon the reasonableness of monitoring and forecasts. The team will continue to explain and give further guidance on the nature of the expenditure in the Orbis Operating Budget.</p> <p>Ensure that approval processes are refined where required to ensure on-going budget accountability and assurance.</p> |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action | |
|----------------------|---|--------------------------------|-----------------------------|---------------|--|
| | they would not be aware of all commitments against their budget. As a result, the approval of expenditure within accounting systems will not necessarily be sent for approval to the responsible budget manager, resulting in a reduced level of control both over expenditure approvals and budget management. | | | | |
| Responsible Officer: | | Louise Lawson, Finance Manager | Target Implementation Date: | Implemented | |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action | |
|----------------------|--|--|-----------------------------|---|--|
| 3 | <p>Changes in Budget Monitoring Process</p> <p>Some budget managers expressed concerns over the change in budget monitoring process from that which they had experienced previously at their sovereign authorities.</p> <p>Managers explained that previous budget monitoring involved one spreadsheet with all the information they needed in one place and provided them with an opportunity to add comments. The new process now involves a number of different spreadsheets, which managers have felt are less detailed and is also making the process more resource intensive for both finance officers and budget managers.</p> | <p>With budgetary information no longer being in one place for budget managers, there is potential that information may be missed or not included in decisions which may increase the risk of budgetary control being less robust.</p> <p>Where the budget monitoring process is becoming more resource intensive, there is a risk that the Councils could be less efficient, with managers being required to spend more time on budget monitoring and less on achieving service objectives.</p> | Medium | <p>Providing services to three organisations rather than just one is inevitably leading to changes in budget manager's responsibilities and is more complex as the transactions are held on three different systems.</p> <p>Roll-out of the budget monitoring tool as per current plans to all budget holders. This tool holds both budgets and actuals in one place. Undertake a programme of communication & learning and seek feedback to further refine as required.</p> <p>The Orbis Finance team will continue working to make things easier for budget managers by explaining the new ways of managing Orbis budgets and addressing their concerns and overcoming cultural resistance where it exists.</p> | |
| Responsible Officer: | | Louise Lawson, Finance Manager | Target Implementation Date: | Implemented | |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|-----|---|--|----------|---|
| 4 | <p>Budget Guidance</p> <p>Budget managers across Orbis receive guidance and support from dedicated finance officers through monthly budget monitoring meetings and any additional correspondence that may be required.</p> <p>Since the integrated budget monitoring exercise was introduced, no formal guidance has been issued to budget managers to explain the information that they are receiving or clarify whether responsibilities around budget monitoring have changed. Furthermore, the assumptions to form a budget have not been documented along with the differences in approach to budget monitoring.</p> <p>Given the change in approach to budget monitoring for some managers across Orbis, the introduction of guidance on the new reporting methodology and changes to the process would help to clarify expectations and responsibilities for budget managers.</p> | <p>With no formal guidance issued to budget managers on the new budget monitoring process, there is a risk that budget managers won't be able to manage their budgets effectively resulting in budgetary control for Orbis being adversely affected.</p> | Low | <p>At the time of the audit, some managers had only been involved in one month of Orbis monitoring, or were responsible for budgets including BHCC services for the first time, or budgets had changed significantly.</p> <p>A priority for the finance team has been to enable budget manager self-sufficiency and significant progress has been made on this with a new tool being used from Period 3 monitoring. As well as ongoing in-person support to budget managers the team will prepare formal written guidance in line with the recommendations.</p> |

Internal Audit Report – Orbis Integrated Budget Management

| | | | |
|----------------------|--------------------------------|-----------------------------|--------------|
| Responsible Officer: | Louise Lawson, Finance Manager | Target Implementation Date: | October 2018 |
|----------------------|--------------------------------|-----------------------------|--------------|

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|-----|---|--|----------|--|
| 5 | <p>Measuring Orbis Level of Service</p> <p>In the 2016/17 audit of the Orbis Integrated Budget, an issue was raised regarding the lack of appropriate mechanisms to measure the level of service provided to each of the authorities within Orbis. No progress to rectify this issue has yet been made, nor has the issue been noted on the Orbis risk register.</p> <p>Without the ability to measure output, it becomes increasingly difficult to identify any changes in service levels being provided, which would need to be taken into account should one of the authorities make a decision to increase or decrease its use of Orbis services.</p> <p>Given the continued pressure to make savings across all authorities, by not being able to measure outputs, it makes it difficult to identify whether savings are sustainable or whether a reduction in costs would result in a lower standard of service being provided to authorities.</p> | <p>By not being able to measure outputs for Orbis there is potential risk that it would not be possible to identify whether one or two authorities is in receipt of more usage of services than the other, resulting in Orbis partners being disadvantaged from one another.</p> | Medium | <p>The three Chief Officers will continue to run Business Partner forums, within their own sovereign authorities, in order to monitor the performance of Orbis services received by each partner.</p> <p>This will then be discussed through the Joint Management Board to identify any potential need to react to pressures within one or more of the partner organisations.</p> <p>A performance dashboard will be developed for reporting to the Orbis Joint Committee.</p> |

Internal Audit Report – Orbis Integrated Budget Management

| | | | |
|----------------------|---|-----------------------------|--------------|
| Responsible Officer: | Kevin Foster, Chief Operating Officer (ESCC) Dave Kuenssberg, Executive Director of Finance & Resources (B&HCC) Michael Coughlin, Executive Director of Customers, Digital & Transformation (SCC) | Target Implementation Date: | October 2018 |
|----------------------|---|-----------------------------|--------------|

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action | |
|----------------------|---|---|-----------------------------|--|--------------|
| 6 | <p>Reviewing the Agreed Contribution Ratio (ACR)</p> <p>The Inter Authority Agreement (IAA) sets out the approval process and the frequency of when the ACR should be reviewed. However, the process by which this would be reviewed and recalculated has not been documented.</p> <p>This was discussed with officers within Orbis Finance who explained that in order to be able to recalculate the ACR, Orbis would need to be measuring the level of service for each authority to ensure that the ACR can be recalculated accurately.</p> | Without processes in place to be able to review and recalculate the ACR there is a potential risk that one or two partners may be subsidising the other, which would result in authorities becoming disadvantaged by the Orbis arrangement. | Medium | <p>Clarification with regards to the occasions when the Agreed Contribution Ratio will be reviewed and adjusted will be documented and agreed by all partners.</p> <p>We expect this to form part of the annual business planning process, so it can be aligned with sovereign budget setting processes, and in the short term, the three partners will review and agree any changes to the existing method of how the ACR will be calculated.</p> | |
| Responsible Officer: | | <p>Kevin Foster, Chief Operating Officer (ESCC)</p> <p>Dave Kuenssberg, Executive Director of Finance & Resources (B&HCC)</p> <p>Michael Coughlin, Executive Director of Customers, Digital & Transformation (SCC)</p> | Target Implementation Date: | | January 2019 |

Internal Audit Report – Orbis Integrated Budget Management

| Ref | Finding | Potential Risk Implication | Priority | Agreed Action |
|-----|---|--|----------|--|
| 7 | <p>MoBo budget splits</p> <p>In order to ensure that each authority's costs and income are apportioned correctly, exercises have been undertaken to split budgets into Orbis budgets and those that are considered sovereign. These budgets are referred to as 'managed on behalf of' (MoBo).</p> <p>While this exercise is needed to ensure that costs are apportioned correctly, it has resulted in some budgets having expenditure and income for services split between MoBo and Orbis. As a result, some budget positions no longer appear balanced, with some showing over or under spend positions.</p> <p>In order to resolve this, Orbis Finance make year-end adjustments to balance the position between Orbis and MoBo budgets. However, budget managers have raised concerns that they will not have a true position of their budget until the end of the financial year.</p> | <p>If budget managers do not have sufficient confidence in the budget monitoring process there is a risk that they will no longer engage with finance officers and budgetary control is reduced with managers not providing appropriate input for forecasting.</p> | Low | <p>Work will be undertaken with budget managers, through the use of continued monitoring and forecasting of internal recharges through the risk based approach and the support provided by the Orbis Finance team, to further improve the understanding of the Orbis Operating and MoBo budgets.</p> |

Internal Audit Report – Orbis Integrated Budget Management

| | | | |
|----------------------|--------------------------------|-----------------------------|-------------|
| Responsible Officer: | Louise Lawson, Finance Manager | Target Implementation Date: | Implemented |
|----------------------|--------------------------------|-----------------------------|-------------|

Appendix A

Audit Opinions and Definitions

| Opinion | Definition |
|------------------------------|---|
| Substantial Assurance | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Reasonable Assurance | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Partial Assurance | There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk. |
| Minimal Assurance | Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives. |

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

This page is intentionally left blank