

Internal Audit Report Sandwell Children's Trust – Financial Outturn 2024/25

Contents:

1. Executive Summary and Recommendations
2. Findings
3. Action Plan

Report Distribution:

Emma Taylor – Chief Executive, Sandwell Children's Trust
Tara Malik – Director of Resources and Governance, Sandwell Children's Trust
Alex Thompson – Executive Director, Finance and Transformation, Sandwell Council
Sally Giles – Executive Director, Children and Education Services
Claire Spencer – Service Director, Finance, Sandwell Council

Draft Report Issued: 8 January 2026

Final Report issued: 20 March 2026

1 Executive Summary

Introduction

Following the late notification to the Council of a significant increase in the Trust's outturn overspend position, an internal audit review has been undertaken in order to understand how this situation arose. The agreed Terms of Reference were as follows:

<ul style="list-style-type: none">• The Contract between the Trust and the Council includes the obligation of the Council to make available sufficient resources to ensure the Trust can meet its day-to-day financial commitments as a going concern where cash flow shortages arise.
<ul style="list-style-type: none">• The Council is reliant upon the Trust to maintain accurate and timely accounting records in order that a regular assessment of the financial position of the Trust is known to the Council.
<ul style="list-style-type: none">• Therefore, the late notification of the significant increase in the Trust's outturn overspend position will have implications for the Council's finances.
<ul style="list-style-type: none">• In accordance with the requirements of Section 151 of the Local Government Act 1972, the Executive Director, Finance and Transformation is the designated statutory officer with responsibility for ensuring the proper administration of the Council's financial affairs.
<ul style="list-style-type: none">• In discharging this responsibility, they are obligated to assess the financial position of the Council on an ongoing basis. In making such assessment they take account of expenditure, reserves, liabilities, cash flow projections and future commitments. This covers a period of at least 12 months from the date of approval of all relevant annual financial statements.
<ul style="list-style-type: none">• As indicated above, this late notification of a significant increase in the Trust's outturn position will now have implications for the Council's finances. The Board recognise the significance of the situation and the broader context regarding the cumulative deficit.
<ul style="list-style-type: none">• A review had already been undertaken by the Trust and a report produced. This review builds upon that report.

Scope of review

<ul style="list-style-type: none">• The review considered the accuracy of recent outturn estimates and the reporting of these through the formal routes.
<ul style="list-style-type: none">• It reviewed when it became known to the Trust that the outturn had been significantly underestimated, and how soon this was reported back to the Council.
<ul style="list-style-type: none">• It assessed the adequacy of the internal forecasting processes within the Trust, and explored the causes that led to the underestimation, and if these could have been identified at an earlier stage.
<ul style="list-style-type: none">• It considered the financial information provided to the Operational Partnership Board during this period.

- It involved a review of all key documentation, minutes and other relevant records, alongside meeting with a number of Trust and Council officers.

The intended outcome of the review was to provide assurance to the Council and the Trust on the adequacy of the internal financial control framework regarding the areas that form part of this review. It will also set out the adequacy of the response to the outturn position.

A number of factors impacted upon the timeliness of this review, not least an unannounced Ofsted inspection, during which the review was understandably paused for a number of weeks. The annual external audit also took place during this period, alongside time taken in information being collated and in gaining access to officers and other records.

Overall Conclusion

Our audit provides limited assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

- This conclusion reflects the significance of the situation that arose during the period covered by this report.
- We note that the Trust had identified the errors and started to put in place corrective action prior to this review commencing. This included a number of additional control mechanisms in order to ensure that this, or similar circumstances, do not arise again in the future.
- We plan to revisit this matter later in the year, in order to determine if these improvements have become firmly embedded into the Trust's processes, and at such time we will then reassess the level of assurance.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance had been identified by the Trust and improvements were required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We identified the following key areas where improvements had needed to be made:

- There was a significant variation of approximately £3m reported in the Trust's 2024/25 financial year-end deficit outturn against the last forecast outturn generated in Period 8. This was primarily as a result of three large manual payment runs undertaken during the year, that had not been subsequently recorded in the ledger and an overstatement of income due to an accrual error in the prior year.
- These issues went undetected for a significant period of time and were not identified by the Trust until after the year-end, predominantly as a result of not following the month-end balance sheet closedown accounting practices such as the maintenance of control accounts and reconciliations, that were in place.

- There were also a lack of detailed procedure and process notes for officers to refer to, for example in how to process manual payment runs and ensure that they were captured in the ledger.
- This was set against the backdrop of the introduction of a new core financial system within the Council, and as used by the Trust, which saw a reduction in the level of accurate financial information that was available for a period of time.

These issues will also be reported to the Council's Audit and Risk Assurance Committee and the Trust's Audit and Risk Committee.

Our detailed findings are set out in section 2 of this report and are accompanied by the below recommendations. We are aware that the Trust had already identified a number of the issues that needed addressing, had recently recruited a new Head of Finance and had started to put in place a number of improvement actions.

Recommendations

R1	Full balance sheet, reconciliation and control processes (including cash, accruals, suspense accounts, reconciliations and any manual payments) should be undertaken each month. These should then be reviewed and signed off by the Head of Finance.	Red
R2	The updated procedure and process notes for the month-end and manual payments process should be reviewed taking into account the comments in this report. They should then be subject to regular review, initially on a quarterly basis in order to ensure that they are, and remain, effective. Once confidence can be assured that they are operating effectively, they should be subject to review on at least an annual basis.	Red
R3	Ideally the need for future manual payments runs should be kept to a minimum. Where they may be required, then immediate action should be undertaken in order to ensure that these are reflected in the ledger and to help inform accurate forecasting.	Amber
R4	The Finance Support Specification Schedules between the Council and the Trust should be reviewed and updated, then formally approved and adopted by both parties. They should then be subject to at least annual review.	Amber
R5	While it is our belief that any level of finance training to board members would not have enabled them to identify the unique set of circumstances that led to this matter arising, general finance related training should still be provided for all board members upon their appointment and as part of their induction. This should be followed by annual refresher training sessions.	Amber
R6	The resourcing of the Trust's finance team arrangements should be kept under review in order to ensure that it is sufficiently resourced and has the necessary skills and experience to carry out its role. Should there be any knowledge or skills gaps identified, then steps should be taken to address these. This should then be subject to ongoing review.	Amber

R7	Following the agreement of the contract sum for the next three years, the Trust should ensure that its financial planning includes strong forecasting and budgetary control monitoring going forward, in order to ensure that it can remain within budget over the three-year period.	Amber
R8	The Trust and the Council should continue to work together so that there is clarity over the continuing development of Oracle Fusion, and that its benefits can be fully realised. The ongoing Trust role on the Oracle Steering Committee will be key to this.	Amber
R9	Monthly supervision meetings should be undertaken between each member of the finance team and their respective line manager. The template should be used to record all key discussion areas. These should then be reviewed and signed off by both officers and retained.	Amber

Acknowledgment

As part of this review, we met with a number of officers, elected members and board members at both the Trust, and the Council. We would like to record our thanks to all those concerned in particular:

Sandwell Children's Trust

Chair of the Board
Chair of the Finance and Infrastructure Committee
Chair of the Audit and Risk Committee
Chief Executive
Director of Resources and Governance
Former Head of Finance
Head of Transformation
Principal Accountant
Finance Business Partner
Senior Accountant
External Consultant

Sandwell Council

Statutory Deputy Leader, Cabinet Member – Finance & Resources
Cabinet Member – Children and Families
Executive Director – Finance and Transformation
Service Director - Finance
Former Assistant Finance Business Partner
Assistant Finance Business Partner
Finance Liaison Project Manager (Oracle Fusion)

2 Detailed Findings

- 2.1 In June 2025 the Council was informed by the Trust that the provisional financial outturn for 2024/25 would be significantly higher than had previously been forecast and that the deficit would now stand at £8.8m rather than £5.8m.
- 2.2 This was predominantly a result of three large manual payment runs that had not been incorporated into the ledger and thereby the financial forecasts, and an instance whereby certain income had been both accrued and invoiced for. The lack of adequate financial information reporting and month end balance sheet maintenance including reconciliations resulted in these issues going undetected until after the year-end.
- 2.3 When these significant variances first came to light, the Trust commissioned its own report to look into these matters. That report set out the details behind each of these issues and made recommendations that the Trust were putting in place. We have reviewed this report and believe it captured the substantive issues. While we make reference to those issues here, the full details can be found in the separate report.

Manual Payments

- 2.4 A significant element of the outturn position arose as a result of three large payment runs processed manually by the Trust during 2024/25 which had not been transferred/entered into the GL and subsequently were not included in the period 8 financial monitoring. Therefore, they did not form part of the forecast out turn calculation.
- 2.5 The Trust has the ability to make emergency payments when it is unable to use its standard payment process. In such cases, a payment file is prepared and sent to the Council's finance team, listing all payments that need to be made. The payment file is then uploaded to Bankline, the online banking system, and the payments would be processed.
- 2.6 The Council does not manage the Trust's ledger directly. To ensure manual payments are properly recorded the Trust has a number of options for updating the ledger:
- Simplified loader set to clearance mode, so the transactions are posted to the ledger, but no bank payments are made.
 - Money Transfer Forms (DF868) - usually one form should be completed for each payment. However, if multiple payments originate from the same cost centre, they can be grouped together, provided a supporting spreadsheet with full details accompanies it.
 - Journal Entries – the Trust can also update its ledger by creating a journal entry that credits the bank and debits the relevant cost centre.
- 2.7 Although these manual payments not appearing in the ledger were not identified until year-end, as highlighted in the Trust commissioned report, they could have been processed correctly earlier. While a large manual payment run had not taken place for some time, the Trust were aware of how to account for these in their ledgers but did not follow this process. If this had taken place with regards to these three-manual payment runs, the increased deficit would have been identified and reported much sooner, potentially allowing for a level of mitigating actions to be considered.

- 2.8 The need for the three manual payment runs, arose due to a variety of operational issues resulting in a delay to each of the payment runs being able to be made through the usual payment route. This took place during a particularly busy period with work underway with regards to preparation for the introduction of Oracle Fusion. Therefore, in order to expedite these payments, the Trust made a decision to make them using the manual payments process outside of the system. However, these payments were then not subsequently transferred into the ledger.
- 2.9 These manual payment runs consisted of the following three payments:

April 2024	£332,000
May 2024	£907,000
October 2024	£1,493,000
	£2,732,000

2.10 The delay in recognising these unprocessed manual transactions was due to a lack of action, management oversight and insufficient month-end processes such as reconciliations being undertaken during the 2024/25 financial year.

2.11 We did note that the report commissioned by the Trust indicated that:

“Following the initial two system failures in April and May, the Trust contacted the Council’s Treasury Team to ask how transactions would be processed into SBS. No reply was received from the Council, this was not followed up by the Trust and therefore ledger transactions relating to the payments made were not processed by either the Council or the Trust”.

2.12 However, as part of our review we noted that on 9 May the finance team at the Council had included within an email to the Trust, instructions on how to transfer the amounts paid onto the ledger. It does appear that this was not then actioned upon and may have been subsequently overlooked.

Accruals

2.13 The second key contributing factor was that certain income had been both accrued and invoiced during the year. During the 2023/24 year-end process, an income accrual of £720,000 for complex needs was recorded on 25 March. This amount was unusually high due to a backlog of approvals received in the final quarter.

2.14 Subsequently, invoices totalling £673,218 were raised on 15 April 2024 and were also included in the 2023/24 accounts. This resulted in the same income being recognised twice (once through the accrual and again through the invoicing) leading to an overstatement of revenue.

2.15 Again, such an error should have been detected if routine month-end standard accounting procedures and reconciliations were in place. As noted in the Trust commissioned report other less material positive income variations ultimately reduced the overall reported variance to approximately £450,000.

2.16 An examination of the accrual correction spreadsheet showed the file to be dated 1 August 2024. This was raised with the Trust's finance team at that time but it was not rectified until year-end. It was acknowledged by the Trust that this could have been actioned earlier.

Budget Monitoring and Oracle Fusion

2.17 During the 2024/25 year the Council's Oracle E-Business Suite (EBS) system was replaced with cloud-based Oracle Fusion, going live in October 2024. The Trust was actively involved in the preparation towards go-live and participated in User Acceptance Testing.

2.18 Following go-live a number of issues around data integrity were experienced by both the Council and the Trust. As a result of this the Trust put on hold monthly budget monitoring processes from September 2024 (period 6).

2.19 It was understood by the Trust that advice from the Fusion Implementation Team, indicated that information produced by the system should not be relied upon due to such data integrity issues. However, there did appear to be an element of confusion and a lack of clarity regarding what financial information was initially available, or later became available, in what format and when.

2.20 However, while there were initial issues experienced with Enterprise Performance Management (EPM) and the reporting system was not fully functioning as it should, the information held on Oracle was, by December 2024, considered to be accurate by the Council. While some issues were still being experienced, information could be extracted from Oracle Fusion into a spreadsheet in order to provide suitable information for budgetary control purposes.

2.21 It is now understood that similar further financial information being transaction listings for both income and payments would have also been available to the Trust. Although again this would involve the Trust extracting the transactional information it would require, into a workable spreadsheet format.

2.22 The Trust's confidence in the accuracy of Oracle Fusion data was not restored until May 2025, when the Trust recommenced producing financial reports. Whereas by November and December 2024, Council teams were actively using transaction reports from the general ledger to validate data.

2.23 The Trust also reported that control accounts did not balance at year-end. However, we noted that the Trust operated with two balance sheet cost centres, which may have caused confusion during migration and payroll allocations. Reconciling these requires combining the two and determining correct splits, which is complex but manageable.

2.24 The receivables reconciliation was particularly challenging due to system limitations and the delayed reporting functionality. Fixes identified during UAT and Hypercare at the Council level were applied to the Trust where relevant. Some process-driven rules may not have been automatically applied, but these were not viewed as material and did not affect the financial accuracy.

- 2.25 The system implementation partner noted that while they flagged unreliable data sets, these warnings were generic and not specific to the Trust. If the Trust had issues with EPM, they could have reverted to general ledger-based monitoring, as all finance teams did within the Council.
- 2.26 This also impacted upon the ability for the Trust to carry out a robust level of forecasting, as for a period of time Oracle Fusion reporting data was not used. Instead, during this period finance reports relied on figures from the placement workbook which sat outside of the system. In such cases, there is a risk that not all information is captured. At the time of our review an updated process was being generated in order to ensure that this was more systems led. During this period, it did remain easier to manage areas of forecasted spend that remained consistent, such as staffing and overheads.
- 2.27 There were also a range of other factors such as reduced team capacity through vacancies, loss of key personnel during system testing and other staff absences during this period.
- 2.28 In summary, this lack of confusion and clarity between both parties regarding the information available through Oracle Fusion, the failure to complete basic month-end closedown processes and staffing issues all contributed to the delays in finalising an accurate outturn position.
- 2.29 An officer from the Trust is a member of the Council's Oracle Steering Committee, and this role will be essential in ensuring that the Trust remains informed of the ongoing developments within Oracle Fusion.

Notification of the financial outturn

- 2.30 The Trust prepared a chronology of events covering the period pre-May to June 2025 detailing how it responded to the situation in order to be able to inform the Council with certainty on an accurate provisional financial outturn.
- 2.31 This sets out within the Trust when the Head of Finance first notified the Director of Resources, when an external report was commissioned, when the Operational Performance Board was initially made aware that there was an issue materialising, when an accurate outturn position was confirmed and when key board members and the Council were informed.
- 2.32 We also discussed the notification of this matter with key members of the Trust's Board. This activity took place within a three-week timeframe, and we are satisfied that once it came to light, the issue was dealt with promptly within the Trust and reported back to the Council. However, this does not take away from the significant period of time during which the issue remained undetected within the Trust.
- 2.33 As part of the above process, and in order to provide the Council with information on the eventual outturn position for inclusion (as a wholly owned company) within the Council's outturn report, the Trust then sent a very brief email message to the Acting Assistant Director of Finance at the Council, late in the evening of Friday 6 June giving the Trust's provisional outturn figure for 2024/25 as a deficit of £8.788m.

- 2.34 Taking into account the significant and unexpected increase in the deficit and the impact this would have on the Council's own finances, sending such a brief email with no further detail, late on a Friday, it is considered that from the outset a more detailed line of communication through the formal contract monitoring process and route should have been taken.
- 2.35 However, over the following days further and more detailed rounds of communication were undertaken at all levels between the Trust and the Council. Including the Chair of the Trust writing to the Leader of the Council, and in detailed reports going through the Trust Board, Strategic Partnership Board, Operational Partnership Board and the Finance and Infrastructure Committee
- 2.36 Also, the Board members who we met with as part of this review, expressed their concern regarding the issue that had arisen, were fully aware of its impact and were committed to ensuring that the necessary improvements were made

Financial information as presented to the key stakeholder groups

- 2.37 Monthly financial information is regularly reported at various levels through a number of groups, particularly the following:
- Trust Board
 - Strategic Partnership Board
 - Operational Partnership Board (OPB)
 - Finance and Infrastructure Committee
- 2.38 We reviewed the relevant finance reports and their accompanying narrative as presented to these groups during the period in question. Up until September 2024 the monthly finance report was presented in a detailed report format. From October 2024 this moved to a presentation slide pack format. This was following post go-live of Oracle Fusion and showed a drop in the level of information available.
- 2.39 As an example, below we set out the information as presented to the OPB which meets monthly and consists of a number of senior officers from both the Trust and Council. The meeting has a standing agenda item on Finance and Budgets, and the monthly finance report is presented. We reviewed how and when financial information was reported to the board during the period of time in question. We noted:

7 January 2025

The Financial Report as at the end of Period 8 (November 2024) was presented at this meeting, with an outturn forecast of a deficit of £5.864m.

The report also noted that the Trust rely on the Council to provide the EPM system which allows the production on monthly financial statements. Also, that the Council were transitioning from Oracle SBS to Oracle Fusion involving a phased "go-live" of individual modules. The EPM (financial reporting) module went live on 4th November.

The minutes of the meeting note that ongoing issues with Oracle Fusion meant a full income and expenditure statement was not available.

4 February 2025

The outturn for Period 9 was now forecast to be a deficit of £5.744m and the report noted that the Trust plan to produce full accounts from Oracle Fusion as soon as is practicable and continue to work closely with the Council to ensure progress towards a resolution is unified.

The minutes of the meeting note that ongoing issues with Oracle Fusion meant a full income and expenditure statement was still not available. The focus remained on placements, as the most volatile area of the budget. It was also noted that the main issue was the integrity of transactional data in the system and month-end processes not being completed properly. There were issues with payroll journals, cost centres, duplicate journals, etc. creating a margin of error of up to 30%. Also, that the data in Oracle was not reliable enough to produce reports through the EPM module or to manually extract the data and produce reports manually.

Concerns were also raised about whether the issues would be resolved in time for year-end to enable the Trust to produce annual accounts for the statutory audit. It was confirmed that the Council had a project group trying to resolve the discrepancies. The Trust sought assurance that the issue was recognised at the highest level within the Council, particularly approaching year-end. The Council confirmed it was high priority and they had brought in additional support to resolve the issues by year-end.

4 March 2025

The comments in the finance report and in the minutes regarding Oracle Fusion remained as previously, and the outturn forecast for period 10 was now at £5.706m.

1 April 2025

The comments in the finance report regarding Oracle Fusion, again remained as previously, and the outturn forecast for period 11 was now £5.789m. The minutes of the meeting now noted that OPB sought assurance that progress was being made on issues related to the implementation of Oracle Fusion, it was noted that resolution timescales and updates were now being published on the intranet on a weekly basis and that the Trust's Strategic Lead for Corporate Governance, Technology & Information Management was part of the Steering Group and provided updates on progress.

6 May 2025

A finance report was not presented, instead a verbal update on the draft year-end financial position was given. The minutes of the meeting note that year-end reporting had not been finalised due to ongoing issues with Oracle Fusion. The Trust was having to do additional work to validate the data using third party evidence. The Trust hoped to have a confirmed outturn position by the end of May to report to the Board / Council and for the Trust's statutory audit. The deficit position was expected to be above the £5.8m originally forecast.

3 June 2025

As in May a finance report was not presented, instead a verbal update was given. The minutes note that the year-end report was nearing completion and the outturn was expected to be above the £5.8m deficit previously forecast. The Trust would aim to have the report finalised by the end of the week (Friday 6th June). The minutes do not note any further discussion on the what the change to the deficit was likely to be.

1 July 2025

By now the size of the deficit was known and had been reported back to the Council and the Trust had also commissioned its own analysis of the key factors behind this, and a report was attached to the finance report in the OPB agenda pack. The covering report for the finance report stated that the draft outturn for the Trust against the contract sum for 2024/25 was £89.6m which equated to an in-year deficit of £8.788m. This was a further deterioration of £2.965m compared to the forecast outturn provided in the October 2024 (AP8) financial monitoring. The report goes on to note that the increased variance from P8 Forecast projection was mainly attributable to two key factors:

- Manual payment runs to placement providers not posted to the ledger
- Correction of an overstatement of income in the 2023/24 accounts

2.40 As can be seen from the above, there was a lack of detailed financial information regarding the forecast presented to OPB from Period 8 November 2024 until June 2025. The main causes behind this are the given throughout this report.

2.41 An Action Log is also completed following each OPB meeting and presented for updates at the following meeting. Each action is assigned to an officer and has a deadline/update date and comments/responses section for completion.

2.42 In January 2025 the log noted that an action for the Trust to discuss the forecast outturn with the Council had been delayed due to a staff absence within the Council, and that a meeting would be arranged as soon as the staff member has returned. In February 2025 this action remained but did not appear on future logs, and it was unclear if this had been resolved. The situation that later arose would indicate that this was not resolved and was not pursued further through the action log.

2.43 The minutes of the Trust Board meeting of 28 January 2025 indicate that when the Finance Update for December 2024 (AP9) was presented, it was flagged that ongoing issues with Oracle Fusion meant that a full income and expenditure statement was still not available. Discussion then took place about how the issues with Oracle Fusion were affecting financial analysis. The Head of Finance reported the primary issue was data integrity and month-end processes not being completed properly and that there were issues with payroll journals, cost centres, duplicate journals, etc.

2.44 At that time the Board did register their strong concerns about the situation. It was also confirmed that the matter would be raised at the next OPB meeting and the Board would be kept updated, which it continued to do so as referenced above.

2.45 This demonstrates that the Board were seeking to ensure that corrective action could be taken. Obviously, at this stage they were unaware of the wider issue regarding the manual payment runs not being entered into the ledger and the significant impact this would have on the eventual financial outturn.

2.46 At the next Board meeting on 25 March 2025 as part of the discussion on the latest finance report and Oracle Fusion update, reference was made to some issues still outstanding with both finance and HR, including the inability to run accounts, and a note was made that "the LA was in the same position".

Contract negotiations

2.47 The late and unexpected increased deficit arose at the same time as the current contract negotiations between the Council and the Trust were underway. As there was already a significant estimated deficit outturn forming part of these negotiations, the late increase did add an extra layer of complexity and sensitivity to the negotiations, particularly when taking into account the impact that this would have on the Council's own finances. The ongoing discussions around the contract negotiations also placed an added pressure on the focus of the finance discussions taking place at board and other key stakeholder groups level, during the period when this situation arose.

2.48 Ultimately an agreement was reached between the Council and the Trust. A sum including an additional amount to offset the cumulative deficit incurred by the Trust up to 31 March 2025 (incorporating the increased deficit outturn in 2024/25) was subject to Cabinet approval on 15 October 2025 and approved as part of the Medium-Term Financial Strategy by Council on 4 November 2025 as follows:

	2025/26 (£)	2026/27 (£)	2027/28 (£)	Total (£)
Contract sum	93,925,636	95,801,391	97,900,532	287,627,559
Additional Sandwell deal	551,000	551,000	551,000	1,653,000
Additional sum to offset the cumulative deficit	6,597,253	6,597,253	6,597,252	19,791,758
Total	101,073,889	102,949,644	105,048,784	309,072,317

2.49 While in recent years, there has been a challenge for the Trust in operating within its previously arranged budgets, the Council's expectation is that the Trust will now manage its budget over the coming three-year period, ensuring that any overspends incurred in any particular year are offset in full by underspends in other years.

Support Service Specification between the Council and the Trust

2.50 In 2018 the Council and Trust entered into a Support Services Agreement in relation to the support of Children's Services being provided under the Service Delivery Contract. Underpinning this were a series of Finance Support Specification Schedules including Part 2 on Treasury Management.

2.51 In paragraph 4.1.10 of the Treasury Management section it states that "SMBC Treasury Management is responsible for undertaking monthly bank reconciliations on behalf of the Trust." We understand that the Council began to review these schedules in 2021 in order to work through a number of issues. It appears that at that time a comment was made alongside paragraph 4.1.10 stating "This (the reconciliation) is not done by Treasury it should never have formed part of this agreement". However, no further action was taken at the time to clarify this (and other comments made on the specifications) and they were not updated to reflect the current practice.

2.52 While the corporate history on this is not strong, we understand that following the introduction of the specifications in 2018, it was quickly agreed that the Trust would undertake the monthly bank reconciliations. This was as a result of the Council not

having access to the Trust systems and data. Therefore, the Trust has continued to complete the reconciliations in the intervening years, without this being reflected in the Finance Support Specification Schedules.

- 2.53 However, ideally there would be an up to date and comprehensive Support Services Agreement and accompanying Schedules in place between the Council and the Trust in order to prevent any future understanding regarding who is responsible for each activity.

Board Training

- 2.54 As indicated above, as part of our review we met with a number of key board officers. As part of this we enquired as to if they had received specific finance related training as part of their induction with the Trust. While each of those we spoke to had extensive experience (including in finance matters) at a high-level in a range of senior roles at other organisations, and that finance officers were always available to support them should they have raised any particular finance related questions, they had not received specific finance training related to the Trust upon their appointment.
- 2.55 It is considered good practice for board members, regardless of any related prior experience, to be provided with finance related training specific to the Trust, when taking up their appointment as board members.

Supervision notes

- 2.56 During a meeting held between the auditors and key finance staff, it was indicated that issues regarding the non-completion of reconciliations and around Oracle Fusion had been raised and discussed on a number of occasions with the senior finance officer.
- 2.57 The Trust has a monthly supervision process where the line manager meets with their officers individually to discuss a range of issues including wellbeing, workloads and performance, development and training.
- 2.58 These discussions are then recorded on a supervision template and signed off by both officers. However, we note that the finance officer responsible for the completion of the reconciliations only had two supervision records completed during the period in question, being 2 November 2024 and 27 March 2025, neither of which particularly detailed or captured the issues that form the basis of this report.
- 2.59 We also reviewed the supervision records of the senior finance officer in their meetings with their respective director. These has been completed on a monthly basis and were captured in comprehensive detail the range of issues prompted by the supervision template. While in February 2025 they do highlight that the senior finance officer was unable to undertake budget monitoring due to the ongoing issues around the implementation of Oracle Fusion, they do not make reference to the lack of month-end reconciliation processes taking place. This mirrored the comments made by the director, that this specific matter had not been brought to their attention during the year.

Procedure/process notes

- 2.60 The report commissioned by the Trust noted that ‘the variations primarily related to a lack of adequate process documentation for manual payments and a failure to routinely manage balance sheet performance’. These gaps were identified as key areas requiring attention to strengthen financial governance.
- 2.61 Our review confirmed that the process documentation that had been in place was not particularly robust, with elements of it being more of an operational manual in its nature.
- 2.62 However, we noted that following these issues coming to light the procedures notes had since been updated and processes that were previously undocumented, such as a process for manual payments had now been prepared and were in use. Although, in our view opportunities still remained to further develop these procedures to ensure completeness and consistency across all financial activities.
- 2.63 One notable gap was the absence of standardised templates within the documented procedures. We would suggest such templates include an Ad-Hoc Payments template detailing the required information for the initial steps and a spreadsheet for system failures to capture the submission to the Council.
- 2.64 Also, there were not always clear expectations for the completion of each stage for this process as the word ‘should’ is often used, rather than ‘must’. Additionally, there was no detailed documented procedure for budget monitoring, aside from a high-level overview within the Month-End Closure Procedure.
- 2.65 Several procedures, including month-end closing, bank reconciliations, and manual payment processes, show they became effective on 1 March 2025. However, the document details say they were actually updated in June/July 2025.
- 2.66 We also noted that the updated Manual Payments Procedure included multiple levels of approval and sign-off, ranging from Finance to Senior Accountant, Principal Accountant, and Head of Finance. While this structure appears appropriate, it was unclear how approvals and sign-off were to be recorded and maintained for audit trail purposes. Similarly, the reconciliation spreadsheet included a section for sign-off with job title and name but did not capture the date, limiting its effectiveness as an audit record.
- 2.67 Finally, the Bankline document appeared to be more of an information guide rather than a procedural document, with no clear link between this guide and the Manual Payments Procedure, despite Bankline being used to process payments. Furthermore, the document was undated and lacked version control information, reducing its reliability as a reference source.

3 Action Plan

Trust Response

We acknowledge the limited assurance audit opinion contained in the Executive summary and note that the internal auditors reflected that their opinion related to a specific period of time (FY 2024/25). Internal Audit recognised that the Trust had identified the errors and had already started to take corrective action prior to the review commencing.

We will continue to build on the actions and improvements made to date to address the specific weaknesses identified. The Trust's view is that the audit opinion is not indicative of any weaknesses in the wider internal control environment, which the Trust believes to be strong. As part of the Trust's ongoing internal audit follow-up work, this specific area will be revisited in order to ensure these improvements have become firmly embedded into the Trust's processes.

Rec Ref	Recommendation	Management Response	Implementation date	Responsible Officer
3.1	Full balance sheet, reconciliation and control processes (including cash, accruals, suspense accounts, reconciliations and any manual payment runs) should be undertaken each month. These should then be reviewed and signed off by the Head of Finance.	The Trust agrees that bank reconciliations must always be completed. This has long been established Trust policy, and reconciliations were completed up to March 2024. Regrettably, from April 2024 onwards, these reconciliations were not undertaken, and the Head of Finance did not escalate this to the Director of Resources. Following identification of this control breakdown through the Trust's own internally commissioned independent review in May 2025, the Trust has reaffirmed the requirement for all month-end reconciliations to be completed in full. In addition, an enhanced control has been implemented whereby the Head of Finance must now provide written confirmation to the Director of Resources that all reconciliations have been completed each month.	November 2025 - Complete	Head of Finance (Trust)

3.2	The updated procedure and process notes for the month-end and manual payments process should be reviewed taking into account the comments in this report. They should then be subject to regular review, initially on a quarterly basis in order to ensure that they are, and remain, effective. Once confidence can be assured that they are operating effectively, they should be subject to review on at least an annual basis.	SCT has reviewed and updated its procedure notes in response to the findings from the Trust's independent/internal review. The updated procedures will be subject to regular review to ensure they remain effective and consistently applied.	July / August 2025 - Complete Next Review to be completed by 31 st August 2026	Head of Transformation (Trust) Head of Finance (Trust)
3.3	Ideally the need for future manual payments runs should be kept to a minimum. Where they may be required, then immediate action should be undertaken in order to ensure that these are reflected in the ledger and help inform accurate forecasting.	The Trust agrees with this recommendation. The Trust policy has always been to ensure manual payments are kept as a minimum.	Already in place and ongoing	Head of Finance (Trust)
It is the Trust's view that the following recommendations do not directly relate to the Trust's 2024/25 outturn position and would not have enabled the identification of the errors reported. However, the Trust has considered the recommendations and has agreed to implement where appropriate.				
3.4	The Finance Support Specification Schedules between the Council and the Trust should be reviewed and updated, then formally approved and adopted by both parties. They should then be subject to at least annual review.	The Trust agrees with the recommendation. All support specification schedules are reviewed on an annual basis to ensure they remain current, accurate, and aligned with operational and contractual requirements. Responsibility for undertaking these annual reviews is jointly held by the Council and the Trust, reflecting the shared nature of the services and the governance arrangements in place. To strengthen assurance, both parties will continue to ensure that reviews are completed within the agreed annual cycle and that any amendments are formally documented and approved. Revised schedules will be issued to relevant stakeholders, and any changes to responsibilities, service levels, or processes will be clearly communicated. This approach will support transparency, maintain	April 2026	Head of Finance (Trust) Service Director (SMBC)

		service quality, and ensure ongoing compliance with contractual and governance standards.		
3.5	While it is our belief that any level of finance training to board members would not have enabled them to identify the unique set of circumstances that led to this matter arising, general finance related training should still be provided for all board members upon their appointment and as part of their induction. This should be followed by annual refresher training sessions.	<p>The Trust considers that the Board collectively has the financial expertise required in order to discharge the directors' fiduciary duties. The Chair of the Audit and Risk Committee, who is also a member of the Finance and Infrastructure Committee, undertakes extensive training annually as part of the CPD requirements for a practising Fellow of the ICAEW.</p> <p>Other Board members have a wide range of knowledge and deep understanding of public sector financial matters at national and local government level, including children's and adult services. Each Executive Team member is experienced and skilled at managing complex social care systems and associated budgets and other Non-Executive Directors and Trust Board Chair have managed national budgets within unpredictable demand-led environments.</p> <p>Therefore, given the range and diversity of financial expertise amongst the board members, the Trust does not believe that one size fits all annual refresher training would be fit for purpose. The Trust will however look to undertake board training when appropriate on particular issues, for example the forthcoming changes to FRS 102 particularly with regard to revenue recognition and lease accounting</p> <p>Another example is the induction process for new Board members- the new Chair had detailed briefings with the Director of Resources and wider Finance Team when he started; and the Trust will ensure that this continues for any new Board members.</p>	Already in place and ongoing	<p>Chief Executive (Trust)</p> <p>Director of Resources & Governance (Trust)</p>

		The Trust will also undertake a review with each board member asking them to consider whether there are any particular gaps in their financial knowledge where they believe training may be beneficial.		
3.6	The resourcing of the Trust's finance team arrangements should be kept under review in order to ensure that it is sufficiently resourced and has the necessary skills and experience to carry out its role. Should there be any knowledge or skills gaps identified, then steps should be taken to address these. This should then be subject to ongoing review.	The newly appointed Head of Finance has already undertaken a review of the team's current capacity and capabilities to ensure that appropriate skills and resource levels are in place to meet financial governance and reporting requirements. Further work will be progressed once the new colleagues – the Finance Business Partner and the Principal Accountant – have commenced in post. This will include a more detailed assessment of roles, responsibilities, and workflow to strengthen resilience within the finance function and support continuous improvement in financial control and reporting.	Complete and ongoing	Head of Finance (Trust)
3.7	Following the agreement of the contract sum for the next three years, the Trust should ensure that its financial planning includes strong forecasting and budgetary control monitoring going forward, in order to ensure that it can remain within budget.	The Trust accepts this recommendation. The Trust is already undertaking a comprehensive review and overhaul of budgetary control and financial forecasting procedures. This work is intended to strengthen the robustness, accuracy, and resilience of our financial management arrangements. The agreement of a three-year contract sum for the Trust provides essential medium-term income certainty in a sector where meaningful cost reductions and efficiency improvements often require a timeframe longer than a single 12-month accounting period to materialise in the Income and Expenditure account. It is recognised and accepted by all parties that certain categories of expenditure—particularly placement costs, which represent the Trust's	July 2027	Head of Finance (Trust)

		<p>largest area of spending—are inherently difficult to predict and control. These costs are driven by fluctuations in demand, despite the Trust’s early-help initiatives, and are subject to market-wide pricing pressures.</p> <p>The stability provided through a three-year contract sum will enable the Trust to plan and implement improvement actions that have the potential to achieve significant impact, even where the benefits may not be fully realised within a single financial year.</p>		
3.8	<p>The Trust and the Council should continue to work together so that there is clarity over the continuing development of Oracle Fusion, and that its benefits can be fully realised. The ongoing Trust role on the Oracle Steering Committee will be key to this.</p>	<p>SCT accepts this as a joint recommendation between the Trust and SMBC</p>	<p>October 2026</p>	<p>Head of Finance (Trust)</p> <p>Service Director (SMBC)</p>
3.9	<p>Monthly supervision meetings should be undertaken between each member of the finance team and their respective line manager. The template should be used to record all key discussion areas. These should then be reviewed and signed off by both officers and retained.</p>	<p>There is already a Trust-wide supervision policy in place that is applied to all operational teams and enabler services, including the Finance Team. Monthly formal supervision is a long-established practice within social care, as opposed to other areas that usually have an appraisal and mid-year review, plus operational catch ups.</p> <p>This system wide approach is considered best practice and the Trust will continue to apply this policy and quality assure the regularity and quality of supervision across all teams, in line with our practice standards.</p>	<p>Already in place and on going</p>	<p>Head of Finance (Trust)</p>

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Council and the Trust in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

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

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance 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.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.