



Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	11 March 2020
OFFICER	Mark Hemming – Director of Finance and Assets Maggie Gibb – Internal Audit Manager
LEAD MEMBER	Councillor David Watson
SUBJECT OF THE REPORT	Internal Audit Report: Final Audit Reports
EXECUTIVE SUMMARY	<p>The purpose of this paper is to update Members on the findings of the finalised Internal Audit reports issued since the last Overview and Audit Committee meeting.</p> <p>The 2019/20 Budget Monitoring and Forecasting Audit has been finalised. No recommendations were raised as a sound system of internal control designed to achieve objectives and minimise risk was found to be in place and operative effectively.</p>
ACTION	Noting.
RECOMMENDATIONS	That the recommendations raised in the finalised Internal Audit report be noted.
RISK MANAGEMENT	There are no risk implications arising from this report.
FINANCIAL IMPLICATIONS	The audit work is contained within the 2019/20 budget.
LEGAL IMPLICATIONS	There are no legal implications arising from this report.
CONSISTENCY WITH THE PRINCIPLES OF THE DUTY TO COLLABORATE	Not applicable
HEALTH AND SAFETY	There are no health and safety implications arising from this report.
EQUALITY AND DIVERSITY	There are no equality and diversity implications arising from this report.
USE OF RESOURCES	<p>Communication and progress monitoring;</p> <p>All audits, follow up reports and further updates will be submitted to the Strategic Management Board and the</p>

	Overview and Audit Committee.
PROVENANCE SECTION & BACKGROUND PAPERS	Internal Audit Plans 2019/20 Internal Audit reports taken to Overview and Audit Committee.
APPENDICES	Appendix A – Budget Monitoring and Forecasting Audit Final Report
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Maggie Gibb – Internal Audit Manager mgibb@buckscc.gov.uk 01296 387327

Business Assurance and Risk Management

Final BMKFA Budget Monitoring and Forecasting Audit Report (Ref-2036)

Auditors

Maggie Gibb, Head of Business Assurance (and Chief Internal Auditor)

Selina Harlock, Audit Manager

Caroline Jenkins, Senior Auditor

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Management Summary

Introduction

The audit of Budget Monitoring and Forecasting was undertaken as part of the 2019/20 Internal Audit plan, agreed by the Overview and Audit Committee. The audit was undertaken during quarter three of 2019/20.

The Budget Monitoring and Forecasting Audit reviewed the Fire Authority's budget setting, monitoring, forecasting, and reporting processes for both the Revenue and Capital budgets. Having robust controls and governance over financial management is vital to the achievement of the Fire Authority's strategic objectives.

Audit Objective

Internal Audit's objectives for this audit were to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually to the Fire Authority, and also as an assurance to the Section 112 Officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas identified in the processes relating to Budget Monitoring and Forecasting:

- Policies and Procedures
- Budget Setting and Approval
- Adjustments
- Budget Monitoring Process
- Forecasting
- Reporting to Management
- Support and Training for Cost Centre Managers

The audit considered the controls in place at the time of the audit only. Where appropriate, testing was undertaken using samples of transactions since the beginning of the current financial year.

Table 1: Overall Conclusion

Overall conclusion on the system of internal control being maintained	Substantial
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RISK AREAS	AREA CONCLUSION	No of High Priority Management Actions	No of Medium Priority Management Actions	No of Low Priority Management Actions
Policies and Procedures	Substantial	0	0	0
Budget Setting and Approval	Substantial	0	0	0
Adjustments	Substantial	0	0	0
Budget Monitoring Process	Substantial	0	0	0
Forecasting	Substantial	0	0	0
Reporting to Management	Substantial	0	0	0
Support and Training for Cost Centre Managers	Substantial	0	0	0
		0	0	0

Appendix 1 provides a definition of the grading for each of the conclusions given.

Policies and Procedures

There are various policies and procedures in place that cover all aspects of budget management that are easily accessible to Budget Managers and Finance staff. This includes; the Financial Regulations that sets out responsibilities for budget setting, the Medium Term Financial Planning (MTFP) process, monitoring and reporting; and the Financial Instructions which sets out the roles of the Budget Managers and the Chief Financial Officer and what each role is required to do in relation to budget management. All policies and procedures are up to date and reflect current practices.

The Integra finance system was introduced in 2017 and is used for budget monitoring. During the budget monitoring cycle, access to Integra is restricted and controlled based on user roles and Audit confirmed that only Budget Managers can update their monthly budget forecasts in Integra. Once Finance reviews and approves the monthly budget forecasts in Integra, the forecasts are locked within the Integra so that no further amendments can be made by Budget Managers. Audit confirmed that any journals and virements can only be processed and approved within Integra by the relevant staff members in Finance once Budget Manager approval has been obtained.

Budget Setting and Approval

In previous years, the budget setting approach was incremental. However for the 2020/21 budget setting process, the approach has been changed to zero based budgeting which was communicated to the leadership and management teams. It was agreed by the Director of Finance and Assets that it was good practice to periodically have a complete overhaul of budgets to ensure that budgets are fit for purpose.

With regards to the budget setting process there are clear roles and responsibilities and a timetable in place.

Starting in May / June each year, Budget Managers review their budget forecasts, allowing for inflation etc and submit any savings, growth bids and capital bids. Finance then checks the bid proposals and work with the Budget Managers on the financial workings to ensure that the MTFP and bids are ready for challenge. The next stages are Officer and Member Challenges where it is agreed whether or not the MTFP and any proposals can be submitted to the Fire Authority. Members would then review and agree the MTFP and savings/growth/capital bids subject to final settlement in January. The Fire Authority formally approves the budget in February and following on from approval, the budget is uploaded onto the Integra finance system for the forthcoming financial year.

Audit confirmed that the 2019/20 budget setting was completed within the required timescales as set out in the timetable and that the 2020/21 budget setting process was on track. For 2020/21 budget, there was evidence that the budgets were built from scratch before taking into account any carry forward from prior years. As the budget setting approach has changed for 2020/21 and has yet to go through a complete cycle, it is recommended that the budget setting process is re-visited by Audit in 2020/21 once the full budget setting cycle has been completed.

Audit also confirmed, from a sample test, that there were appropriate records of meetings, consultations including a breakdown of figures and assumptions to support the rationale and discussions held in developing the budgets. It was noted that the Strategic Requirements section of the capital bid document was not completed for the bid to extend the Red Fleet replacement programme for a further four years from 2021/22. As the specific bid relates to the 2019/20 budget

setting process, no further action can be taken. However it was agreed by Finance that going forward, any budget proposals would reflect the agreed priorities of the Fire Authority as well as any front line service requirements as such all bid documents will be completed in full. This will ensure that Officers and Members have all information readily available when considering and making decisions in line with strategic priorities. On this basis, we have not raised an action point regarding this.

Adjustments

According to the Financial Regulations and the Financial Instructions a virement does not create additional overall budget liability, it is a transfer of budget provision either within or between budget headings and can be used as an effective tool to assist in managing budgets effectively within a cash limit.

The Fire Authority is responsible for agreeing procedures for virement. Budget Managers and Strategic Management Board (SMB) are responsible for agreeing in-year virements within delegated limits and budget line restrictions. The Chief Finance Officer must sign-off all virements.

Audit confirmed for a sample of virements that they were processed in accordance to the Financial Regulations and Instructions.

Budget Monitoring and Forecasting Process

Budget monitoring occurs on a monthly basis. As seventy percent of the Fire Authority's budget is made up of salaries, a large section of the budget calculation is done through the Salary Calculator which is reviewed by Budget Managers. On a monthly basis, Finance exports the salary information from the Integra finance system into the Salary Calculator; the cost centre information is copied, a macro is run which updates the control sheet actuals in the spreadsheet.

The payroll file, which contains actual payments made and is based on the previous month's payments, is received from the Itrent HR system and uploaded via a general ledger interface to Integra. Any payroll errors are usually down to a cost centre / cost element not being attached. If there are any errors with the payroll file, the payroll errors get posted to the suspense account. Finance then queries the payroll with Payroll Team and once resolved, makes the necessary journals to correct the payroll information.

In addition, Budget Managers have to review their budgets and provide forecasts on a monthly basis within the Integra finance system. An automated email is sent from Integra to Finance to notify that a cost centre is ready for review and approval. Finance monitors the completion of budget update (forecasts) on Integra through the BDM330 Cost Centre Manager page which shows all the cost centres and the budget monitoring stage.

For a sample of budgets (five revenue and five capital), there was sufficient information and adequate explanations recorded on forecast figures and any budget variances.

Reporting to Management

Monthly and quarterly budget monitoring reports are produced using a download from the Integra finance system. The monthly reports are produced for the Area Commanders and Directors, with a copy sent to the Lead Member. The quarterly reports are presented at the Executive Committee Meetings.

Any issues and risks which would require the relevant Budget Manager to take appropriate action are highlighted through the budget monitoring reporting. Finance also makes recommendations to members when assessing the overall budget picture including making suggestions to transfer money to and from reserves.

As of November 2019 for the 2019/20 financial year, the actual expenditure year to date versus funding received year to date was £2.09m with a projected year end variance of £102k (underspend).

Support and Training for Cost Centre Managers

There is support and training available to Budget Managers with regards to budget management. Before Budget Managers are given access to the Integra finance system, they are required to complete their finance and procurement induction with the Finance team.

The Budget Monitoring Performance report for April to September 2019 (presented to the Executive Committee) indicated that the Budget Monitoring Training compliance had been at 100% for the 2019/20 year to date.

In addition, there are guidance notes available and there is ongoing support by Finance through the monthly budget monitoring process and also outside the budget monitoring process.

Budget Requirements and Funding

During the audit, Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) issued its report in December 2019 which states that the Fire Authority 'requires Improvement'. One of the questions asked was 'How efficient is the service at keeping people safe and secure?' and the following was noted by HMICFRS:

"We have serious concerns as to whether Buckinghamshire FRS has the resources it needs to meet its foreseeable risk. As a result of the financial position the service finds itself in, it doesn't have enough operational firefighters to resource its prevention and protection functions and crew the minimum number of fire engines it says it needs."

It should be noted that the focus of this audit was limited to budget monitoring and forecasting processes and did not consider the MTFP process in detail. However whilst the outcome of the HMICRS's inspection and funding are outside the scope of this review, we have included a reference in this report as senior management of the Fire Authority must address the findings in the HMICFRS report to ensure that budget requirements and funding are sustainable in the future. We have been informed that the Fire Authority is due to have an extraordinary meeting on 23 January 2020 to agree an action plan to address the HMICFRS recommendations.

We acknowledge that the Fire Authority has made representations through the consultation on the local government finance settlement; that for a number of years that the service is underfunded and requires additional precept flexibility. The 2020/21 zero-based budget approach will look to ensure that the capacity and capability is optimised as far as possible with the funding available and to set a balanced budget.

Appendix 1: Definition of Conclusions

Key for the Overall Conclusion:

Below are the definitions for the overall conclusion on the system of internal control being maintained.

	Definition	Rating Reason
Substantial	There is a sound system of internal control designed to achieve objectives and minimise risk.	<p>The controls tested are being consistently applied and risks are being effectively managed.</p> <p>Actions are of an advisory nature in context of the systems, operating controls and management of risks. Some medium priority matters may also be present.</p>
Reasonable	There is a good system of internal control in place which should ensure objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Majority of actions are of medium priority but some high priority actions may be present.</p>
Partial	The system of internal control designed to achieve objectives is inadequate. There are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an inadequate level of internal control in place and/or controls are not being operated effectively and consistently.</p> <p>Actions may include high and medium priority matters to be addressed.</p>
Limited	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>The internal control is generally weak/does not exist. Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Actions will include high priority matters to be actions. Some medium priority matters may also be present.</p>

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the draft Internal Audit report. All management actions will be entered onto the Pentana Performance Management System and progress in implementing these actions will be tracked and reported to the Strategic Management Board and the Overview & Audit Committee.

We categorise our management actions according to their level of priority:

Action Priority	Definition
High (H)	Action is considered essential to ensure that the organisation is not exposed to an unacceptable level of risk.
Medium (M)	Action is considered necessary to avoid exposing the organisation to significant risk.
Low (L)	Action is advised to enhance the system of control and avoid any minor risk exposure to the organisation.

Appendix 2: Officers Interviewed

The following staff contributed to the outcome of the audit:

Name:

Mark Hemming
Asif Hussain
Marcus Hussey
Laura Taylor

Title:

Director of Finance and Assets
Principal Accountant
Principal Accountant
Trainee Accountant

The Exit Meeting was attended by:

Name:

Mark Hemming
Asif Hussain
Marcus Hussey

Title:

Director of Finance and Assets
Principal Accountant
Principal Accountant

The auditors are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

Appendix 3: Distribution List

Draft Report:

Mark Hemming
Asif Hussain
Marcus Hussey

Director of Finance and Assets
Principal Accountant
Principal Accountant

Final Report as above plus:

Jason Thelwell
Ernst and Young

Chief Fire Officer
External Audit

Audit Control:

Closing Meeting
Draft Report
Management Responses
Final Report
Audit File Ref

09 December 2019
14 January 2020
17 January 2020
3 February 2020
20-36

Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

Contact Persons

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