

Essex Fire Authority

[Internal Audit Report \(7.14/15\)](#)

FINAL

Budgetary Setting and Control

23 March 2015



Contents

Section	Page
Executive Summary	1
Action Plan	5
Findings and Recommendations	6

Debrief meeting	27 February 2015	Auditors	Dan Harris - Head of Internal Audit
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Final report issued	23 March 2014	Client sponsor	Glenn McGuinness - Deputy Director of Finance
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1 Executive Summary

1.1 Introduction

An audit of Budgetary Setting and Control was undertaken as part of the approved internal audit periodic plan for 2014/15.

The audit was a holistic review of the 2014/15 budget monitoring and reporting arrangements within the Authority. The 2015/16 budget building process was examined to establish that the Authority was up to date with timescales and that budgets will be ready for approval in February 2015. The review also examined the Medium Term Financial Plan to ensure a document had been drafted and that the Authority demonstrated adequate forward thinking and financial projections.

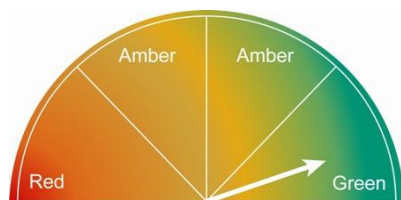
The Fire Authority is required by the Local Government Finance Act 1992, to set a budget requirement for the following year. Following meetings of the Policy and Strategy Committee, the Strategic Management Board and the Strategic Delivery Board during 2014/15, the draft budget was submitted to the Fire Authority meeting of 11 February 2015.

The Fire Authority approved a budget of £73.3m for 2014/15.

The audit was designed to assess the controls in place to manage the following objective and risks.

Objective	To ensure that the financial stability through effective budget management.
Risk	Failure of financial procedures and controls resulting in an ineffective budgetary control process.

1.2 Conclusion



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Effectiveness

- As of the January 2015 Budget Review report to the Policy and Strategy Committee the Service had a £240k surplus against budget with a forecast year end outturn of £419k surplus.

Design of control framework

We found that the following controls were designed adequately:

- There are up to date, comprehensive Financial and Procurement Regulations available on the system that clearly outlines the requirements in respect of budget processes, key responsibilities and management arrangements.
- A set of guidance notes in respect of the Budget Setting process are available and circulated to all budget holders and business managers. Finance managers work with the budget holders during the process as a method of support.

- Budgets are built starting with the pay budget, based on headcount data provided by the budget holders. The non-pay elements are added in and the individual budgets are discussed and agreed with finance managers following the department production of a department strategy document which forms the basis of the initial budget review meetings. Budget Holders have responsibility for providing the budget figures although they have the full support of the finance managers throughout the process.
- A Business Excellence Planning Toolkit which covers the key areas of the budget setting for each department is used and covers the steps required to complete the budget setting process effectively.
- Budgets are submitted to an informal timescale followed by a timetabled schedule of review meetings. Following submission Senior Management Reviews are held with the budget holders to agree the budgets. The finalised budgets are then sent to the Strategic Management Board for review and following this to the Policy and Strategy Committee and Audit Governance and Review Committee for discussion.
- Budget managers accept accountability for their budgets and the level of service to be delivered and understand their financial responsibilities. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.
- An informal Budget Setting Timetable has been established and communicated to budget holders. The timetable for the 2015/16 budget setting started in September 2014 when the initial department strategy documents were due to be submitted.
- Following the internal review process, as per the timetable, the Budget is sent for final review to the Full Fire Authority. This takes place in February each year.
- Budget reports are regularly produced on a monthly basis by the Management Accountants and sent to all Budget Holders / Business Managers. Budget Holders are sent a copy of their budget statement on a monthly basis and they are able to review this statement and discuss with Management Accounts whether they are correct or whether any adjustments are required. An initial report is sent on the 1st working day of the month. Final reports are sent following all month end adjustments including prepayments and accruals being completed.
- All Budget Holders and Business Managers have access to the DREAM finance system data. They are able to access the DREAM in relation to their budgets and drill down to the required level to review their budgets and to check and verify any variances that may arise.
- The Authority has produced a Medium Term Financial Strategy paper at September 2014 for the period for 2015 - 19. This has been presented to the Policy and Strategy Committee and reflects the 2014/15 budget position and the projections for the years 2015/16, through to 2018/19.
- Finance reports are produced on a monthly basis and presented to the Strategic Management Board. The report is for information purposes and covers in detail pay and non-pay expenditure, capital expenditure, forecasts and risk implications.
- Budgets for 2015/16 have been uploaded to DREAM. To support this there is an amendments document which resulted from the review meetings between the budget holders and finance managers.
- Virements are made following board approval and supported by validating documentation.

There were **two low priority** recommendations in relation to the design of the control framework which can be found in section 2 and 3 of this report.

Application of and compliance with control framework

- From the list of budgets for 2015/16 obtained from the Authority, three budgets were selected. For each budget we found, a completed department strategy document in line with the required structure and content as per the guidance and a department budget, including headcount figures for the pay budget, was evidenced. We also confirmed in discussion with 3 budget holders that they have the responsibility of preparing departmental strategies in line with organisational objectives and which form the basis against which budgets are built.

- For the three budgets reviewed in detail we identified that following submission of the Department Strategy Document it was evidenced in each case that there was a management review meeting with the budget holder and the budgets went to the Strategic Management Board, Policy and Strategy Committee, Audit and Governance Committee for review. These stages were completed timely in line with the informal budget setting timetable.
- We confirmed for the review of the same sample budgets that in addition to pay/head count, using the top of each pay scale, political and economic factors and with a worst case expectation for pricing.
- From a walkthrough of the Business Excellence Toolkit we noted that it does not fit with the current processes, as a result a low priority recommendation has been made.
- We confirmed from minutes that the Budget for 2014/15 was approved on 12th February 2014. The Budgets for 2015/16 were presented to the Full Fire Authority on 11th February 2015.
- We obtained the six budget report emails sent by Finance to the budget holders for the last three months (October – December 2014). The initial reports were evidenced as having been sent out on the first working day of the month. The final reports were all evidenced as having been produced and a link sent to all budget holders in a timely manner.
- From the list of budgets, three months budget holder statements for three budgets were selected for 2014/15. We selected a sample of twenty entries from the individual budget statements and checked them back to the General Ledger to establish that the budget reports are accurate. In all cases the budget figure could be verified back to the T/B confirming the accuracy of the figures. For each budget figure we were able to drill down on individual lines to establish that detail can be viewed.
- The Strategic Delivery Board Minutes were examined for month 7 to month 9 and it was confirmed that there is a standing agenda point covering the Organisational Budget Position during the prior month.
- The Policy and Strategy Committee Minutes for September 2014 were reviewed and we confirmed that the Medium Term Financial Strategy had been presented to members and had effectively covered key aspects of the financial plan including Council Tax Rates, Government Grant projections, financial projections and plans to close the identified funding gap.
- From the Finance report for month 9 (Dec 14) presented to Strategic Management Board on 20th January 2015 we selected five figures from the report and established that all were supported by sufficient backup. We confirmed the figures reported in the Finance Report are accurate and are a true reflection of the budget status as per the General Ledger.
- A sample of five actions were selected from the Budget Amendments Document and checked to the General Ledger to ensure the changes have been made timely and accurately. All five amendments had been actioned, annotated on the amendment document as complete and were evidenced to the General Ledger with the journal corrections provided.
- The Dream vs. Pay Model reconciliation was provided as at 5th January 2015. A sample of three variance figures was selected and journals were evidenced correcting these differences.

1.3 Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Control activities relied upon:

- Regular and accurate budget statements
- Internal reporting arrangements on 2014/15 budgets and 2015/16 proposed budgets.
- Policies and procedures including Financial Regulations and internal documentation

- Utilisation of the 'DREAM' on-line finance system;
- The requirement, usage and authorisation of Virements in 2014/15
- Budget setting and timetables for the 2015/16 Budget.
- Budget upload and reconciliation processes surrounding the 2015/16 budget upload.
- Production of a Medium Term Financial Plan.

Limitations to the scope of the audit:

- The scope of the work was limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- Our work and report does not provide any assurance on the eventual accuracy at the year end of the current projected outturn or any assurance on the validity and accuracy of any assumptions made in producing the projected outturn.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	1
Application of control framework	0	0	1
Total	0	0	2

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
Failure of financial procedures and controls resulting in an ineffective budgetary control process.	0	0	2
Total	0	0	2

2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	The Service should ensure that the Business Excellence Planning Toolkit is updated to reflect current budget setting practice and is reviewed periodically to ensure it remains effective in guiding the process.	Low	Y	The Business Excellence Planning toolkit will be updated for the 2016-2017 budget setting process.	31 st July 2015	Deputy Director of Finance
1.2	The Service should implement a monitoring sheet to ensure all stages of the budget process are recorded and reviewed. This will add a greater element of control to the process.	Low	Y	The existing timetable will be reviewed and more detail of the initial budget build scheduled where appropriate.	31 st July 2015	Deputy Director of Finance

3 Findings and Recommendations

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Risk 1: Failure of financial procedures and controls and reduction in future funding to be received due to The Service failing to provide an effective budgetary control process					
1.1	<p>A set of guidance notes in respect of the Budget Setting process are available to and circulated all budget holders and business managers.</p> <p>Finance managers work with the budget holders during the process as a method of support.</p> <p>This is backed up by the Business Excellence Planning Toolkit which covers the key areas of the budget setting for the departments and the steps required to complete the budget setting process effectively.</p> <p>The Toolkit was last updated in July 2010 and it is confirmed via discussions with the Deputy Director of</p>	No	<p>We obtained a copy of the Business Planning Process paper reported by the Performance Improvement Manager in the strategic development board meeting held on the 26th August 2014.</p> <p>This document briefly covers the following areas:</p> <ul style="list-style-type: none"> • The business and planning process for the period of 2015/16; • The deadline submission dates for staff forecasts, budgets and business plans; and • The departmental strategies and plans for the period 2014/15 – 2018/19. <p>Note that the information provided in the Business Planning Process is merely a brief outline and states further detailed guidance will follow from the finance department regarding the budgeting setting</p>	The Service should ensure that the Business Excellence Planning Toolkit is updated to reflect current budget setting practice and is reviewed periodically to ensure remains effective in guiding the process.	Low

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	Finance that it does not reflect current practice and requires an update to bring it up to date.		<p>planning process.</p> <p>Following this there was guidance sent by the Finance Director of the types of questions that will need to be answered during the budget review meetings.</p> <p>We obtained the Business Excellence Planning Toolkit and reviewed. The toolkit is available to all staff on the shared W: drive.</p> <p>As confirmed by the Deputy Director of Finance it is not up to date with current processes and therefore no testing of the toolkit was undertaken.</p> <p>The document was walked through with the Deputy Director of Finance and demonstrated that it does not fit to the current processes.</p> <p>The risk of this toolkit not being up to date and reflecting current practice is that it will not effectively guide the budget holders through the budget setting process.</p>		
1.2	<p>There is an informal timetable for the budget build 2015/16 which was produced by Finance.</p> <p>26th September, submissions of the department strategy / business plan by budget holders.</p>	Yes	<p>The process was discussed with the Deputy Director of Finance and was explained that the timescales are in place to ensure that the process can be completed timely.</p> <p>The budget submissions are submitted and saved in the shared drive.</p> <p>The following three budgets were examined</p>	The Service should implement a monitoring sheet to ensure all stages of the budget process are recorded and reviewed. This will add a greater element of control to the process.	Low

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	<p>29th September to 10th October – Senior Management reviews with budget holders and individual budgets agreed</p> <p>21st October and 18th November discussion at SMB.</p> <p>14th January 2015 – Policy and Strategy Committee</p> <p>21st January 2015 – Audit Governance and Review Committee.</p> <p>11th February 2015 to Full Fire Authority for final approval.</p>		<ul style="list-style-type: none"> • 9402 – Finance and Pay • 9405 – Property Services • 9505 - ICT <p>We were unable to verify when the budgets were submitted due to the fact that as changes are made to the original submission it only shows the file as at last modified date.</p> <p>We did confirm that all three budgets from the sample were in the shared drive.</p> <p>We can also clarify that they had been submitted timely as we obtained evidence of the subsequent review meetings in all three cases.</p> <p>The review meetings in one case were within the timescales set with the other two being after the 10th October deadline.</p> <p>The review meetings were however held in advance of the SMB meetings so can be deemed as satisfactorily timely;</p> <ul style="list-style-type: none"> • 9505 – 07/10/2014 • 9402 – 20/10/2014 • 9405 – 20/10/2014 <p>The minutes from the Policy and Strategy</p>		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			<p>Committee and the Audit Governance and Risk Committee on the 14th and 21st of January respectively were obtained and demonstrated the draft budget for 2015/16 had been presented and discussed.</p> <p>The review was undertaken prior to final sign off so we are unable to verify that the Budget for 2015/16 has been approved at the Full Fire Authority Meeting. This is scheduled for 11th February.</p> <p>It was confirmed by the Deputy Director of Finance that there used to be a monitoring sheet in place to check budget builds and approval process stages were in line with timescales.</p> <p>This however has ceased to be in place and this creates a risk of there being inadequate monitoring and control of the process with any issues not being identified timely.</p>		