

Revenue and Capital Budgeting

North Yorkshire Fire and Rescue Service

Internal Audit Report 2019/20

Business Unit: Finance
Responsible Officer: Director of Finance and Technical Services
Service Manager: Head of Finance and Administration/Management
Accountant (Finance)
Date Issued: 22 November 2019
Status: Final
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	P1	P2	P3
Actions	0	2	1
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

The Fire Service needs to manage financial performance to ensure both strategic and financial objectives are achieved and management and financial stakeholders can be confident in the associated internal control processes.

Monitoring of the approved revenue and budgets is an important part of financial governance. Accurate forecasting highlights effective budget management, helps support early decision making and also helps demonstrate efficiency in the use of financial resources.

It is the responsibility of Budget Holders and Budget Support Officers to follow the service's Financial and Contract Regulations. Staff within Finance and Payroll primarily provides support to the Treasurer. Budget Support Officers within the teams can also assist budget holders regarding financial management, administration or budgetary control issues. The Service uses the Oracle financial system.

The Service has forecasted revenue funding of £34 million and expenditure of £35.1 million for 2019/20 with funding of £1.1 million from reserves. There is a budget and efficiency plan in place identifying the savings required for 2019/20 and beyond.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensured:

- Up to date, accurate local financial records were being maintained by Budget Holders.
- Timely reconciliations were being made between local records and reports from Oracle
- Actions to support the savings plan were being carried out by Budget Holders.

We reviewed the revenue and capital budgets managed by the Head of ITSS of an approximate value annually of £2.2 million; Transport Manager of an approximate value annually of £800,000; Group Manager – Response & Resilience of an approximate value annually of £732,000; and, Group Manager – Staff Risk of an approximate value annually of £717,000.

Key Findings

We saw that budget managers maintained a local budget monitoring and forecasting record for all the budget codes they manage. The local budgeting monitoring record includes the necessary sections to be able to accurately forecast the overall expenditure for the current year. Where required budget history forms were authorised appropriately, explaining the variance from the forecasted overall budget.

Local budget monitoring and forecasting records are not maintained accurately and consistently. This may lead to budgeting decision being made on inaccurate budget forecasts. Inconsistencies in maintaining the Staff Risk budget monitoring and forecasting records led to expenditure

being frequently stated twice. This was due to invoices not being matched between the committed and planned spend. Due to the nature of spend on the Staff Risk budget, the Group Manager – Staff Risk is not always aware when spend will exactly occur. Checks for accuracy and subsequent amendments are required to be made prior to accurate forecasting decisions being made. A consistent process should be followed for inputting order, invoice and payment dates, including all the relevant information relating to the entry.

Performing monthly budget support meetings that include a review of the reconciliation between local budgeting and forecasting records with oracle reports. The reconciliations are a tool to ensure budget forecasts are accurate. We saw there are no record of reconciliations between local budget monitoring and forecasting records and oracle reports are maintained. Reconciliations may not be performed in an efficient and accurate manner resulting in inaccurate budget forecasts. Maintaining records of the monthly reconciliations and the monthly budget support meetings would allow for discrepancies to be resolved more efficiently. Therefore reconciliations should be accurate and performed efficiently to allow for accurate budget forecasts to be maintained.

The authorisation of budget history forms provides evidence of variations to the final outturn of the annual budget. We saw that budget history forms are not always submitted at the earliest opportunity and sometimes included limited explanation. This may lead to the forecast for the total expenditure on budget codes to be understated. Budget history forms should be submitted at the earliest opportunity to allow for the optimum information available to make forecasting decisions.

A consistent process was performed with appropriate challenge for the setting of annual budget statements. All budget managers were making active decisions alongside their spending plan to support the savings plan. For example the Transport Manager is introducing more efficient vehicles for Officers to replace the more costly lease car scheme currently in place. A number of the actions may not result in immediate savings. Once the actions have become embedded and impact in working practices savings should come into effect.

Overall Conclusions

It was found that the arrangements for managing risk were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Local budget monitoring and forecasting records

Issue/Control Weakness	Risk
Local budget monitoring and forecasting records are not maintained accurately and not in a consistent manner.	Budgeting decisions are made on inaccurate budget forecasts.

Findings

Budget holders are expected to maintain ongoing local budget monitoring and forecasting records. A template spreadsheet to be used as the local budget monitoring and forecasting record is provided to all budget holders by Finance. The details on the local budget monitoring and forecasting record should include: the approved budget; invoices passed for payment; expenditure committed/orders for goods and services where invoices have not yet been received; expenditure planned but not yet committed; stock purchased that will not be issued before the end of the year; a forecast of the total expenditure to be incurred. Maintaining local budget monitoring and forecasting records in a consistent and accurate manner allows for accurate forecasting decisions.

We saw that inconsistencies in maintaining the Staff Risk budget monitoring and forecasting records led to expenditure being frequently stated twice. This was due to invoices not being matched between the committed and planned spend. Due to the nature of spend on the Staff Risk budget, the Group Manager – Staff Risk is not always aware when spend will exactly occur. In 18/19 there was a £38,377.55 overspend on an approved budget of £360,800.00. For Staff Risk budgets local budget monitoring and forecasting records are maintained by the budget manager and multiple CAO administration officers. For ITSS, Transport and Response & Resilience budgets; the budget monitoring and forecasting records are maintained by the budget holders and an administrator dedicated to the ITSS team. The inconsistent nature of maintaining local budget monitoring and forecasting records may potentially result in budgeting decisions being based on inaccurate budget forecasts.

We also saw that there was no consistent manner to record the entries across all local budget monitoring and forecasting records. There was a variation of stating month, period and exact date for order, invoice and payment dates. Therefore expenditure cannot always be traced accurately. Checks for accuracy and subsequent amendments are required to be made prior to accurate forecasting decisions being made. A consistent process should be followed for inputting payment dates, including all the relevant information relating to the entry.

Agreed Action 1.1

Budget Support Officers to remind budget holders and administration staff to include an accurate date for order date and invoice date, and a month for the payment date.

Priority	2
Responsible Officer	Management Accountant (Finance)
Timescale	31 December 2019

2 Budget history forms

Issue/Control Weakness

Budget history forms are not always submitted at the earliest opportunity and included limited explanation.

Risk

The forecast for the total expenditure on budget codes are understated.

Findings

The authorisation of budget history forms provides evidence of variations to the final outturn of the annual budget. Budget history forms are required to be completed and authorised on a monthly basis if a variance is identified. The forms include details of variances that will impact on the outturn of the overall budget. The forms are expected to contain details of the period, date, reason for variance, value of variance and whether impact is in the current or future financial year. Forms are submitted on a monthly basis by the budget manager and are reported to Corporate Management Board.

We tested a sample of budget history forms submitted by budget holders in February, April and June 2019. All the budget history forms reviewed detailed a confirmed overspend against the approved budget. We did not see any budget history forms forecasting an over spend on the overall outturn based on committed spend.

We saw that there were limited explanation detailing the reason for the variance in some cases on budget history forms completed by the Transport Manager. 2 of the 9 budget history forms we reviewed (1 submitted by the Transport Manager for approximately £51,000 and 1 submitted by the Group Manager – Staff Risk for approximately £21,000) were not submitted in the period that the spend was made. This results in forecasting decisions being made on an understated value of total expenditure.

All budget history forms reviewed were for a confirmed overspend or underspend. If a budget history form has not been submitted for a budget code then the forecast outturn is on budget. Budget history forms should be submitted at the earliest opportunity an overall overspend or underspend is predicted to allow for better informed forecasting decisions.

Agreed Action 2.1

Budget Support Officers to remind Budget holders to provide estimates of annual expenditure as soon as a change is known. This will form part of the email sent to budget holders on a monthly basis showing spend to date, and will commence with the November 2019 report which will be sent out in early December 2019. Noncompliance issues will be referred to the Head of Finance and Administration.

Priority

2

Responsible Officer

Management Accountant (Finance)

Timescale

31 December 2019

3 Reconciliation of local budget monitoring and forecasting records and oracle reports

Issue/Control Weakness	Risk
At budget support meetings no record of reconciliations between local budget monitoring and forecasting record and oracle reports are maintained.	Reconciliations may not be performed in an efficient and accurate manner resulting in inaccurate budget forecasts.

Findings

A reconciliation between oracle reports and the local budget monitoring and forecasting record is performed to help ensure accurate budgeting forecasting can be performed. At the beginning of each month, Finance send a report from the oracle system detailing all expenditure and income processed during the previous period to budget managers. The report from oracle should be compared within the local budget monitoring and forecasting records, any discrepancies should be investigated and resolved. It is the responsibility of the budget manager to ensure that local records are reconciled to the Oracle reports each month and kept up to date. Performing monthly budget support meetings that include a review of the reconciliation between local budgeting records and oracle reports, are a tool to ensure budget forecasts are accurate.

Currently there is no record maintained of each monthly reconciliation performed. On instances where the local budget monitoring and forecasting records are not up to date discrepancies may arise. Maintaining records of the monthly reconciliations and the monthly budget support meetings would allow for discrepancies to be resolved more efficiently. Therefore reconciliations should be accurate and performed efficiently to support in ensuring accurate budget monitoring and forecasting records are maintained. Therefore allowing for accurate budget forecasts to be produced.

Agreed Action 3.1

The budget monitoring and forecasting template is currently under review, by the Accounting Technician. This will be updated to include a reconciliation section, whereby the total figure in the 'Expenditure in period' column of the Oracle report is entered. Once the reconciliation has been performed and the month of payment entered, any discrepancy should be highlighted. This will be available for 2020/21 Budget Monitoring and Forecasting.

Priority	3
Responsible Officer	Management Accountant (Finance)
Timescale	31 December 2019

A record will be kept of all budget monitoring meetings, and whether the reconciliations are up to date at the time of the meeting.

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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