



## NORTH YORKSHIRE POLICE, FIRE AND CRIME COMMISSIONER, FIRE AND RESCUE AUTHORITY

Financial Planning

Revised Final v2 Internal Audit Report: 1.24/25

8 November 2024

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# AUDIT OUTCOME OVERVIEW

In line with our scope, included at Appendix A, the overview of our findings is detailed below.

## Background / Why we did the audit

The organisation's budget is set on an annual basis and is supported by a five-year Medium Term Financial Plan which is reviewed by the Senior Leadership Team each November/December, ahead of the annual budget approval in February. The PFCC approves the budget and funds North Yorkshire Fire and Rescue Service and works with the Chief Fire Officer, to provide an effective, economic and efficient fire and rescue service.

In the 2024/25 fiscal year, the gross budget requirement is set at £45.2 million. The Police, Fire and Crime Commissioner oversees the fire budget, which is funded through a mix of central government grants and local fire precept contributions. Approximately 30 per cent of the funding is provided by the government, while the remaining 70 per cent is sourced locally, primarily through the 'fire precept' - the portion of council tax allocated to the fire and rescue service.

The Authority faces significant funding challenges for its capital programme due to financial constraints. A review in 2022/23 led to a larger capital reserve, projected to be around £2 million at the start of 2024/25. The fire service estate needs substantial investment, with funds allocated to improve building accessibility by 2023/24. Nearly £11m is allocated for an estate replacement program. The Service has ordered 16 new fire appliances, costing about £5.3 million, with 12 arriving in 2024/25 and four in 2025/26. Additionally, £1.9 million is allocated for replacing breathing apparatus in 2024/25, with final costs to be confirmed. An IT investment plan of £2.3 million over five years is also included. The total capital programme for the next four years is just over £28 million, primarily funded through borrowing of over £25 million from 2024/25 to 2027/28.

**Conclusion:** Our review has determined that the Service have a defined set of controls in place in relation to financial planning, which we confirmed are designed effectively and were being complied with in practice.

We have however agreed two low priority management actions, in relation to formalising a budget setting timetable, that can be followed by all personnel involved within the budget setting and financial planning process; and implementing a mechanism to record and maintain budget approval throughout the budget setting process, to ensure full transparency and accountability is in place.

## Internal audit opinion:



Minimal Assurance



Partial Assurance



Reasonable Assurance



Substantial Assurance

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

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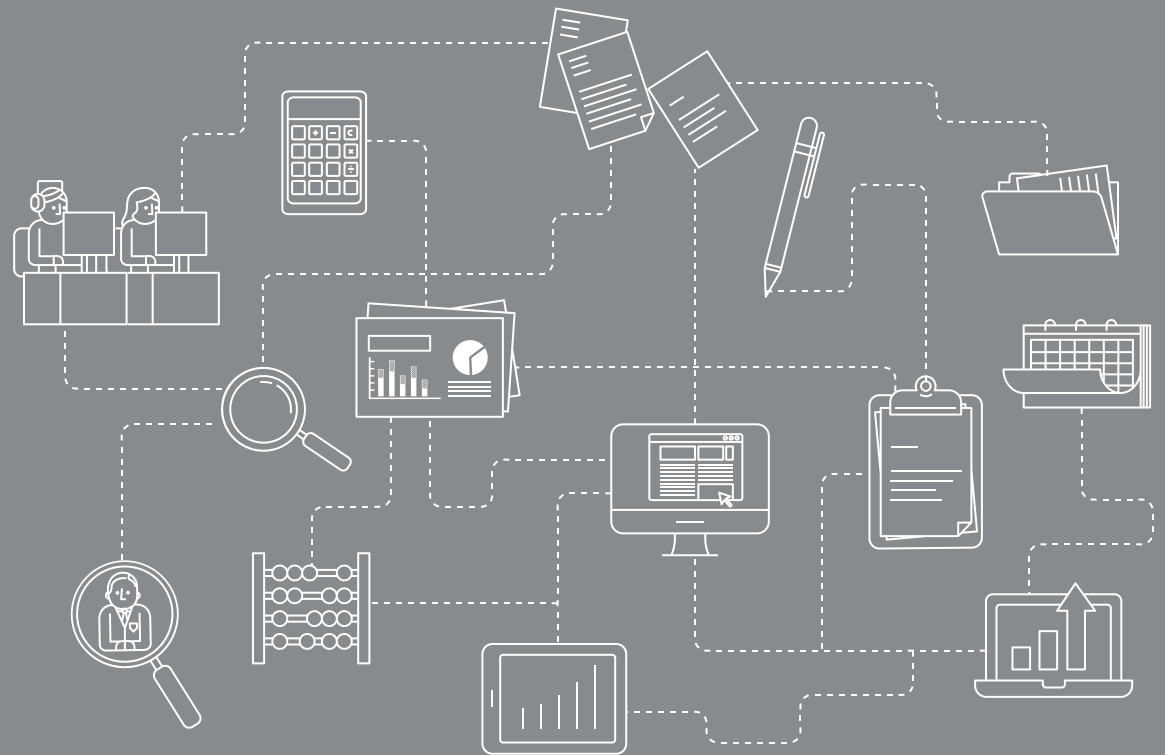
**Audit themes:**

Listed below are a range of well designed and complied with controls, along with the two low priority management actions agreed:

- **Documented Procedures:** The Service has a documented Budget Management Procedure to ensure financial and strategic objectives are met. This procedure was updated and published in June 2024. To enhance the annual budget setting process, a management action was agreed to formalise a timetable for all involved personnel. The Chief Accountant's annual email to employees should be formalised and included in existing policies and procedures. **(Low)**
- **Budget Review:** The annual budget setting process starts in August, with the Finance Team issuing budget templates to each budget holder. These templates include the previous year's base budget and focus on key financial assumptions, risks, and savings. Completed templates are reviewed by the relevant Accountant and approved by Function Heads in October. The Chief Accountant then compiles these into a draft summary Medium Term Financial Plan (MTFP) spreadsheet, detailing any budget changes. In October 2023, most draft budgets were reviewed and approved by Function Heads, but one instance lacked evidence due to a former Accountant's departure, posing a risk to transparency and accountability. **(Low)**
- **Policy:** The organisation has established Financial Regulations, which were reviewed by the Independent Audit Committee in June 2023, as evidenced by meeting minutes. During our audit, these regulations were undergoing the 2024 annual review. However, due to the integration into the York and North Yorkshire Mayoral Combined Authority, this review will be completed in August 2024 to allow for a thorough review and necessary revisions.
- **Budget Review:** The final budget figure is calculated by using the previous year's base budget and incorporating any identified growth or savings through discussions with budget holders and a review of key assumptions by the Chief Accountant and Chief Finance Officer. We tested 10 budget lines from the 2024/25 budget to ensure growth or savings were accurately recorded and reconciled with the 2023/24 budget. Additionally, we validated five staff budget lines to confirm the full-time equivalent (FTE) numbers. No issues were found in our sampling.
- **Budget Review:** Once the Chief Accountant has completed the budget and MTFP revisions, we were able to evidence that both were reviewed and approved by the Chief Finance Officer for Police, Fire, and Crime Commissioner. Before final approval by the Police, Fire and Crime Commissioner Fire and Rescue Authority (PFCCFRA) for North Yorkshire, the annual budget and MTFP were also presented to the North Yorkshire Fire and Rescue Service Strategic Leadership Team (SLT).
- **Annual Budget:** We confirmed that the Service's revenue budget and Capital Plan is set annually and is supported by a five-year MTFP (for 2024/25 to 2027/28). This budget must be approved before 1 March each year for the following financial year. The MTFP outlines the financial, strategic, and service challenges faced by the organisation and ensures that financial resources align with the Service's priorities and objectives. It is reviewed and updated annually alongside the budget.
- **Medium Term Financial Plan:** We were also able to evidence that the Service's budget and MTFP are based on key assumptions, each supported by detailed narratives. Both the MTFP and annual budget account for potential risks and factors that could affect spending. As part of the budget setting process, the Service annually reviews financial reserves to provide a contingency for unexpected events or emergencies. This also allows for earmarked reserves to be established for specific future needs, such as managing cost fluctuations and compensating for the loss of external funding.

# Summary of Actions for Management

# 01



## SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as\*:

### High

Immediate management attention is necessary.

### Medium

Timely management attention is necessary.

### Low

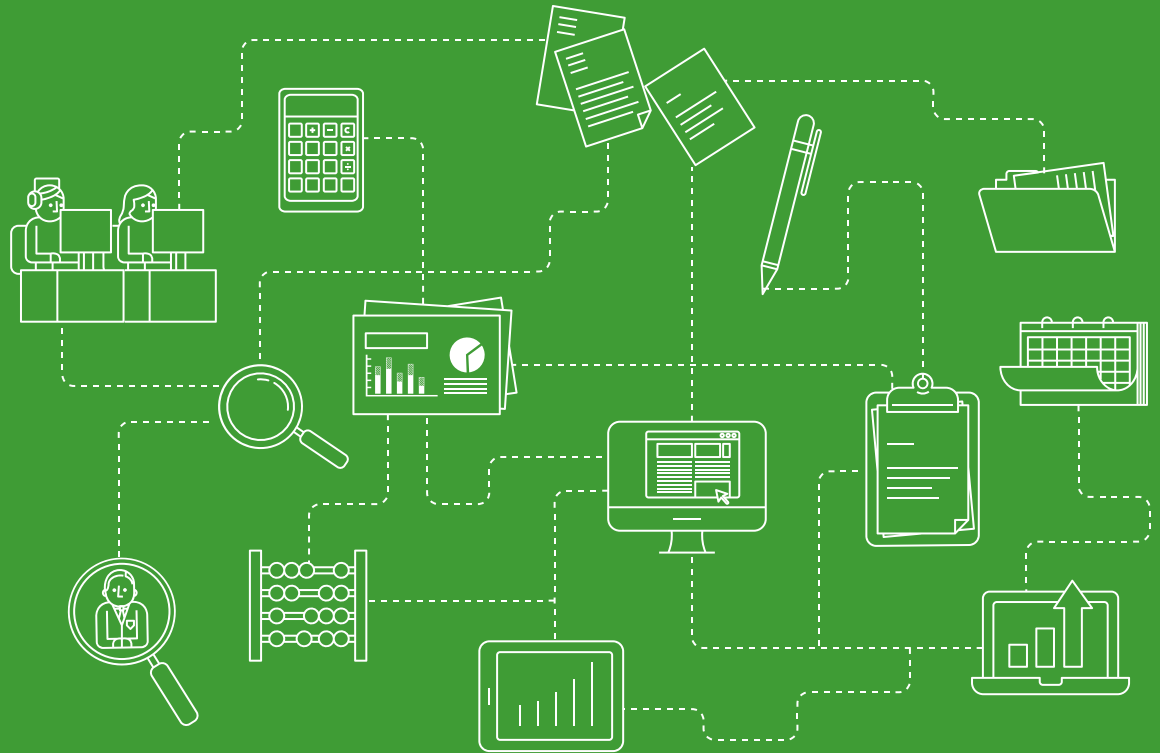
There is scope for enhancing control or improving efficiency.

Ref	Action	Priority	Responsible Owner	Date
1	The Service will formalise a budget setting timetable, that can be followed by all personnel involved within the budget setting and financial planning process, and add this into existing policies and procedures.	Low	Finance Manager	31 December 2024
2	The Finance Team will ensure a mechanism is in place to record and maintain budget approval throughout the budget setting process, to ensure full transparency and accountability is in place.	Low	Finance Manager	31 December 2024

\* Refer to Appendix A for more detail

# Detailed Findings and Actions

# 02



## DETAILED FINDINGS AND ACTIONS

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.

### Area: Policies and Procedures - Budget Management

<b>Control</b>	The Service has a documented Budget Management Procedure to ensure they are able to manage financial performance and ensure financial and strategic objectives are achieved, and that management and financial stakeholders can be confident in the associated control processes.	<b>Assessment:</b>  <b>Design</b> ✓ <b>Compliance</b> ×
<b>Findings / Implications</b>	<p>Detailed roles and responsibilities had also been documented, these included:</p> <p>Budget Holder Responsibilities for budget setting:</p> <ul style="list-style-type: none"> <li>• Discuss staffing establishment with Budget Support Officers;</li> <li>• Identify growth and savings proposals; and</li> <li>• Provide budget statements to align allocated budget with activities.</li> </ul> <p>The Budget Management Procedure was updated and published to the Service's website in June 2024. However, to help enhance the robustness and efficiency of the annual budget setting process, we have agreed a management action for the Service to formalise a timetable that can be followed by all personnel involved within the budget setting and financial planning process.</p> <p>The Chief Accountant issues an email to all employees involved within this process on an annual basis, this should therefore be formalised, and added into existing policies and procedures. A lack of documented timeframes may provide a risk that not all employees involved within the budget setting process understand the required timescales and deadlines to support the efficient publication of an annual financial plan.</p>	
<b>Management Action 1</b>	The Service will formalise a budget setting timetable, that can be followed by all personnel involved within the budget setting and financial planning process and add this into existing policies and procedures. The budget setting timetable to be inserted will be based on usual timescales but will be subject to review and amendment as required.	<b>Responsible Owner:</b> Finance Manager <b>Date:</b> 31 December 2024 <b>Priority:</b> Low



## Area: Budget Setting

<b>Control</b>	<p>The annual budget setting process begins in August, when the Finance Team will issue each budget holder with a budget template to complete, this spreadsheet contains the previous financial year's base budget and allows budget holders and management to focus on the key financial assumptions, risk areas and delivery of savings underpinning the Medium Term Financial Plan (MTFP).</p> <p>Once base budget templates have been completed, these are reviewed by and discussed with the relevant Accountant to ensure they are reasonable, and incorporate predicted spend, prior to approval by Function Heads in October. Following approval, these figures are sent to the Chief Accountant, who collates these into a draft summary version MTFP spreadsheet, which details narrative for the reasoning any additional budget requests, increases, or decreases from the previous financial year.</p>	<b>Assessment:</b> <b>Design</b> ✓ <b>Compliance</b> ×
<b>Findings / Implications</b>	<p>We discussed the annual budget setting process with the Service's Chief Accountant and identified that all budget holders should maintain local records for the revenue and capital budgets they oversee. This is logged within a financial spreadsheet which includes details such as the original budget, , expenditure to date, stock, forecast outturn, year-to-date variance, and variance to budget. Budget holders review this information monthly to provide up-to-date forecasts for the projected year-end financial position. An Oracle System Report is maintained by the Finance Team detailing all expenditure and income processed (e.g. invoices paid and debtors raised) during the previous period. Budget holders should compare this report with their local records, on a monthly basis, investigating and resolving any discrepancies. This supports the production of the MTFP and annual budget for the financial year ahead to ensure recurring budget variances are accurately reflected in future plans.</p> <p>The annual budget setting process begins in August, when the Finance Team will issue each budget holder with a budget template to complete, this spreadsheet contains the previous financial years base budget and allows budget holders and management to focus on the key financial assumptions, risk areas and delivery of savings underpinning the MTFP. For the 2024/25 budget setting process, budget holders were advised that unexpected overspends necessitated drawing £520k from reserves in the 2023/24 financial year, and an additional £240k may be required from reserves in 2024/25 beyond the approved MTFP. As such, all business areas were required to closely monitor their 2023/24 budgets to provide accurate forecasts to senior leadership, allowing these forecasts to inform the 2024/25 budget requirements, emphasising the need for savings within the base budget to achieve medium-term balance. Expenditure plans were required to align with the Risk and Resource Model (RRM) and associated projects, prioritising available funds, and growth-related budget requests should only include unavoidable cost pressures, with clear narratives outlining the risk if such growth is unfunded.</p> <p>We requested a sample of budget working papers for the following budget areas, to confirm that a base budget had been completed by each area's responsible budget holder; Assurance; Capabilities – protection; Business, Design and Assurance – staff budget; Assets – transport; and People Services – staff budget.</p> <p>In all five instances, we were able to evidence that a base budget template had been completed, identifying a detailed budget, covering the forthcoming financial year, and predicted spend for the next three years (2025 - 28). Each detailed budget included the 2023/24 base budget, and identified key assumptions such as contractual inflation, unavoidable growth, internal movements, employee pay scales (where applicable) and predicted salary growth, and income growth.</p> <p>Once base budget templates have been completed, these are reviewed by and discussed with the relevant Accountant to ensure they are reasonable, and incorporate predicted spend, prior to approval by Function Heads in October. In three instances within our sample, we were also able to evidence that Service Function Heads for budget areas selected had reviewed and approved each budget in October 2023. However, we identified one instance where</p>	

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## Area: Budget Setting

the Finance Team were unable to retrieve evidence of the service areas budget approval, due to the Management Accountant at the time of the approval, no longer working for the Service. This does however provide a risk that the Service are unable to fully demonstrate transparency throughout the budgeting process to ensure accountability and compliance.

Following approval, these figures are sent to the Chief Accountant, who collates these into a draft summary MTFP, and after PFCC approval, a 'Final' version budget book. We were able to evidence contains narrative for the reasoning any additional budget requests, increases, or decreases from the previous financial year. The base budget contains both capital, and revenue budgets. Discussions with the Chief Accountant confirmed that the final budget figure is calculated by identifying the previous financial years set budget (base budget), and this is then built upon by implementing any previous spend, identified growth or savings, from both discussions with individual budget holders, and discussion, review and key assumptions between the Chief Accountant and Chief Finance Officer.

We sample tested 10 individual budget lines from the 2024/25 budget to evidence that identified growth or savings had all been recognised and recorded per each budget line within individual budget area working papers, and to confirm that each calculation reconciled with the stated identified growth and savings. We also reconciled the base budget against the 2023/24 budget, to ensure these had been entered correctly, to allow for accurate 2024/25 budget figures.

From our sampling we identified the following:

- In all instances, any identified growth or savings had been justified, and these had been recorded against each budget line, within the individual budget area working papers;
- In all instances, the identified growth or savings had been accurately entered into summary working papers and Final version Budget Book;
- In all instances, the calculation used to determine the 2024/25 budget reconciled with the identified growth and savings per each individual budget area working paper; and
- In all instances. the base budget had been entered correctly, per the 2023/24 budget.

We also sample tested five staff budget lines from the 2024/25 budget, to confirm that the full time equivalent (FTE) number assumed for each employee, had been validated by each budget area.

- In all instances, we were able to evidence that the initial starting figure for each of the five FTE within our sample was taken from the previous year (2023/24) payroll report;
  - In three instances, this remained the same for the 2024/25 budget, as no changes to the number of required roles were expected or required for 2024/25;
  - In two instances, we obtained a copy of the departmental restructuring plans, which evidenced the requirement for additional FTE (for example, in one instance, this involved the removal of a senior role as part of the restructure, replacing this with an additional accountant FTE role); and
  - In all instances, the calculation had been input based on the role salary grade, multiplied by the number of FTE required for the financial year.
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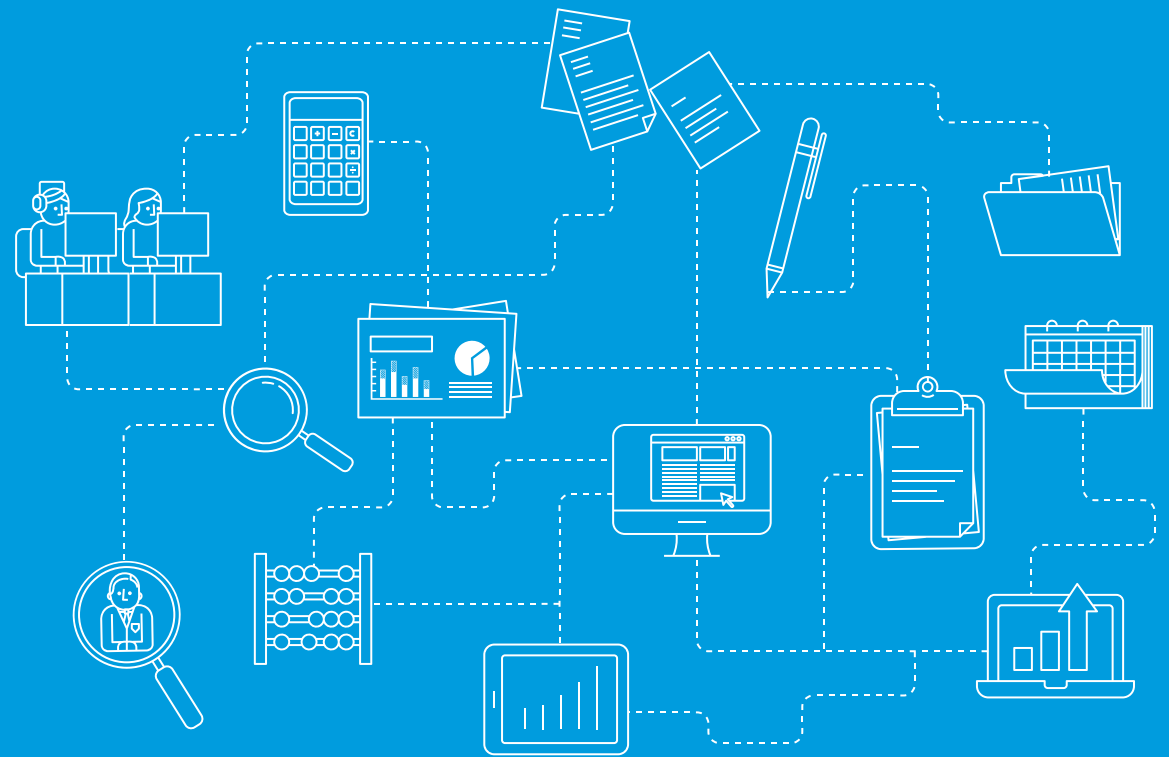
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**Area: Budget Setting**

<b>Management Action 2</b>	The Finance Team will ensure a mechanism is in place to record and maintain budget approval throughout the budget setting process, to ensure full transparency and accountability is in place.	<b>Responsible Owner:</b> Finance Manager	<b>Date:</b> 31 December 2024	<b>Priority:</b> <b>Low</b>
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# Appendices

# 03



# APPENDIX A: CATEGORISATION OF FINDINGS

## Categorisation of internal audit findings

### Low

There is scope for enhancing control or improving efficiency.

### Medium

Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.

### High

Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*	Non-compliance with controls*	Agreed actions		
			Low	Medium	High
8494 - Failure to ensure effective financial control and financial planning processes.	0 (9)	2 (9)	2	0	0
		Total	2	0	0

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

### Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risk:

Objective of the risk under review	Risk relevant to the scope of the review	Risk source
To provide assurance on the planning framework to develop the medium-term financial plan and annual budget, and whether assumptions that feed into the plan have a sound basis.	8494 - Failure to ensure effective financial control and financial planning processes.	Strategic Risk Register

### When planning the audit, the following were agreed:

#### The following areas will be considered as part of the review:

- A long term / medium financial plan is supported by an annual budget which reflects the resources required to deliver the strategic and operating plans.
- The budget is owned by senior management and is subject to appropriate scrutiny through the Service's governance structure.
- Financial plans are supported by:
  - risk assessments of the assumptions and uncertainties in the plan;
  - analysis of the impact of any anticipated changes within the sector;
  - sensitivity analysis of major risks; and
  - contingency plans to mitigate these risks.
- Identified savings are based upon an appropriate decision making process, i.e. how and on what basis is:
  - an initial cost/benefit analysis, or similar, is undertaken to validate inclusion of a savings programme; and
  - a programme considered to be worthy of inclusion.
- The oversight and monitoring arrangements during the development of the financial plans at senior management levels, including the challenge and review processes.
- We will consider both revenue and capital elements of the financial plan in our review.
- Policies and procedures relating to financial planning activities are in place to ensure the activities are performed in a consistent and effective manner. These are subject to periodic review to ensure they remain up to date and reflect current operating practice.

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- The Service has a clear and well understood process and timetable for the development and approval of financial plans.

**The following limitations apply to the scope of our work:**

- Any testing undertaken will be completed on a sample basis only, limited to the areas set out above.
- We will not perform an arithmetical check on the budget or financial forecasts or verify that the checks undertaken by management to ensure the accuracy of information are correct or complete.
- We will not perform testing to confirm whether the approved budget has been correctly and accurately loaded to the finance system.
- We will not provide an opinion as to whether the Service will achieve its objectives or forecasts.
- We will not provide an opinion on the content of the Medium Term Financial Plan or annual budget.
- Our works does not provide assurance on the appropriateness of the transactions or payments made or planned.
- We will not comment on whether the Service has achieved value for money from specific transactions.
- We will not provide assurance that financial plans or operational plans are effective and will ensure the achievement of departmental or Service objectives.
- Our work and report will not provide any assurance on the eventual accuracy at the year end of the current project outturn on the validity and accuracy of any assumptions made in producing the projected outturn.
- We will not verify the accuracy of the general ledger as part of this review.
- We will not comment on the appropriateness of assumptions used.
- We will not provide assurance that intended savings will be achieved.
- This review will not replicate or guarantee future HMICFRS inspection outcomes.
- We will not review specific capital projects / programmes and whether they will achieve target.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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<b>Debrief held</b>	9 September 2024
<b>Draft report issued</b>	21 October 2024
<b>Responses received</b>	22 October 2024 25 October 2024 8 November 2024
<b>Final report issued</b>	23 October 2024
<b>Revised final report issued</b>	25 October 2024 8 November 2024

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