

APPENDIX A

AUDIT AND RISK MANAGEMENT

INTERNAL AUDIT REPORT

BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

Financial Planning 2016/17

November 2016





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Audit Control:

Closing meeting:	26 September 2016
Draft report:	13 October 2016
Management responses:	19 October 2016
Final report:	8 November 2016

Auditors:	Maggie Gibb	Chief Internal Auditor
	Betty Davidson	Senior Auditor
	Grace Woolnough	CIPFA Trainee
Report Distribution:		
Draft Report	Mark Hemming	Deputy Director of Finance and Assets
	David Sutherland	Director of Finance and Assets
Final Report as above plus:	Jason Thelwell	Chief Fire Officer
	Adrian Busby	Chair, Bucks and Milton Keynes Fire Authority
		External Audit



1. Executive Summary

1.1 Overall Audit Opinion

In our opinion **substantial** assurance can be provided that relevant risks are effectively identified, managed and controlled.

1.2 The overall audit assurance is made up of three supporting judgements:

- a) Our assurance on the adequacy of the risk management techniques employed within the auditable area is substantial. This relates to the extent to which relevant risks have been identified, monitored and managed.
- b) Our assurance on the adequacy of the existing control framework to reduce identified risks to an acceptable level is substantial.
- c) Our assurance on the adequacy of compliance with the existing control framework is reasonable.

1.3 The Financial Planning process links the Fire Authority's strategic aims and objectives as set out in the Public Safety Plan (PSP) and the Corporate Plan with the resources available to the Authority taking into account the rolling capital programme. It is important that the Medium Term Financial Plan is constructed so as to ensure that resource allocation enables the Authority to carry out agreed priorities. The Medium Term Financial Plan is reviewed on an annual basis as part of the budget cycle and is scrutinised by the Executive Committee before approval by the Fire Authority.

1.4 In addition to the findings summarised below, we also found the following examples of good practice:

- There is a robust process in place for reviewing and agreeing growth bids.
- The budget build spreadsheet shows how the final budgets have been compiled.

1.5 Some areas for improvement were identified which are listed in section 3 of the report, there are no high priority actions.



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1.6 Recommendations summary:

In order to provide an assurance on the extent to which the risks identified are managed, our review focussed on the main business objectives within the Financial Planning process.

Progress in implementing the management actions will be tracked and reported to the Overview & Audit Committee.

Business Area	Risk	Findings		
		High	Medium	Low
Financial Planning Process	The budget set does not reflect the Authority's agreed priorities, resources available or legal requirements.	0	0	1
Roles and Responsibilities	Roles and responsibilities are not defined or communicated to staff leading to inaccurate or incomplete information being received to set the financial plan.	0	2	0
Timetable for Reporting	There is no timetable in place for setting and approving the financial plan leading to the budget not being set and agreed in a timely manner.	0	0	0
Decision Making	The financial plan is not reviewed or agreed at the appropriate level leading to an ineffective allocation of resources.	0	0	0
TOTAL		0	2	1

The detailed findings are summarised in Section 3 of this report. All findings have been discussed with the Deputy Director of Finance and Assets who has agreed all the findings and produced an action plan to implement them.

- 1.7 There were no aspects of this audit which were considered to have value for money implications for the Authority or which indicated instances of over control. Any relevant findings will have been included in the findings and recommendations section of this report.



2. Background

- 2.1 The audit review of Financial Planning formed part of the agreed audit programme for 2016/17. The review was carried out during July to September 2016.
- 2.2 The Financial Planning area was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Authority's corporate objectives. The Authority's objective for the area is to ensure that there is a robust process in place for financial planning. The objective of our audit was to evaluate the area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. A detailed summary of the scope of this review can be seen in Appendix A.
- 2.3 The outcome of the previous audit in this area can be summarised as:
Budget Setting carried out in 2010/11, the audit opinion was reasonable.



3. Recommendations and Action Plan

The control description column details the actual controls that should be established to mitigate identified risk. The Findings & Consequences column details the results of analysis and tests carried out.

The priority of the findings and recommendations are as follows:

High immediate action is required to ensure that the objectives for the area under review are met.

Medium action is required within six months to avoid exposure to significant risks in achieving the objectives for the area under review.

Low action advised within 9 months to enhance control or improve operational efficiency.

	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key area		Roles and responsibilities			
1	Senior Managers prepare draft budget requirements with regard to the strategic objectives detailed in the Public Safety Plan, and in accordance with agreed Financial Instructions.	<p>The template for growth and savings bids includes a strategic requirements section which shows links to Corporate Plan/Public Safety Plan, however from a review of the Capital bid templates for two of the seven bids the strategic requirements section had not been completed.</p> <p>If a strategic requirement is not stated in the bid there is a risk that bids are approved which are not linked to the agreed Corporate or Public Safety Plans.</p>	Medium	The templates will be returned to the Officer responsible for the bid for completion where the strategic aim has not been included.	<p>Who to be actioned by: Principal Accountant (Management Accounting)</p> <p>When to be actioned by: December 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
2	Senior Managers prepare draft budget requirements with regard to the Authority's approved policy framework and in accordance with agreed Financial Instructions.	<p>The Invest to Save Policy is dated February 2010 with a review date of February 2011, however there is no evidence that it has been reviewed since 2010. As part of the realignment of reserves, approved by Executive Committee 15 November 2015, it was agreed that £250k could be used from the Invest to Save Reserve for a one-off cost of the Public Safety Plan. The reserve was originally set up for projects that would lead to future savings for the Authority which must be deliverable, realistic, known and not dependent upon other decisions.</p> <p>The Deputy Director of Finance and Assets confirmed that nothing specific had been identified yet.</p> <p>There is a risk that if the policy is not reviewed regularly the original purpose of the reserve is no longer relevant and expenditure will not be in agreement with the original purpose of the reserve.</p>	Medium	<p>There was no link intended between the Invest to Save Reserve and the Invest to Save policy.</p> <p>The Invest to Save Policy is no longer relevant as it has been replaced by the robust process of challenge within the Medium Term Financial Plan. If bids show clear financial benefits but cannot be funded from existing budgets, then the intention would be to fund up-front costs from this reserve.</p> <p>All references to the policy will be removed from other policies e.g. Financial Regulations, Financial Instructions etc. The Invest to Save Policy will then be removed from circulation.</p>	<p>Who to be actioned by: Deputy Director of Finance and Assets</p> <p>When to be actioned by: February 2017</p>



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	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Financial Planning Process			
3	There is a sound basis for applying inflation to the budget.	<p>The CPI (Consumer Price Index) is used for some inflationary of the increases to the budget. This was applied at 1.3% for the budget build however it shows as 1.75% in the agreed MTFP papers presented to the Executive and Fire Authority Committees. This was confirmed as a copying error and the correct % had been applied, the CPI figure is taken from OBR/CLG estimates which was 1.3% for Q4 2015.</p> <p>There is a risk that decisions are based on incorrect information.</p>	Low	The budget papers/figures will be checked for errors by a senior officer before submission to Committee.	<p>Who to be actioned by: Deputy Director of Finance and Assets</p> <p>When to be actioned by: February 2017</p>



Appendix A

AUDIT SCOPE AND FRAMEWORK

4. Specific Audit Scope

- 4.1 We have evaluated the area against the following identified risks which we agreed with management:

- The budget set does not reflect the Authority's agreed priorities, resources available or legal requirements.
- Roles and responsibilities are not defined or communicated to staff leading to inaccurate or incomplete information being received to set the financial plan.
- There is no timetable in place for setting and approving the financial plan leading to the budget not being set and agreed in a timely manner.
- The financial plan is not reviewed or agreed at the appropriate level leading to an ineffective allocation of resources.

- 4.2 Following preliminary risk assessments, the following processes were not included within the scope of this review and will be considered for inclusion within future audits of the area: N/A

5. The following staff assisted with the audit:

- Mark Hemming, Deputy Director of Finance and Assets
- Mark Stevens, Principal Accountant
- Marcus Hussey, Trainee Accountant



5. Audit Methodology and Opinions

- a. The audit was undertaken using a risk-based methodology in a manner compliant with the CIPFA Code of Practice. The audit approach was developed with reference to the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope. Where we consider that a risk is not being adequately managed, we have made recommendations that, when implemented, should help to ensure that the system objective is achieved in future and risks are reduced to an acceptable level.
- b. The matters raised in this report are only those, which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the risks that exist or all improvements that might be made.
- c. Each audit will result in an overall 'audit assurance'. A detailed summary will be provided to the Overview and Audit Committee for all 'limited' assurance opinion reports. The range of audit opinions is outlined below:

ASSURANCE	SUBSTANTIAL	REASONABLE	LIMITED
Adequacy of risk management techniques employed within the area.	Thorough processes have been used to identify risks. Action being taken will result in risks being mitigated to acceptable levels. No more monitoring is necessary than is currently undertaken.	The action being taken will result key risks being mitigated to acceptable levels. Some additional monitoring is required.	No action is being taken, OR insufficient action is being taken to mitigate risks. Major improvements are required to the monitoring of risks and controls.
Adequacy of the existing control framework to reduce identified risks to an acceptable level.	Controls are in place to give assurance that the system's risks will be mitigated.	Most controls are in place to give assurance that the system's key risks will be managed but there are some weaknesses.	The control framework does not mitigate risk effectively. Key risks are not identified or addressed.
Adequacy of compliance with the existing control framework.	The control framework is generally complied with. Emerging risks are identified and addressed in a timely manner.	Compliance with the control framework mitigates risk to acceptable levels, except for the risks noted.	Compliance is poor so risks are not being mitigated to acceptable levels and it is probable that some objectives will not be, OR are not being achieved.

- d. The responsibility for a sound system of internal control rests with management. Internal audit procedures are designed to focus on areas identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.