

Internal Audit Report Joint Control Centre Project

2012/13

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1 Introduction, Background and Scope

- 1.1 The review of Joint Control Centre project has been completed as part of the agreed annual audit plan for 2012/13. This report aims to provide assurance on the overall effectiveness of controls within the system and identifies areas of concern or weakness where improvements can be made.
- 1.2 The main purpose of the audit has been to ensure that the project finances are being controlled, monitored and reported effectively. The review also ensured that adequate controls are in place to ensure that all conditions are complied with that are attached to the grant determination funding the project.

Joint Control Centre Project

- 1.3 West Sussex Fire & Rescue Service (WSFRS) and East Sussex Fire & Rescue Service (ESFRS) are amalgamating their respective command and mobilising functions into a single control room function for the whole of Sussex.
- 1.4 A successful bid for £3.6million grant funding was agreed by the Department for Communities and Local Government (DCLG) to cover the common restructuring and technical costs of the control room. Grant funding is made up of £1,921,000 capital and £1,679,000 revenue. Non eligible expenditure includes money spent on property and premises.
- 1.5 The total cost of the project is projected to be £5.057million, of which £3.6million is funded by the grant. The balance of the project cost of £1.457million, which is predominantly the cost of refurbishing the Haywards Heath Fire Station, is to be shared equally between the two Authorities.
- 1.6 The project is expected to realise approximately 30% overall revenue savings for the whole of the Sussex area.

Financial Management Arrangements

- 1.7 Grant funding is held by West Sussex County Council (WSCC) which is responsible for the procurement arrangements of the project and for recording expenditure incurred by both WSFRS and ESFRS.

1.8 Funding for capital accommodation issues are a separate matter and these are being met from transitional budget funds, which will be apportioned on a 50/50 basis between WSFRS and ESFRS.

1.9 As at October 2012, total cost committed to the project amounted to:

	Revenue £	Capital £
Shared Costs	143,152	
Grant Funding	91,162	448,000
Total	234,314	448,000

1.10 Management should note that in the case of any three star (high risk) recommendations issued in this report, implementation will be monitored by Internal Audit on a regular basis and that where actions are not addressed within the agreed timescales, this will be reported to Chief Officer Management Team and the Audit, Best Value and Community Services Scrutiny Committee.

1.11 It is management's responsibility to consider the extent to which any of the issues and risks raised in this report should be reflected within divisional, departmental or corporate risk registers.

2 Executive Summary and Audit Opinion

2.1 Based on the work completed as part of this review we are able to provide the following opinion over the control framework:

Audit Opinion			No Assurance	Minimal Assurance	Partial Assurance	Substantial Assurance	Full Assurance
Direction of Travel					X		
Improved	Unchanged	Reduced					
	X						
Key Findings							
<p>The main reason for this opinion is that many of the controls required to effectively control, monitor and report on the project finances are still being developed.</p> <p>This is mainly due to the total cost of the project not being fully known at the time of our review, with the companies supplying IT equipment in the process of submitting tenders, pension issues being resolved and the transitional costs outside of the DCLG Joint Control Room grant being finalised.</p> <p>The Fire & Rescue Services Act 2004 Section 16 Agreement is in place although this is currently in draft form. We can however confirm that the Section 16 Agreement covers all of the necessary arrangements in relation to the discharging of call handling, mobilising and other related functions on behalf of the two fire Services.</p> <p>We also found that adequate controls are in place that ensures the conditions attached to the DCLG Grant Determination are being complied with.</p> <p>However, a review of the financial controls in operation revealed some weaknesses where improvements can be made. We also identified other areas that should specifically be considered to ensure financial management arrangements, during the life of the project and beyond are robust.</p>							

Recommendations were made in the following areas:

- Developing a detailed project budget which includes the capital refurbishment costs and other incidental expenses.
- Making the best use of SAP, to reconcile budget monitoring records.
- Profiling project expenditure and producing detailed forecast outturns of expenditure to the end of the project.
- Introducing formal variation requests, for where amendments may be required to budgets.
- Introducing additional performance measures to assess the success of a joint control room and establishing all efficiency benefits that could be realised.

Control Objective	System Status	Compliance Status	Recommendations Raised		
			***	**	*
Adequate controls are in place to effectively monitor, manage and account for the expenditure of the project.	Amber	Amber	0	7	0
Arrangements are in place to ensure all non-eligible costs are shared equally during the life of the project and beyond - once the control room is operational.	Green	Green	0	0	0
The conditions attached to the Funding Grant Determination are being complied with.	Green	Green	0	0	0
Once operational, suitable and effective financial management and cost sharing arrangements are in place to correctly account for all jointly controlled operations, assets and liabilities.	Green	Green	0	0	0

3 Issues Arising, Recommendations and Management Comments

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
1	<p>Project Budget</p> <p>The overall responsibility for the project budget rests with the Project Owner.</p> <p>During 2011, both Services worked together to develop a joint bid for funding from the Department for Communities and Local Government (DCLG) to cover the common restructuring and technical costs of the new control room.</p> <p>Based on the bid, a base budget was developed which shows how the funding will be spent over the next two years. This budget is split into the following broad headings:</p> <ul style="list-style-type: none"> • Control Equipment Costs • Communication Costs • Radio Costs • Station Equipment Costs • Personnel Costs • Restructuring costs <p>However, in addition to the technical costs of restructuring the control room (covered by the DCLG's grant money) included in the above budget, the project will also incur</p>	<p>A consolidated project budget should be established that includes all:</p> <ul style="list-style-type: none"> • Eligible expenditure to be drawn down from the DCLG funding. • Capital costs in relation to accommodation and refurbishment of Haywards Heath fire station. • Other incidental costs not eligible to be drawn down from the DCLG grant funding and not capital costs. 	**	Yes

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	<p>capital costs (accommodation and refurbishment) and other incidental expenses such as legal advice fees. It has therefore been agreed that both Services will pay one half of all costs not covered by the grant, currently estimated to be in the region of £1.5million.</p> <p>Because the total cost of the project was not fully known at the time of our review, a consolidated project budget, which includes the capital costs and other incidental expenses, had not yet been developed.</p> <p>In order to ensure that the full costs of the project is known as soon as possible, the risks of overspends are reduced and that all appropriate expenditure is capitalised correctly, a detailed consolidated project budget, covering all costs, should be prepared as soon as possible.</p>			
	Management Response	Responsible Officer	Target Date	
	<p>The financial reporting to Project Board and to Joint Oversight Group includes all three financial elements of this project: spend against grant, spend outside grant to be shared between the two parties and progress against the savings targets.</p> <p>The application of the grant is clear as in the business case to DCLG the allocation of funds was spelt out. Costs shared by the two parties have been kept to a minimum, as both organisations</p>	Strategic Finance Manager	31 January 2013	

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	<p>are under severe financial pressure. Nevertheless, as items are identified they are assessed as part of the request for authority to spend process and incorporated into the financial reporting.</p> <p>The reports will be developed further to assess the accuracy of projected spend as well as reporting of any under or overspend.</p>			

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
2	<p>Budget Monitoring</p> <p>West Sussex County Council (WSCC) is responsible for the procurement arrangements of the project and for recording all expenditure incurred by both Services.</p> <p>WSCC is also required to provide financial information to the Strategic Finance Manager (ESFRS), who is responsible for maintaining the budget monitoring reports and for reporting the budgetary position to the Project Board.</p> <p>Because the project operates a system of delegated budgets, specific budget elements are broken down into constituent parts and allocated to work stream leads to manage. These leads are responsible for reporting costs, including forecast costs to the Strategic Finance Manager (ESFRS) each month.</p> <p>It is therefore important that each specific budget element is reconciled accurately and completely to WSCC's procurement data on SAP.</p> <p>However, whilst it was too early in the life of the project to test this process in detail, it is understood that instead of using SAP, the budget managers will use subsidiary monitoring spread-sheets to monitor their budgets.</p>	<p>The project budget should be monitored using SAP, with all workstream leads managing their constituent parts of the budget on SAP.</p> <p>In addition, all elements of the budget must be monitored against known expenditure and commitments raised by the Project Owner and Project Board, and be regularly reconciled to SAP.</p>	**	Yes

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	<p>The failure to make best use of SAP, or properly reconcile budget monitoring records to SAP, may result in inaccurate and inconsistent information being presented to the project board.</p> <p>A further implication is that any SAP miss codings or incorrect adjustments will not be identified on a timely basis.</p>			
Management Response		Responsible Officer	Target Date	
	<p>Both finance teams met in June 2012 to agree a protocol for recording and monitoring spend on the respective financial systems (both use SAP) and for the reimbursement arrangements. It was agreed that SAP would be used and a coding structure designed.</p> <p>A review of how SAP is being used is under way, linked to the budget setting process to consider automated reporting and any re-phasing that may be required, to include the realisation of the savings target.</p>	<p>Strategic Finance Manager Director of Resources</p>	<p>31 January 2013</p>	

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
3	<p>Profiling and Forecasting</p> <p>As already noted above, a consolidated project budget has not yet been developed.</p> <p>However, a review of the financial position showed that £448,000 of DCLG grant expenditure, some shared costs and other capital expenditure (that cannot be drawn down from the DCLG grant money) had already been incurred or committed to the project.</p> <p>Whilst it is acknowledged that the full cost of the project is not yet known, no project expenditure has been profiled and a detailed forecast outturn of expenditure to the end of the project has not been produced.</p> <p>If the budget is not profiled appropriately, this increases the risk of financial reporting being inaccurate in that it only predicts the outturn position from actual spend to date and contractually committed expenditure, with limited information available on future spend.</p> <p>Whilst detailed spending patterns may not be necessary for certain line items such as salaried staff costs, realistic budget profiles would assist the Project Owner to identify the areas of budgetary pressure as soon as possible, in order that action can be taken.</p>	<p>The anticipated project expenditure should be profiled and a detailed forecast outturn of expenditure to the end of the project should be produced.</p>	**	Yes

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
Management Response		Responsible Officer	Target Date	
	<p>The initial Project plan anticipated a spend profile that would span two financial years and this was reflected in the financial reporting.</p> <p>It has been the case that the project has slipped and this is in the context that the grant funding is not jeopardised by this slippage. To this extent the Project Board do not find the profile of spend relevant other than to understand the progress of the Project and therefore spend in particular years is reported to them accordingly.</p> <p>It is recognised that slippage will impact on the annual spend profiles and the realisation of the savings targets and, as described above, as part of the budget setting process the phasing of the spend profile has been revisited.</p>	No further action required	As above	

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
4	<p>Variation Control</p> <p>Where amendments are required to budgets, it is good practice that formal variation request forms are completed and approved by the project board.</p> <p>However, at the time of our review, this control was not in place for variations to the project budget.</p> <p>The use of formally approved variations will reduce the risk of changes being made to the general ledger before formal approval by the project board and are an effective and readily available audit trail, documenting the reasons for any changes to base budgets of the project in the general ledger.</p>	<p>It is recommended that in instances where amendments may be required to the project budget, variations are formally approved by the Project Owner on an official variation form prior to being processed on SAP.</p> <p>The Strategic Finance Manager (ESFRS) should query any variations that have not been supported by this form and obtain confirmation of this prior to the variation being included in any report to the Project Board.</p>	**	Yes
Management Response		Responsible Officer	Target Date	
<p>At this early stage in the Project budget variation has not been raised as an issue. All spend cannot proceed until authorisation, via a Request to Spend proforma has been complete, via Project Board. This controls any “new” spending plans and authorises the release of funds.</p> <p>The bid to DCLG for the grant described on what the grant will be</p>		No further action required	On-going Process	

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	<p>spent on and this has been revisited following the completion of the Mobile Data Terminal (MDT) contract and the MCC system contract. The Memorandum of Understanding describes changes to this allocation requiring Project Board authorisation, which will shortly be sought, following the award of the two contracts above.</p>			

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
5	<p>General Ledger – DCLG Grant Money</p> <p>The DCLG grant money is held by WSCC.</p> <p>However, both Services are able to purchase eligible grant funded goods and services (after authorised signatory approval) and money spent by ESFRS will be refunded by WSCC.</p> <p>To manage this process, cost centre codes for the capital and revenue elements of the DCLG grant have been set up in WSCC's general ledger (SAP).</p> <p>A review of the general ledger codes showed that the SAP structures match the original budget headings of the DCLG budget, but no budget information has been recorded.</p> <p>This could possibly lead to unnecessary complications in reconciling the ESFRS budget reports to the WSCC general ledger.</p>	<p>Accurate budget information, as calculated by the Strategic Finance Manager (ESFRS) and reported to the Project Board, should be recorded with the cost centre codes of the WSCC general ledger.</p>	**	Yes

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
Management Response		Responsible Officer	Target Date	
	The cost centre structure has been agreed. The original detailed allocation of the DCLG bid has had to be revisited following the completion of the Mobile Data Terminal (MDT) contract and the MCC system contract, which will also inform the budget available to be allocated to the respective cost centres. Taking the above into account, the project team will now review the grant and inform finance colleagues of the amounts that are allocated to the various cost centres.	Project Lead (for budget allocation to cost centres) Gill Theobald (for populating the figures on SAP)		31 January 2013

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
6	<p>General Ledger Management – Capital Refurbishment</p> <p>As mentioned above, all costs that are eligible to be drawn down from the DCLG grant money are being managed in specific cost centres within the general ledger of WSCC.</p> <p>The capital refurbishment works however, has to be funded from sources other than the grant and approved under the separate governance processes of each Service.</p> <p>As part of the audit, we checked that the project had been added to the Capital Programme of each Service, and confirmed that £0.666million had been set aside by each Service, the majority of which will be incurred in 2013/14.</p> <p>However, whilst the funding has now been set aside and included with the Capital Programme of each Service, the methodology of how actual expenditure is to be accounted, recorded and refunded still needs to be agreed and formally confirmed.</p>	<p>The methodology of how actual expenditure of the building programme is to be accounted, recorded in the general ledger of WSCC and costs refunded between both Services needs to be agreed and formally confirmed.</p>	**	Yes
Management Response		Responsible Officer	Target Date	
A SAP cost centre has been set up in the ESFRS SAP ledger to record expenditure to be shared and the reimbursement by WSFRS of the shared element. It has now been confirmed that		Completed	Completed	

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	although no asset is created for ESFRS, the expenditure on Haywards Heath should be treated as capital expenditure and as a consequence the Capital Programme has been varied.			

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
7	<p>Savings</p> <p>Originally prepared as part of the proposed merger, the original business case for a joint control centre identified an opportunity to save £950,000 by merging the two Services' control rooms.</p> <p>The latest iteration indicates savings, to be shared equally between the two parties, to be forecast to be in the region of £970,000 in a full year but reduced in 2013/14, to reflect the slipped go-live date of November 2013.</p> <p>Currently, the financial savings are focussed primarily on staff costs.</p> <p>The other element of the savings is from the operating costs of the system and associated ICT equipment costs. However, these savings cannot be accurately determined at this time because the outcome of the procurement exercise for the Mobilising & Communications system is not yet complete.</p> <p>Other performance measures to assess the success of a joint control centre have not however been established at the outset of the project, making it difficult to assess whether operational or other efficiency benefits will be fully realised.</p>	<p>All recurrent cashable savings (year on year) from base-line expenditure should be identified and monitored continuously.</p> <p>This should include all the released capacity costs to improve the delivery and efficiency of services and potential areas of further significant savings such as future renegotiation of existing contracts that may result in future potential savings from economies of scale.</p>	**	Yes

Ref	Issue/Risk	Action	Risk Rating	Action Agreed
	Management Response	Responsible Officer		Target Date
	<p>The staffing model options have been fully costed so to ascertain whether they achieve the required level of savings. The selected model will be incorporated into the strategic budget for the SCC so the savings can be monitored.</p> <p>The savings from the ICT will not become apparent until the result from the MCC system contract is known. Once again these costs will be built into the strategic model. Subject to the caveat above, the latest forecast of savings indicates £950K in a full year.</p> <p>The Section 16 agreement between the two parties has a strong joint governance arrangements and the approval of the SCC budget and its monitoring will make possible the achievement of the savings.</p>	Strategic Finance Manager		31 January 2013

Acknowledgements

We should like to take this opportunity to thank the following staff for their help and advice throughout the course of the audit:

- Warren Tricker, ESFRS, Strategic Finance and Procurement Manager
- Matt Sturman, WSCC Director of Resources
- Cheryl Rolph, ESFRS, Assistant Chief officer
- Gill Theobald, Finance, West Sussex County Council

Definitions of Audit Opinions

Full Assurance:	<i>There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.</i>
Substantial Assurance:	<i>Whilst there is a sound system of control, there are a small number of weaknesses which put some of the system/service objectives at risk, and/or there is evidence of non-compliance with some controls. Opportunities to strengthen control still exist.</i>
Partial Assurance:	<i>Controls are in place and to varying degrees are complied with, but there are gaps in the control process which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.</i>
Minimal Assurance:	<i>Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve will lead to an increased risk of loss or damage to the Authority.</i>
No Assurance:	<i>Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the system or service objectives. A high number of key risks remain unidentified and/or unmanaged.</i>

Recommendations Risk Ratings

A three star rating (***):	<i>Applies to audit findings which are considered to relate to weaknesses in a fundamental control or high risk area and require urgent action by management.</i>
A two star rating (**):	<i>Applies to weaknesses in the control system which are not considered serious, but still represent a risk and need to be addressed within a reasonable period.</i>
A one star rating (*):	<i>Given in respect of findings which, although relatively minor and low risk, provide an opportunity to improve the control framework.</i>

Control Objectives

The key control objectives of this audit were to ensure that:

- Adequate controls are in place to effectively monitor, manage and account for the expenditure of the project.
- Arrangements are in place to ensure all non-eligible costs are shared equally during the life of the project and beyond - once the control room is operational.
- The conditions attached to the Funding Grant Determination are being complied with.
- Once operational, suitable and effective financial management and cost sharing arrangements are in place to correctly account for all jointly controlled operations, assets and liabilities.