



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

EXTERNAL AUDITORS’ GOVERNANCE REPORT 2011/2012

Joint Report of the Chief Fire Officer and the Treasurer

Agenda Item No:

Date: 21 September 2012

Purpose of Report:

To present the External Auditors’ Governance Report to Members, and to seek Members’ approval of the management representation letter to the External Auditors.

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1. BACKGROUND

- 1.1 The External Auditors are required by Auditing Standards to issue an Annual Governance Report each year to those charged with governance, summarising the conclusions of their audit work.
- 1.2 The principal purposes of the report are:
- To summarise findings from the 2011/12 audit work and identify key governance issues;
 - To inform the Authority of the auditors' opinion on the financial statements and on arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - To seek approval to the management representation letter, which confirms the Authority's responsibilities and actions in relation to the financial statements.
- 1.3 This report to Members sets out the key points in the Governance Report. The full Annual Governance Report is attached as Appendix A. The District Auditor from the Audit Commission will be present at the meeting.

2. REPORT

- 2.1 The annual audit is substantially complete and this Annual Governance Report sets out the key issues which should be considered by Members before the audit opinion, conclusion and certificate can be issued.
- 2.2 The most important matter in relation to the audit of the annual accounts is that the Auditor expects to be able to issue an unqualified audit opinion on the accounts and also to conclude that the Authority has made proper arrangements to secure value for money.
- 2.3 During the course of the Audit the auditors found a number of presentational errors which are detailed below. None of these errors had any impact on the financial position of the authority and all have been corrected. Nevertheless one of these presentational errors is considered significant and has been specifically raised in the governance report.
- 2.4 This error relates to whether Cash should be shown as a financial instrument within the appropriate disclosure as should Grant Receipts in Advance. Finance staff followed the CIPFA guidance on this matter as they have in previous years and it is clear that opinion is divided on this issue as many other Authorities also exclude cash. Nevertheless it has been agreed with the auditors that it should in fact have been included.
- 2.5 As part of their governance report in 2010/2011 the auditors identified a number of potential risks to the accounts in 2011/2012 however they note on page 6 of their report that all of these have been appropriately managed.

2.6 The Auditors have made three recommendations within their report as follows:

- i) That a full review of reserves takes place to ensure that these are rationalised and if necessary written back to the accounts. This process has already begun in preparation for the 2013/2014 budget process.
- ii) That password standards for network access are set in line with ISO27001 and that an annual network penetration test is carried out. (See comment below)
- iii) That Test restoration from backup is carried out to validate backup procedures and files. This is a matter already in hand as part of a response to an internal audit report.

2.7 The Audit Commission hold a general view that passwords should comply with ISO27001. To comply passwords would need to meet the following criteria:

- keep passwords confidential;
- avoid keeping a record (e.g. paper, software file or hand-held device) of passwords, unless this can be stored securely and the method of storing has been approved;
- change passwords whenever there is any indication of possible system or password compromise;
- select quality passwords with sufficient minimum length which are:
 - easy to remember;
 - not based on anything somebody else could easily guess or obtain using person related information, e.g. names, telephone numbers, and dates of birth etc.;
 - not vulnerable to dictionary attacks (i.e. do not consist of words included in dictionaries);
 - free of consecutive identical, all-numeric or all-alphabetic characters;
- change passwords at regular intervals or based on the number of accesses (passwords for privileged accounts should be changed more frequently than normal passwords), and avoid re-using or cycling old passwords;
- change temporary passwords at the first log-on;
- not include passwords in any automated log-on process, e.g. stored in a macro or function key;
- not share individual user passwords;

- not use the same password for business and non-business purposes.

The overall purpose of password control is to prevent unauthorised access to computers and networks and management agree with the auditors that this security should be improved.

- 2.8 Past experience has shown that insisting that passwords are changed regularly results in a number of actions which themselves may compromise security:
- i) Users forget passwords and therefore write them down in diaries etc.
 - ii) Those who don't will regularly telephone for password resets by the service desk
 - iii) Passwords that are easy to remember are usually easy to guess.
 - iv) Users often use the same basic password with a numerical change which is only slightly more secure than not changing a password at all.
- 2.9 Management intend to strengthen access control by a combination of the use of stronger passwords in compliance with ISO 27001 and by introducing password resetting periods which are appropriate to the tasks being carried out. For example Finance staff will change their passwords more regularly that firefighters who may only use email.
- 2.10 In addition to the presentational errors referred to in 2.3 above there are a number of minor errors which were corrected at the time of audit. For completeness these are detailed below:

ANNUAL GOVERNANCE STATEMENT – CHANGES REQUESTED BY AUDITOR

- 2.11 The Annual Governance Statement, which forms part of the Statement of Accounts and was approved by Members of the Fire Authority on 29 June 2012. The following amendments have been made to the statement:
1. The statement referred to the Audit Commissions inspectorate functions, these no longer exist so this has been removed;
 2. The statement referred to the Audit Commissions annual review but as no review took place in 2011/12 this has been removed;
 3. The statement referred to the previous Account and Audit Regulations not the revised 2011 Regulations this has been amended;
 4. A new paragraph (4.6.3) has been added to the statement to confirm a system of internal control was in place and remained up to date;
 5. A new paragraph (4.6.4) has been added to refer to the proposed abolition of the Audit Commission.
 6. A new paragraph has been added to confirm that the Authority's financial management arrangements conform to the relevant CIPFA statement.

A revised Governance Statement is provided as Appendix C to this report

OTHER ERRORS IDENTIFIED BY FINANCE STAFF

- 2.12 The following errors were discovered by Finance Staff after the accounts had been submitted to the auditors and have therefore been corrected.
1. Assets Held For Sale were showing within Total Long Term Assets on the Balance Sheet and Group Balance Sheet rather than Total Current Assets This has also been corrected in Note 18 Assets Held for Sale;
 2. The narratives shown on the two lines following the Surplus/Deficit on Provision of Services on the Group Comprehensive Income and Expenditure Statement were incorrect;
 3. £25k relating to pension settlements had been included in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement when it should be shown within Non Distributed Costs. This also affected the Group Comprehensive Income and Expenditure Statement.

OTHER ERRORS IDENTIFIED BY AUDITOR

- 2.13 The Auditors requested that the following corrections be carried out:
1. The note numbers referred to on the Cash Flow Statement were not agreeing to the actual number in the Notes to the Accounts;
 2. The total for 2011/12 on Note 29 Officers' Remuneration excluded one of the officers shown in the note and was therefore incorrect. In addition, total remuneration amounts for officers occupying the same post had been amalgamated – these have now been split to show the amounts for each individual post-holder.;
 3. The 2009/10 comparator for the 2006 scheme in the Scheme History table of Note 36 Defined Benefit Pension Schemes was incorrect;
 4. The Statement of Responsibilities for the Statement of Accounts read that the auditor should "enter his certificate and opinion". This has been corrected to "enter his opinion and certificate";
 5. On the Balance Sheet and Group Balance Sheet, Provisions are now labelled Long Term and Short Term Provisions;
 6. Note 1 Accounting Policies has been amended within Allocation of Support Service Costs to refer to the new Service Reporting Code of Practice, and in Non Current Assets to further clarify building revaluations following major refurbishment and following the demolition and building of a replacement fire station;
 7. The line on Note 12 Property Plant and Equipment for Assets reclassified to/from Surplus Assets was incorrectly labelled Assets reclassified to/from Held for Sale;
 8. The analysis by category of the Depreciation Charge in Note 12 Property Plant and Equipment was incorrect. This was because the depreciation for two assets that transferred to Surplus Assets, £10k, was shown as Surplus Assets and not

Other Land and Buildings, where the assets were at the time the depreciation was incurred. This also affected the Net Book Value for these two columns although the overall value of Property, Plant and equipment was unaffected. This same correction has also been reflected in the Revaluations table included in Note 12;

9. Creditors on Note 14 Financial Instruments were wrongly categorised as Financial assets carried at contract amount not as Financial liabilities at amortised cost also Grants in Advance had been excluded. This addition of Grants in Advance also required the analysis of creditors, shown below the table, to be redrafted;
10. The Capital Adjustment Account analysis between revaluations and impairments in Note 22 Unusable Reserves was wrong by £177k on the first two rows of the table - the overall total of the two rows was correct.;
11. The Members paragraph of Note 32 Related Parties was showing an incorrect outstanding creditor balance with Nottingham City Council of £14k – this has been corrected to £214k;
12. The Transactions Relating to Post-Employment Benefits table in Note 36 Defined Benefit Pension Schemes was incorrectly showing £25k in interest costs that should have shown as settlements. This was a

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the report as it is essentially an assessment of the Authority's financial performance.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources and learning and development implications arising directly from this report.

5. EQUALITIES IMPLICATIONS

No initial equality impact assessment has been prepared for this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

The work of the External Auditors in their audit of the accounts provides an independent view of the adequacy of internal controls, the accuracy of the final accounts and an assessment of the Authority's achievement of value for money. This in turn provides strong and independent risk control as well as an assurance to Members.

9. RECOMMENDATIONS

It is recommended that Members:

- 9.1 Note the contents of the External Auditors' Annual Governance Report.
- 9.2 Approve the management representation letter to the External Auditors as set out in Appendix B. This is a necessary pre-cursor to the issuing of the audit opinion.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

Frank Swann
CHIEF FIRE OFFICER

Annual governance report

Nottinghamshire & City of Nottingham Fire Authority

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 21 September 2012, I expect to issue an unqualified audit opinion.

The financial statements presented for audit were complete and supported by good quality working papers.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. The key findings from my audit are:

- Financial resilience continues to be a high priority for the Authority. The organisation has maintained robust systems and processes to manage financial risks and opportunities to secure a stable financial position.
- The Authority continues to maintain proper arrangements to challenge how it secures economy, efficiency and effectiveness in delivering services and using available resources.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

I found a number of presentational errors in the draft financial statements. All of the errors were presentational, disclosure issues and had no impact on the Authority's overall financial position. All of the presentational errors have now been amended. Your Assistant Chief Officer (Director of Finance & Resources) has provided a schedule of these amendments to the Audit Committee.

One of the presentational errors was of a material value. The financial statements have been adjusted to reflect this error. I bring this to your attention to help you in fulfilling your governance responsibilities. The details are provided in Appendix 2.

There are no further errors that I need to bring to your attention.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 1: Risks and findings

Risk	Finding
<p>Staff capacity</p> <p>In common with many authorities, the timeliness with which the 2010/11 accounts were prepared was affected by changes in reporting requirements. This was compounded at Nottinghamshire and City of Nottingham Fire Authority by the introduction of a new financial ledger in February.</p> <p>Whilst IFRS has now been implemented, there are upgrades planned to the new financial systems in February. There is a risk that this could have an adverse impact on the capacity of your finance team, especially as a key member of staff is now on maternity leave</p>	<p>The 2011/12 financial statements were prepared in accordance with the statutory timescale. The statements submitted for audit, together with the supporting working papers, were of a good quality.</p>
<p>Dunkirk Fire station</p> <p>The legal case relating to the sale of the Dunkirk Fire Station has now been settled. The Fire Authority has entered into a collaboration arrangement with Nottingham City Council in relation to the financial aspects of the settlement and the future plans for the Fire Station. There is a risk that the appropriate accounting treatment may not be followed.</p>	<p>The Authority's share of the compensation has been accounted for as an accrual because the liability existed on 31 March 2012. This is the correct accounting treatment.</p>
<p>Preparation of group accounts</p> <p>The Authority is the sole shareholder in Nottinghamshire Fire & Rescue Service (Trading) Limited. Under the requirements of the Code of Practice on Local Authority Accounting where an authority has a controlling interest in a subsidiary the authority should prepare group accounts in addition to their single entity financial statements unless the interest is not considered material.</p> <p>The Authority's interest in the trading company in 2010/11 was not considered to be material, as such group accounts were not required. Officers will need to assess whether the Authority's interest in the trading company in 2011/12 is</p>	<p>Based on the finance team's assessment, group accounts have been prepared. There are no issues from my audit that I need to bring to your attention.</p>

Risk

material and whether group accounts are required for 2011/12 financial statements.

Finding

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in your arrangements for internal control.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have three matters I wish to report.

Table 2: **Other matters**

Issue	Finding
The Authority has a large number of reserves, many of which have had no movement in recent years.	The Authority should review the number of reserves, paying particular attention to the dormant reserves, and rationalise or write back where appropriate. This will allow the Authority to make the most of the flexibility offered by its current level of reserves.
As part of our review of the Authority's IT control environment, we identified that there are weaknesses in network passwords and network penetration testing is not undertaken on a regular or routine basis.	These factors combine to provide weaknesses in access control. Password standards should be set in line with ISO27001 and annual network penetration testing should be undertaken.
We have not been able to identify if the IT systems have been tested to ensure they can be restored from a back up.	There is a risk that IT systems cannot be restored from a back up. The Authority should perform a test restoration from a back up at the earliest opportunity to help ensure that there would be no critical loss of data in the event of an IT failure.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Savings relating to the Fire Cover review are not realised or are delayed thus putting additional pressure on the budget going forward.</p>	<p>This has been a challenging year financially for the Authority, with reductions in grant for 2011/12 and future years. However, the Authority has successfully delivered the 2011/12 budget, continuing its good record in this respect.</p> <p>In response to the required savings, the Authority has implemented a series of initiatives to enable it to reduce costs and maintain a strong level of reserves, with an increase in the general fund balance from £5.5m to £7.1m.</p> <p>The budget for 2012/13 has been set in the context of a three year financial plan, and demonstrates ongoing recognition of the financial challenges faced by the Authority.</p>

Criteria	Risk	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>No significant risks identified in relation to this criterion.</p>	<p>The Authority continues to recognise the risks presented through the reduction in funding and continues to address the issues through the prioritisation of resources. The organisational restructure, introduced in 2012, ensures that staff are placed in the areas of greatest need and priority and will lead to savings in excess of £1million. Savings to date have been achieved without impacting on operational service</p>

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee of £69,000. I have not undertaken any non-audit work for the Authority.

The Audit Commission has paid a rebate of 8% to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £63,480.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY

Opinion on the Authority and Firefighters’ Pension Fund financial statements

I have audited the financial statements and the firefighters’ pension fund financial statements of Nottinghamshire and City of Nottingham Fire and Rescue Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement and the related notes. The firefighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFAS/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire and City of Nottingham Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer’s Responsibilities, the Treasurer is responsible for the preparation of the Authority’s Statement of Accounts, which includes the financial statements and the firefighters’ pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority, Group and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Nottinghamshire and City of Nottingham Fire and Rescue Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Nottinghamshire and City of Nottingham Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Nottinghamshire and City of Nottingham Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Cornett

District Auditor

Unit 10, Whitwick Business Centre, Whitwick Business Park, Stenson Road, Coalville LE67 4JP

Date

Appendix 2 – Corrected errors

I identified the following material errors during the audit which management have addressed in the revised financial statements.

Detail of material error			
Item of account	Nature of error	Description of error	
Note 14 financial instruments	Disclosure error	The financial instruments note presented for audit did not include cash and grant receipts as required by the Code of Practice.	Note 14 has been amended to include: Cash - £3,218k Grant receipts in advance - £34k

Appendix 3 – Draft letter of management representation

Nottinghamshire & City of Nottingham Fire Authority - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Nottinghamshire and City of Nottingham Fire Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Nottinghamshire and City of Nottingham Fire Authority

I confirm that the this letter has been discussed and agreed by the Fire Authority on 21 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 – Action plan

Recommendations

Recommendation 1

The Authority should review the number of reserves, paying particular attention to the dormant reserves, and rationalise or write back where appropriate.

Responsibility	ACO Director of Finance and Resources
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Priority	High
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Date	By End of December 2012
-------------	-------------------------

Comments	Essential for the annual budget process
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Recommendation 2

Password standards should be set in line with ISO27001 annual network penetration testing should be undertaken

Responsibility	ACO Director of Finance and Resources
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Priority	High
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Date	By End of December 2012
-------------	-------------------------

Comments	Intend to seek higher levels of control than ISO 27001
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Recommendation 3

The Authority should perform a test restoration from a back up at the earliest opportunity to help ensure that there would be no critical loss of data in the event of an IT failure.

Responsibility	ACO Director of Finance and Resources
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Priority	High
-----------------	------

Date	By End of December 2012
Comments	This is more difficult to achieve as the issue is not whether to restore but where to restore. Nevertheless it is our intention to rehearse this in compliance with Internal Audit recommendations also. We have already "tested" restore for key systems such as mobilising and finance.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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Mr John Cornett
Engagement Lead
Audit Commission
Unit 10 Whitwick Business Park
Stenson Road
Coalville
Leicestershire
LE67 4JP

Your Ref: -
Our Ref: NT/LAB/John Cornett 05.09.12
Please Ask For: Neil Timms
Direct Line/Ext: 0115 9675828
Date: 5th September 2012

Dear John

**Nottinghamshire & City of Nottingham Fire Authority:
audit for the year ended 31st March 2102**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Nottinghamshire and City of Nottingham Fire Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Nottinghamshire and City of Nottingham Fire Authority

I confirm that the this letter has been discussed and agreed by the Fire Authority on 21st September 2012

Signed: _____

Name: _____

Position: _____

Date: _____

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY ANNUAL GOVERNANCE STATEMENT

1.0 SCOPE OF RESPONSIBILITY

- 1.1 Nottinghamshire Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvements in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, use of its resources and including arrangements for the management of risk and the maintenance of an effective internal control environment.
- 1.3 The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government.
- 1.4 This statement sets out how the Authority has complied with the code and also meets the requirements of regulations 4(3) and 4(4) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, cultures and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is part of an ongoing process designed to identify and prioritise the risks to the achievement of Nottinghamshire Fire and Rescue Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Authority for a number of years.

3.0 THE GOVERNANCE FRAMEWORK

3.1 In addition to the Annual Governance Statement the Authority has a Code of Corporate Governance that the Authority will commit to in carrying out its duties and responsibilities. In this document, officers have identified against each of the Code's principles what source documentation or existing practice demonstrates how the Authority complies with the principles that make up the Code. A copy of the Code of Corporate Governance can be found on the Authority's website.

3.2 Summarised below are some of the key elements of the systems and processes that underlie the Authority's governance arrangements:

3.3 Identifying and Communicating the Authority's vision and outcomes for citizens and service users:

3.3.1 After consulting with the citizens of Nottinghamshire and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the vision and service objectives for the organisation. The latest IRMP is incorporated into the Service Plan which covers the period 2010-2013 and the Authority consults with the citizens and other stakeholders to formulate its business plans for each financial year within this plan.

3.3.2 The Authority's vision is "Creating Safer Communities" and it strives to deliver this by developing a set of cohesive business plans and working in partnership with others to provide an excellent, affordable service to all the diverse communities of Nottinghamshire. To deliver this the Authority has established six key corporate objectives:

Prevention - we will

Work with young people to reduce arson, accidental fires and road traffic collisions (RTCs)

Focus on those most at risk from fire and other avoidable injuries

Work with partners to make our communities safer

Use and share data to identify those most at risk.

Protection - we will

Maintain a risk based approach to enforce our statutory responsibilities

Assist and support those responsible for fire safety within businesses

Work to reduce the economic costs of fire.

Response - we will

Use our resources to meet the risks within our community

Gather and use risk based information to inform our response

Provide the highest standards of training, PPE, appliances and equipment that we can in order to keep our employees safe.

Resilience - we will

Respond to growing risks from the environment

Work with our partners to ensure an effective response and recovery to major events.

Diversity and Workforce - we will

Recruit a workforce that reflects our community

Recruit and develop our employees to the highest standards to maintain and promote high standards of health, safety and wellbeing for all of our employees.

Governance and improvement - we will

Strive to become an excellent authority

Use our resources efficiently and effectively to provide value for money.

3.4 Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:

3.4.1 The Service operates a system of cascading business plans. The Service Plan is the highest level and from this a series of departmental and functional business plans are produced. Progress against these plans is reported on regularly using a piece of specialist software and the performance management team report on progress and outcomes to the performance committee of the Fire Authority. There are other plans outside the main business plans such as the equalities action plan which are separately reported on.

3.5 The Internal Control Environment:

3.5.1 The Authority's internal control environment comprises many systems, policies, procedures and operations. In reality these split into risk management, internal check/financial control and internal audit. Internal Check and financial control are clearly targeted towards financial matters whereas risk management has a much broader brief and is more associated with the risk of non-achievement of objectives and targets. The system cannot however eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority, where possible will eliminate that risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.5.2 Policy and Decision Making Process

The Authority has democratic control over its activities via an approved committee structure with agreed powers and duties that are periodically reviewed. The Authority has a written constitution that sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable. There is a formal briefing process prior to reports being finalised for Committee or Fire Authority meetings thus allowing key Members an opportunity to scrutinise proposed reports in detail the Authority also runs Members away-days, seminars and training sessions to help Members discuss issues in more detail and in a less formal environment.

3.5.3 Management Structure

The Authority has a clear management structure with defined roles and responsibilities, a Corporate Management Board made up of the Chief Fire Officer, Deputy and Assistant Chief Fire Officers and key departmental heads meet on a weekly basis. The board is supported by a number of "steering groups" responsible for areas such as Estates, ICT, training etc. as well as the Service Assurance Steering Group which takes the role of a multi disciplinary team dealing with performance management and interdependencies. All steering groups report on a regular basis to the Corporate Management Board.

The Authority has an approved scheme of delegation to officers that is reviewed periodically by the CFO and the Clerk with any changes being approved by the Fire Authority.

3.5.4 Established Policies, Procedures & Regulations

The Authority ensures compliance with established policies, procedures, laws and regulations. The information regarding policies and procedures is held on the intranet, and these are continually enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of financial regulations which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the key policies and processes in place to enhance the internal control system that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Scheme of Financial Management (Financial Principles, Financial Procedures and Financial Regulations)
- Scheme of Delegation
- Anti Fraud & Corruption Policy
- Whistleblowing Policy
- Complaints procedure
- Code of Corporate Governance

- Constitution
- Code of Conduct
- Equality and Diversity schemes
- Workplace plan and establishment model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedures, discipline processes, through to performance development reviews

3.5.5 Internal Audit Function

The Authority has a strong Internal Audit Function arrangement with Nottinghamshire County Council, and has well-established protocols for working with External Audit. The Audit Commission also reviews compliance with policies, procedures, laws and regulations within their remit.

3.5.6 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. This is managed on two levels, firstly at the corporate/strategic level by the Finance and Resources Committee. This Committee has delegated responsibility from the Fire Authority as part of the Governance arrangements and is advised by the ACO Finance and Resources on behalf of the CFO. In addition the Service also maintains an approach to Risk via its business plan monitoring which is administered through its Corporate Services Department. This ensures the service's Risk Manager can support departmental heads in robustly assessing the risks to the achievement of the services objectives.

3.5.7 Best Value Duty

The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty and its own Value For Money programme.

3.5.8 Financial Management

The Authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010) as set out in the application note Delivering Good Governance in Local Government: Framework.

Financial management in the Authority and the reporting of financial standing is undertaken through a financial system which integrates the general ledger, sales ledger and purchase ledger functions and facilitates good budgetary control.

4.0 REVIEW OF EFFECTIVENESS

4.1 The Authority has responsibility for conducting a review of the effectiveness of its governance framework including the system of internal control, at least annually. The review of effectiveness is informed by the work of the Corporate Management Board and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal audit
- External bodies

4.3 The Authority and Its Committees

4.3.1 The Authority

The Authority reviews the vision and strategic service objectives before the commencement of each financial year when considering the coming year's service plan. The latest fully revised Integrated Risk Management Plan for the period 2010-2013 was approved on 19th February 2010.

The Fire Authority at its Annual General Meeting reaffirmed the format and structure of its democratic decision process by reviewing and approving the powers and make-up of the following committees:

- The Policy and Strategy Committee
- The Finance and Resources Committee
- The Performance Monitoring Committee
- The Human Resources Committee
- The Community Safety Committee
- The Standards Committee

In addition to the above there is also the Appointments Committee, the Personnel Committee and the Strategic Equalities Board.

Terms of reference and responsibilities for all of these Committees form part of the Authority's Governance arrangements.

4.3.2 During 2011/2012 the Authority undertook a complete review of Financial Regulations, Standing Orders and its scheme of delegation to ensure that these remain fit for purpose. In particular the financial regulations were amended to fully comply with CIPFAs latest recommendations and replaced with a Scheme of Financial Management which comprises Financial Principles, Financial Procedures and Financial Regulations.

4.4 Management Review

4.4.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems.

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority's management structure and processes. The 2010/13 Service Plan set out the Authority's key objectives for the year and these have been reflected in annual departmental business plans. These plans are then monitored by the Corporate Services department and managed by the individual departmental management teams. The performance monitoring team will assess achievement against key objectives and local performance indicators which are reported quarterly to the Corporate Management Board and the Performance Monitoring Committee. The External Auditors, as part of the national performance regime for Fire and Rescue Services, had previously questioned whether the targets being set were challenging enough. As a result of this work targets are robustly challenged and revised annually.

4.4.3 Risk management at the strategic/corporate level forms part of the overall responsibilities of the Finance and Resources Committee and Members of this committee take a keen interest in Risk Management. In a proactive way this Committee has considered the desirable risk appetite of the organisation and set risk targets for the Service to report against. Risk Management is an integral part of project management and business planning within the Corporate Services department and both this and operational risk management which is managed within the Risk Response function, are considered strong. The Service also maintains a comprehensive approach to health and safety which is undertaken by the Service's Health and Safety advisor and monitored by the Health Safety and Wellbeing Committee. This group of Officers and representative Bodies reports quarterly to the Corporate Management Board.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer is responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with. The monitoring officer is a qualified solicitor provided on a contractual basis to the Authority by the Legal Services Department of Nottingham City Council. This arrangement also includes support for the Authority's wider governance structure.

- A Responsible Finance Officer has been appointed as the independent Treasurer to the Authority to ensure the proper and effective administration of the financial affairs of the Authority. The Strategic Management Team ensure that the Authority approves a realistic and affordable financial plan for both revenue and capital expenditure which links to the IRMP and the Service Plan. The Authority continued to ensure it had strong arrangements for managing its finances including strong leadership throughout the year. The financial planning process is well embedded and understood across the Authority by staff and Members. An in house financial team managed by the ACO Finance and Resources maintain the correct competencies and ensure that the Strategic Team receive all appropriate information to support the key decisions and objectives of the service.

4.4.5 Budget monitoring remains robust at both strategic and service level via the production of monthly financial monitoring reports for both Capital and Revenue budgets. These reports as well as being scrutinised by budget managers are also reported monthly to the Corporate Management Board and quarterly to the Finance and Resources Committee.

4.4.6 Steering groups and functional Heads also exercise a detailed degree of budget monitoring against the capital programme.

4.4.7 The Audit Commission approved an unqualified Statement of Accounts for 2010/11 and it is anticipated this will be repeated in 2011/12. A presentation by the ACO Director of Resources on the final accounts together with a detailed year-end report to the Authority helped communicate the year-end position to Members in a clear and understandable format. Members were fully engaged with the process and asked a number of detailed questions about the accounts.

4.5 Internal Audit

4.5.1 The Authority procured its internal audit service under a contract with Nottinghamshire County Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2011/12, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised actions plans, if relevant, to address any areas needing improvement. These reports were submitted to CFO, the ACO Director of Finance & Resources and the relevant managers as appropriate. All finalised reports were submitted to the Finance and Resources Committee acting in its role as Audit Committee. Audit reports are also fed into the performance management function within the Corporate Services Department to ensure that recommendations are implemented to agreed timescales.

4.5.2 The Annual Internal Audit Report to the Finance and Resources Committee concluded that:

"from work carried out during the 2011/12 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management".

4.6 External Review

4.6.1 External audit services are carried out by the District Auditor on behalf of the Audit Commission. Under the revised Code of Audit Practice, the District Auditor is required to focus on corporate performance management and financial management arrangements, as these form as key part of the system of internal control and comprise the arrangements for:

establishing the Authority's strategic and operational objectives, determining policy and making decisions;

ensuring compliance with established policies, procedures, laws and regulations including the general duty of best value, where applicable;

identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;

managing the Authority's financial and other resources, including arrangements to safeguard the financial standing of the Authority;

monitoring and reviewing performance, including arrangements to ensure data quality; and

ensuring that the Authority's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

4.6.2 The District Auditor reported on these matters in the 2010/2011 Annual Governance report and Annual Audit Letter. These documents reflect the Auditor's findings and conclusions from auditing the Statement of Accounts.

4.6.3 The system of Internal Control described above was in place for the whole of the 2011/2012 financial year and has remained so up to the date of the approval of these accounts.

4.6.4 The Audit Commission is facing a phased abolition, with the external audit function being removed from its role with effect from November 2012. In future, the Authority's accounts will still be subject to the same level of external review under the Audit Commission framework.

5.0 SIGNIFICANT ISSUES FOR GOVERNANCE

- 5.1** Noticable reductions in central government grant have meant that the Authority has had to make significant savings over the three year CSR period whilst continuing to maintain a service which meets public expectations.
- 5.2** A major review of fire cover, the first for over 20 years, has identified some significant changes to the service delivery model across the county. This review was approved by Members and is now in the process of full implementation.
- 5.3** The Authority's prudent financial management, as shown in the MTFS, has allowed the impact of budget reductions to be phased. This will help to provide continuous stability during a period of immense transition.
- 5.4** Accommodating new Members of the Fire Authority following recent elections and during a period of operational and financial transition will be a key challenge for the Authority. The Members' training programmes and seminar sessions will be key to ensuring all remain appraised of up-to-date information to enhance the formal decision making process.
- 5.5** During the coming year, the Service will seek to address the above matters through its current structures and processes to further enhance governance arrangements.
- 5.6** There are also a number of external factors which present financial risks to the Authority going forward. These need to be considered as part of the Strategic Risk assessment.

Signed

Cllr Darrell Pulk
CHAIRMAN

Signed

Frank Swann
Chief FIRE OFFICER