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NOTTINGHAMSHIRE & CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY - FINANCE AND RESOURCES

Date: Friday, 27 April 2018 **Time:** 10.00 am

Venue: Fire and Rescue Services HQ, Bestwood Lodge, Arnold Nottingham NG5 8PD

Members are requested to attend the above meeting to be held at the time, place and date mentioned to transact the following business

Clerk to the Nottinghamshire and City of Nottingham Fire and Rescue Authority

AGENDA		Pages
1	**APOLOGIES FOR ABSENCE**	
2	**DECLARATIONS OF INTERESTS**	
3	**MINUTES** Of the meeting held on 19 January 2018 (for confirmation)	3 - 8
4	**COUNTER FRAUD, MONEY LAUNDERING, CORRUPTION AND BRIBERY POLICY** Report of the Chief Fire Officer	9 - 22
5	**PRUDENTIAL CODE MONITORING REPORT TO MARCH 2018** Report of the Treasurer to the Fire Authority	23 - 30
6	**REVENUE AND CAPITAL MONITORING REPORT TO 28 FEBRUARY 2018** Report of the Chief Fire Officer	31 - 44
7	**EXTERNAL AUDIT PLAN 2017/18** Report of the Chief Fire Officer	45 - 72

8 EXCLUSION OF THE PUBLIC

To consider excluding the public from the meeting during consideration of the remaining items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Act.

ANY COUNCILLOR WHO IS UNABLE TO ATTEND THE MEETING AND WISHES TO SUBMIT APOLOGIES SHOULD DO SO VIA THE PERSONAL ASSISTANT TO THE CHIEF FIRE OFFICER AT FIRE SERVICES HEADQUARTERS ON 0115 967 0880

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ABOVE, PLEASE CONTACT THE CONSTITUTIONAL SERVICES OFFICER SHOWN ON THIS AGENDA, IF POSSIBLE BEFORE THE DAY OF THE MEETING.

Governance Officer: *Cath Ziane-Pryor*
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http://committee.nottinghamcity.gov.uk/ieListMeetings.aspx?CId=216&Year=0

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM
FIRE AND RESCUE AUTHORITY

FINANCE AND RESOURCES COMMITTEE

MINUTES of the meeting held at Fire and Rescue Services HQ, Bestwood Lodge, Arnold Nottingham NG5 8PD on 19 January 2018 from 10.01 am - 11.08 am

Membership

Present	Absent
Councillor Malcolm Wood (Chair)	
Councillor John Clarke	
Councillor Brian Grocock	
Councillor Francis Purdue-Horan	
Councillor Mike Quigley MBE	

Councillor Andrew Brown (observing)

Colleagues, partners and others in attendance:

John Buckley	-	Chief Fire Officer
Craig Parkin	-	Assistant Chief Fire Officer
Theresa Channell	-	Interim Treasurer to the Authority
Becky Smeathers	-	Head of Finance
Catherine Ziane-Pryor	-	Governance Officer

21 APOLOGIES FOR ABSENCE

None.

22 DECLARATIONS OF INTERESTS

None.

23 MINUTES

Subject to the inclusion of Councillor Mike Quigley's apologies for absence due to leave, the minutes of the meeting held on 13 October 2017 were confirmed as a true record and signed by the Chair.

24 REVENUE AND CAPITAL MONITORING REPORT TO 30 NOVEMBER 2017

Becky Smeathers, Head of Finance, presented the detailed report which informs the Committee of the financial performance of the Service between 3 March 2017 and 30 November 2017 with variances from the budget identified.

It is noted that under the current and newly reviewed circumstances, dependant on the Authority's decisions regarding budgets, by the end of the financial year it will be necessary to utilise reserves which will result in an earmarked reserve of £2.1m and a general reserve balance of £7.3m.

Comments from members and responses to their questions included:

(a) reserves are finite and it is not advisable to use them to support the budget in the longer term so allocation should be approached with caution;

(b) there is no legal level of reserves to be maintained and it is for each Authority to determine the level which is believed to be appropriate against potential risks. It is anticipated that the Service will hold £7.3 million of general reserves at the end of this financial year but predicted that reserves will need to be further drawn upon in future years;

(c) the Authority is aware of the level of Central Government funding to be provided up to 2020, and needs to ensure that the shortfall can be met by planning for the future;

(d) in previous years the Authority has underspent in some areas which has enabled reserves to be topped up. With the current funds available and savings required it is not anticipated that underspends will occur to be able to replenish reserves.

RESOLVED to note the report.

25 BUDGET PROPOSALS FOR 2018/19 TO 2020/21 AND OPTIONS FOR COUNCIL TAX 2018/19

Becky Smeathers, Head of Finance, introduced the report which presents the Committee with budget proposals for 2018/19 to 2020/21 and the implications for Council Tax.

The report provides details (with assumptions clearly identified) on the predicted capital and revenue costs and known income. Also included are the projected potential income options resulting from below the referendum threshold rises in Council Tax, which Central Government has raised to 3%. It is noted that a Council Tax freeze grant is no longer available.

Theresa Channell, Interim Treasurer to the Authority, commented that Finance Team colleagues have worked hard, and continue to do so, to ensure the robustness of the budget, outcomes and ensure sustainability. Reserves are finite and flexibility is reducing and will be removed as reserves reduce. The current level of protected reserves of £4.4m will not be sustainable beyond 2018/19 if the council tax increase of 1.95% is applied, but will be sustainable into 2019/20 if an increase of 2.95% is applied, as illustrated in

Appendix C to the report. It is noted that any council tax increase will of course impact on future years budgets.

Questions from members of the Committee were responded to as follows:

(a) the required savings target identified through the sustainability strategy is £1.65m. Whilst on course to make such savings in the longer term, unpredicted issues arising, such as the higher than expected pay rise and the increase of pay awards, strengthens the case for a rise in Council Tax;

(b) savings in the region of £800,000 may potentially be achievable through crewing proposals. Further information on this will be provided to the next full Fire Authority meeting.

Members comments included:

(c) it is premature to make a decision on reserves until it can be confirmed what level of savings can be achieved;

(d) a 2.95% Council Tax increase is not unreasonable given the quality of services provided;

(e) to ensure that all relevant information is considered further, more detailed information, including savings via collaboration, is required before a decision on recommendations to the full Authority should be made;

(f) not all citizens can afford a rise to the extent of 2.95% and cumulatively financial impact on citizens will be significant;

(g) the need to increase Council Tax is required due to the reduction of Central Government funding of the Service;

(h) contrary to public perception, austerity measures are yet to be fully implemented. Frontline public services need to change but it is difficult to make a decision in the name of sustainability when the future is uncertain.

RESOLVED to make recommendations to the full Fire Authority to:

(a) increase Council Tax to a maximum of 2.95%;

(b) approve the use of reserves as identified in the report to achieve a balanced budget as required by law.

It is noted that Councillor Mike Quigley and Councillor Francis Purdue- Horan abstained from voting.

26 PRUDENTIAL CODE MONITORING REPORT TO NOVEMBER 2017

Becky Smeathers, Head of Finance, presented the report which informs the Committee of the performance against prudential indicators for the quarter period ending 30 November 2017, with regard to capital accounting and treasury management.

It is noted that although earnings from interest were below that budgeted for, all prudential indicators remained within the parameters agreed by the Authority and there are no areas of concern.

RESOLVED to note the report.

27 ANNUAL AUDIT LETTER 2016/17

Becky Smeathers, Head of Finance, presented the Annual Audit Letter 2016/17 provided by KPMG LLP, the Authorities External Auditors for that period. It is noted that a summary was presented to the full Fire Authority at the meeting on 18 December 2017.

The Annual Audit Letter states that the Service achieved good value for money and had appropriate arrangements for securing economy, efficiency and effectiveness in the use of resources. KPMG LLP has issued an unqualified audit opinion which raises no significant concerns.

RESOLVED to note the report.

28 CORPORATE RISK MANAGEMENT

Craig Parkin, Assistant Chief Fire Officer, presented the report which informs the Committee of the Corporate Risk Management process and highlights the high and very high risks identified.

The following risks were highlighted and are detailed within the report with existing and additional responses outlined:

(i) availability of resources with regard to maintaining business continuity. The Policy and Strategy Committee will be updated on this issue, but it is likely that further finances will be required;

(ii) Emergency Services Network (ESN). A systems replacement has resulted in a 14 month delay on the initial schedule which is now expected to extend to 2 years. The transition funding from Central Government was received eight months late. There is however some progress on the devices used which will be government subsidised, but the Service currently partially subsidises the project. Once implemented the equipment will be as-good-as, if not better, than that already in use, but far more secure. The new system does not rely on radios but is cutting edge technology with rubberised mobile phone handsets connected to a commercial 4G network for which emergency responders will have priority usage. If a major incident occurs and overall demand increases, the system provides the option to shut out access for all non-emergency service users, ensuring the network remains effective for emergency services. It is still not clear to what extent fire authorities will be expected to fund the system, but if the final business case varies significantly from that agreed, it will be presented to members;

(iii) GDPR (General Data Protection Regulation) will replace the current Data Protection Act and come into force on 25 May 2018 , requiring complete compliance;

(iv) Road risk. This has recently been highlighted when a fire appliance driver who was responding to an emergency, killed a pedestrian and was charged with death by death by careless driving. This has a huge impact, obviously not only on the person who has died and their family, but can result in massive compensation claims.

RESOLVED

(1) to note the report;

(2) for members of the Committee to be informed of any notable changes to the Risk Register during the period between meetings, particularly with regard to the Emergency Services Network;

(3) for the full risk register to be made available to members of the Committee.

29 ICT STRATEGY UPDATE

Craig Parkin, Assistant Chief Fire Officer, presented the report which provides an outline update on the ICT Strategy, including the progress made in improving cyber security within the Service.

It is noted that there is a focus on the following four connected work streams within a continually reviewed work programme which aims to maintain security (including from cyber-attacks) and ensure that robust systems are in place to support the work of the Service:

(i) Unified Communications;

(ii) Unified Collaboration;

(iii) Connected Workforce;

(iv) Emergency Services Network.

There has been a huge culture change in the Service since the strategic review and introduction of the ICT Strategy in 2013. Server operating systems are kept up-to-date and information is backed-up regularly. The age and abilities of equipment is monitored to ensure the required security of systems can be appropriately maintained and is able to support developing systems. An extranet is being developed which will further enable communication with secure and trusted partners to support collaboration.

Ensuring that security is maintained through workforce behaviour is an aspect where specific education has been applied to embed secure thinking into day to day working.

The expansion of the ICT Team has been necessary and specialists have been engaged on fixed term contracts to provide the necessary capacity to deliver services. Further posts have been required to support the achievement of the ‘code of connection’ required in preparation for the Emergency Service’s Network (ESN). Although some grant funding (Section 31 grant) has been provided by the Home Office to support ESN work, the Service has to absorb the remaining costs although it is hoped that further funding

contributions will be provided as a result of the schedule slippage at Central Government level.

It is anticipated that further, modest funding in addition to the current budget will be required to support and ensure continued capability but the Committee will receive reports as and when required.

RESOLVED to note the report and agree to receive a further report to a future meeting to consider the outcomes of an assessment of risk and resources to proportionality manage identified risk.

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

COUNTER FRAUD, MONEY LAUNDERING, CORRUPTION AND BRIBERY POLICY

Report of the Chief Fire Officer

Date: 27 April 2018

Purpose of Report:

To present a revised Counter Fraud, Money Laundering, Corruption and Bribery Policy for Members' approval.

CONTACT OFFICER

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1. BACKGROUND

1.1 The existing Counter Fraud, Money Laundering and Corruption Policy was last informally reviewed in April 2014. The Policy was felt to be adequate and no changes were made following this review.

1.2 New money laundering regulations came into force in 2017 and the Policy has therefore been reviewed.

2. REPORT

2.1 The revised Counter Fraud, Money Laundering, Corruption and Bribery Policy is attached at Appendix A. It sets out the commitment of the Authority in dealing with allegations of fraud and corruption. It represents the position held by the Authority in respect of the confidential reporting of incidence of fraud and corruption that may amount to breach of the law. The Head of Finance, acting for the Treasurer, is responsible for its implementation and monitoring the policy.

2.2 The policy covers any fraudulent or corrupt activity committed against the Authority by employees, elected Members, suppliers, contractors, partners, service users and other external persons.

2.3 The policy includes a risk register of areas where there may be a potential risk of fraud, money laundering, corruption or bribery in order that relevant controls can be implemented to manage risks. The main risk areas are those of high financial value such as treasury management activity, payroll and the purchase or sale of goods or services.

2.4 Risk is managed with the use of financial procedures, internal controls and other related policies such as Procurement and Gifts and Hospitality Policies, as well as the employee and member codes of conduct. Fraud prevention advice and training is regularly received from the Authority's banking providers and Treasury Management consultants.

2.5 Risks are monitored by both internal and external audit and through the participation in the National Fraud Initiative – a national data matching exercise which helps prevent and detect fraud.

2.6 The formal approval of strategies, such as the Treasury Management Strategy, also provide clear guidance and parameters within which staff can transact.

2.7 The existing policy was considered in need of very little change. The new money laundering regulations did not vary in their requirements on local government. However, it was felt that greater clarification would be gained if a specific section was added on bribery which would ensure compliance with the Bribery Act 2010 (Section 1.8 of the Policy).

2.8 Once approved by Members, the policy will be subject to a 28-day consultation prior to implementation.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources implications arising from this report. Ongoing training is considered for relevant staff as part of the Personal Development Review process.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has been undertaken and there are no Equality Implications.

6. CRIME AND DISORDER IMPLICATIONS

The purpose of the policy is to minimise the risk of fraudulent crime to the Authority.

7. LEGAL IMPLICATIONS

The policy ensures compliance with the Fraud Act 2006, Money Laundering Regulations 2017 and the Bribery Act 2010.

8. RISK MANAGEMENT IMPLICATIONS

The purpose of the policy is to manage the risk of fraud and corruption to the Authority.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications relating to this report.

10. RECOMMENDATIONS

That Members give approval to the Counter Fraud, Money Laundering, Corruption and Bribery Policy prior to it going out to 28-day consultation before being implemented. Any material changes resulting from the consultation exercise will be reported back to Finance and Resources Committee.

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

None.

John Buckley
CHIEF FIRE OFFICER

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Counter Fraud, Money Laundering, Corruption and Bribery Policy

POL3019

Scope

Mandatory for all NFRS staff and Elected Members.

Purpose

Security classification		Official	
Author		Head of Finance	
Department		Finance	
Approved by			
Assessments done			
Version	**Date**	**Modified by**	**Changes**
3.0	April 2018	Head of Finance	Addition of Bribery section
2.5	April 2014	Head of Finance	No change required
2.5	April 2012	Assistant Head of Finance	
1.5	June 2007	Assistant Head of Finance and Business Risk Manager	
1.0	Dec 2004	Assistant Head of Finance and Business Risk Manager	Initial Document

Contents

1. Introduction

1.1 The Fire Authority (the Authority) expects that individuals and organisations (eg employees, suppliers, contractors and service providers) that it deals with will act with integrity and in a manner that does not, through an act or omission, result in fraudulent or corrupt behaviour. In respect of employees, the Authority's disciplinary rules are such that fraud and corruption are considered to be issues of potential gross misconduct and if proven, would normally result in dismissal.

2. Policy statement

2.1 The Authority is committed to a culture of openness and honesty to ensure that the opportunity for fraud and corruption is minimal and the risk level is at the lowest possible level. This culture is reinforced by policies such as the Confidential Reporting of Concerns in the Workplace (Whistleblowing), Gifts and Hospitality Policy, Register of Employee Interests Policy and Employee Code of Conduct. If fraud or corruption occurs the Authority will deal with allegations in a robust and proportionate manner in line with its disciplinary policy.

2.2 This policy sets out the commitment of the Authority in dealing with allegations of fraud and corruption. It represents the position held by the Authority in respect of the confidential reporting of incidence of fraud and corruption that

may amount to breach of the law. The Head of Finance, acting for the Treasurer, is responsible for its implementation and monitoring.

2.3 The Authority expects all employees, elected Members, suppliers, contractors, partners and service users to be fair and honest in their dealings with the Authority and provide any help, information and support needed to deal with fraud and corruption. The Authority has in place a framework of checks and controls that are designed to reduce the likelihood of fraud occurring and will review the elements of this framework on a regular basis, especially if any problems come to light.

2.4 The Authority is committed to working and co-operating with other organisations to prevent systematic fraud and corruption. Information concerning potentially fraudulent or corrupt activity will be exchanged with other organisations where relevant and legal. In cases where there is suspected criminal activity, the Authority will report the matter to the Police for investigation.

2.5 In order that this policy is effectively applied, it is recognised that the Service will need to increase awareness of the appropriate counter-fraud, anti-corruption and anti-bribery procedures amongst employees and that this awareness will need to be reinforced at appropriate intervals.

2.6 The ways in which employees, elected members or members of the public can voice their concerns or suspicions about suspected fraud, money laundering or corruption are outlined in the Confidential Reporting of Concerns in the Workplace (Whistleblowing) policy.

Application

2.7 The policy applies to all employees and elected members of the Authority.

2.8 This policy covers any fraudulent or corrupt activity committed against the Authority by employees, elected Members, suppliers, contractors, partners, service users and other external persons.

2.9 A number of areas where there may be a potential risk of fraud, money laundering, corruption or bribery have been identified. A risk register is attached to this policy at Appendix B and shows these areas and their relevant controls, which are designed to manage the risks.

3. Definitions

Fraud

3.1 The Fraud Act 2006 defines three types of fraud:

3.1.1 “Fraud by false representation”, where a person makes a representation which they know to be untrue or misleading,

3.1.2 “Fraud by failing to disclose information” where a person is under a legal obligation to disclose information but fails to do so,

3.1.3 “Fraud by abuse of position” where a person occupies a position where they are expected to safeguard financial interests but abuses that position.

3.2 In each of the above categories of fraud, an offence has occurred when the person has acted dishonestly and with the intent of making a gain for themselves or another person, or inflicting a loss on another person.

3.3 A “gain” or a “loss” in the above definition means in terms of money or property and may be temporary or permanent.

3.4 Fraud is a criminal offence.

Money Laundering

3.5 Money laundering is the process by which criminal proceeds are “sanitised” by placing them into a legitimate financial system and eventually integrating them into the economy. It involves exchanging criminally obtained money or assets of legitimate money or assets.

3.6 The Money Laundering regulations do not cover local authorities, however there is a risk that money laundering activity could affect the Authority.

Corruption

3.7 Corruption is defined as “the offering, giving, soliciting or acceptance of an inducement or reward that may influence a Member or an employee of the Authority to act contrary to the rules of honesty and integrity”. Corruption includes the abuse of power or a position of trust in order to gain an undue advantage.

Bribery

3.8 Whilst bribery is a type of corruption, it is a specific offence offering something, usually money, to gain an illicit advantage. The Bribery Act 2010 makes it an offence to offer, promise or give a bribe. It also makes it an offence to request, agree to receive or accept a bribe. There is also a corporate offence of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. Appendix A sets out the Authority’s procedures to prevent bribery by or of persons associated with the organisation.

4. Roles and responsibilities

4.1 The Authority’s Treasurer holds overall responsibility for this policy. Under the Scheme of Delegation, this responsibility is delegated to the Head of Finance.

4.2 The Head of Finance is responsible for the conduct of investigations under this policy as laid out in the Counter fraud, money laundering, corruption and bribery procedures.

4.3 The Head of Finance is responsible for the monitoring, audit and review of this policy as outlined below. They are also responsible for development, implementation and maintenance of procedures relating to this policy.

4.4 The Head of Procurement is responsible for ensuring that procurement procedures contain adequate controls to prevent fraud and corruption.

4.5 All Heads of Departments / Sections have a duty to familiarise themselves with the types of improper activity as defined in this policy that may occur within their areas of responsibility and to be alert for any indications of irregularity. They must also ensure that internal controls designed to prevent fraud and corruption are operating effectively in their areas.

4.6 All employees and Elected Members are responsible for acting in a fair and honest manner in their dealings with the Service.

4.7 All employees and elected members are encouraged to report suspicions of fraud, money laundering and corruption in accordance with the Confidential Reporting of Concerns in the Workplace (Whistleblowing) policy.

Monitoring - Audit & Review

4.8 This policy will be reviewed every two years, or at any other time where it is suspected that amendment may be necessary (e.g. change in legislation, alteration of Officer roles and responsibilities). The policy shall be reviewed by the Head of Finance and Risk Manager on behalf of the Treasurer.

5. Related documents

5.1 Counter Fraud, Money Laundering and Corruption Procedure
5.2 Gifts and Hospitality Policy
5.3 Register of Employee Interests Policy no. 2064
5.4 Confidential Reporting of Concerns in the Workplace (Whistleblowing) Policy
5.5 Employee Code of Conduct
5.6 Members Code of Conduct
5.7 Standing Orders (re: elected Members)
5.8 Scheme of Financial Management
5.9 Code of Corporate Governance

6. Appendix A – Bribery Policy Statement

1) Bribery is defined as an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements. To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.
2) We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance "business as usual", rather than as a one-off exercise.
3) We require that all personnel, including those permanently employed, temporary agency staff and contractors:
    a. act honestly and with integrity at all times and to safeguard our resources for which they are responsible
    b. comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the organisation operates, in respect of the lawful and responsible conduct of activities
4) This policy applies to all of our activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.
5) Within the organisation, the responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all business units and corporate functions.
6) This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, agents, Members (including independent members), volunteers and consultants.

What this means in practice

It is unacceptable to:

a) give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
b) give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure

c) accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them

d) accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return

e) retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy

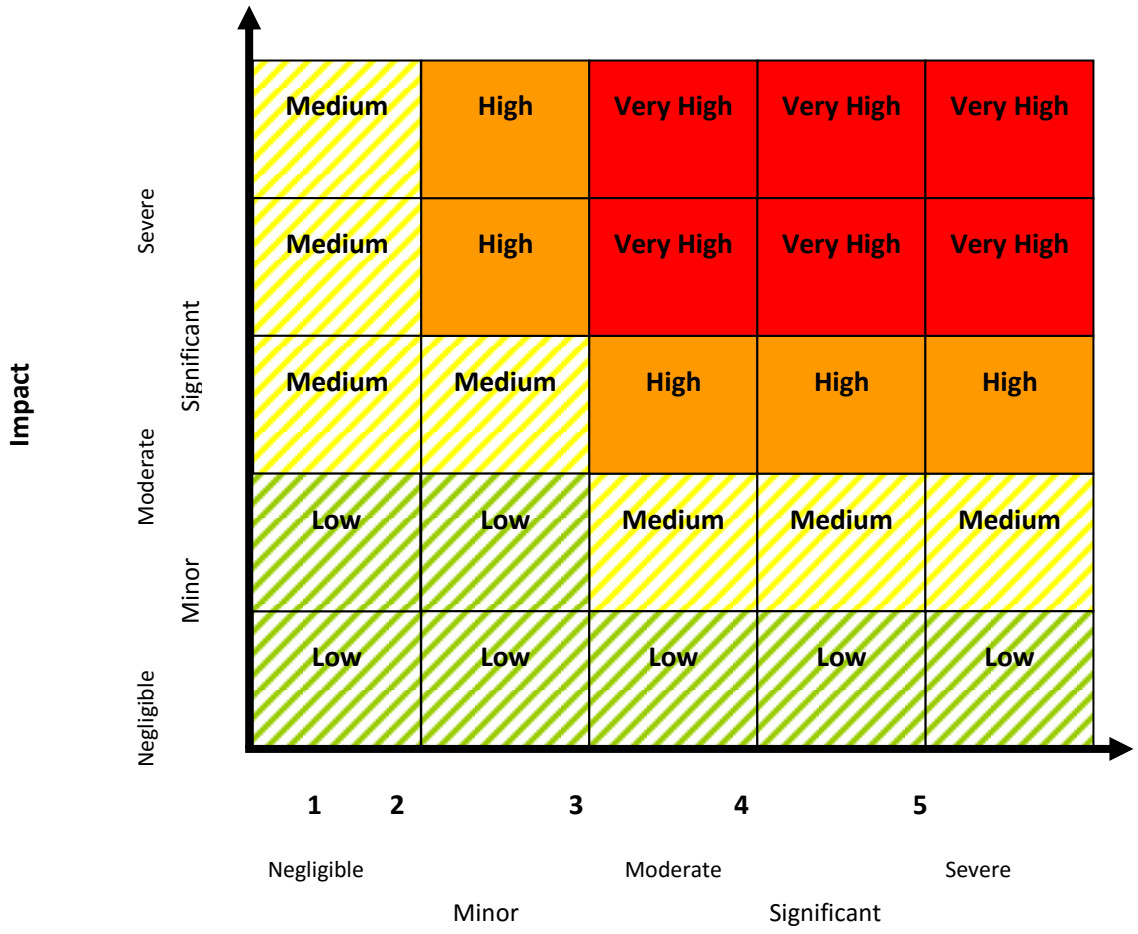
f) engage in activity in breach of this policy.

Appendix B

COUNTER FRAUD, MONEY LAUNDERING, CORRUPTION AND BRIBERY RISK REGISTER

Risk Title	Risk Description	L	I	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
Treasury Management	Fraud arising from investment and banking activities	2	5	10	Treasury Management Strategy, Prudential indicators, Treasury management practices document setting out procedures and internal controls. Regular Fraud training	1	5	5		Assistant Head of Finance
Sale of Assets	Fraud, money laundering, corruption, bribery	2	4	8	Scheme of Financial Management – financial procedures	1	4	4		Head of Finance
Payroll	Fraud	2	5	10	Procedures incorporating internal controls, annual Internal Audits, National Fraud Initiative	1	5	5		Assistant Head of Finance
Procurement of Goods & Services	Fraud, corruption, bribery	2	4	8	Scheme of financial management – financial procedures, Procurement Policy 1059, Gifts & Hospitality Policy 1002, National Fraud Initiative	1	4	4		Head of Estates & Procurement
Key Decision Makers	Fraud, corruption, bribery	2	5	10	Employee Code of Conduct, Members Code of Conduct, Standing Orders, Scheme of Financial Management, Registers of Interests	1	5	5		Chief Fire Officer
Expenses Claims	Fraud	2	3	6	Travel and Subsistence policies, Procedures incorporating internal controls, Internal Audits,	1	3	3		Assistant Head of Finance

Risk Scoring Matrix



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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

PRUDENTIAL CODE MONITORING REPORT TO MARCH 2018

Report of the Treasurer to the Fire Authority

Date: 27 April 2018

Purpose of Report:

To inform Members of performance for the four-month period to 31 March 2018 relating to the prudential indicators for capital accounting and treasury management.

CONTACT OFFICER

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1. BACKGROUND

1.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code, which CIPFA updated in 2011.

1.2 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The Prudential Code sets out a number of indicators which authorities must use to support decision making. These are not designed to be comparative performance indicators.

1.3 The Fire Authority approved these prudential indicators for 2017/18 at its meeting on 24 February 2017.

1.4 The Prudential Code requires that local authorities report performance against prudential targets to Members.

2. REPORT

PRUDENTIAL INDICATORS

2.1 Some of the prudential indicators cannot easily be measured until the final year end expenditure position for both capital and revenue is determined. These will be included in the 2017/18 Treasury Management Annual Report for 2017/18 to Fire Authority in September 2018. These indicators are:

- Ratio of financing costs to net revenue stream 2017/18 (affordability).
- Incremental impact of capital investment decisions on Council Tax 2017/18 (affordability).
- Total capital expenditure 2017/18.
- Capital Financing Requirement as at 31 March 2018.

2.2 In terms of borrowing, the indicator "Gross borrowing and the capital financing requirement (CFR)" (a prudence indicator) requires that gross external borrowing does not, except in the short term, exceed the CFR. The CFR at 1 April 2017 was £23.885m and was estimated to be £28.407m by the year end. During the period April 2017 to 31 March 2018 the gross indebtedness of the Authority, calculated at the start of each month, did not exceed £23.262m including any requirements for temporary overdrafts. As at 31 March 2018, the gross indebtedness of the Authority was £25.181m, which is well within the estimated CFR for the end of the year.

2.3 The Authority set an operational boundary for 2017/18 of £27.762m and an authorised limit of £30.538m. Although these limits are year end targets, the Authority is required to demonstrate that it has not exceeded them at any time

during the financial year. Again, the maximum indebtedness of the Authority during the period, as shown in the paragraph above, is within the limits set. The graph given as Appendix A illustrates the levels of borrowing up to the end of March 2018.

TREASURY MANAGEMENT INDICATORS

2.4 An interest earnings budget of £66k was set for 2017/18, as at 31 March 2018 £54.5k has been received. Within the benchmarking group supported by Link Asset Services there are 7 councils and NFRS within the group, as at the end of December 2017, NFRS Weighted Average Rate of Return (WARoR) is 0.7% the average of the group is 0.48%.

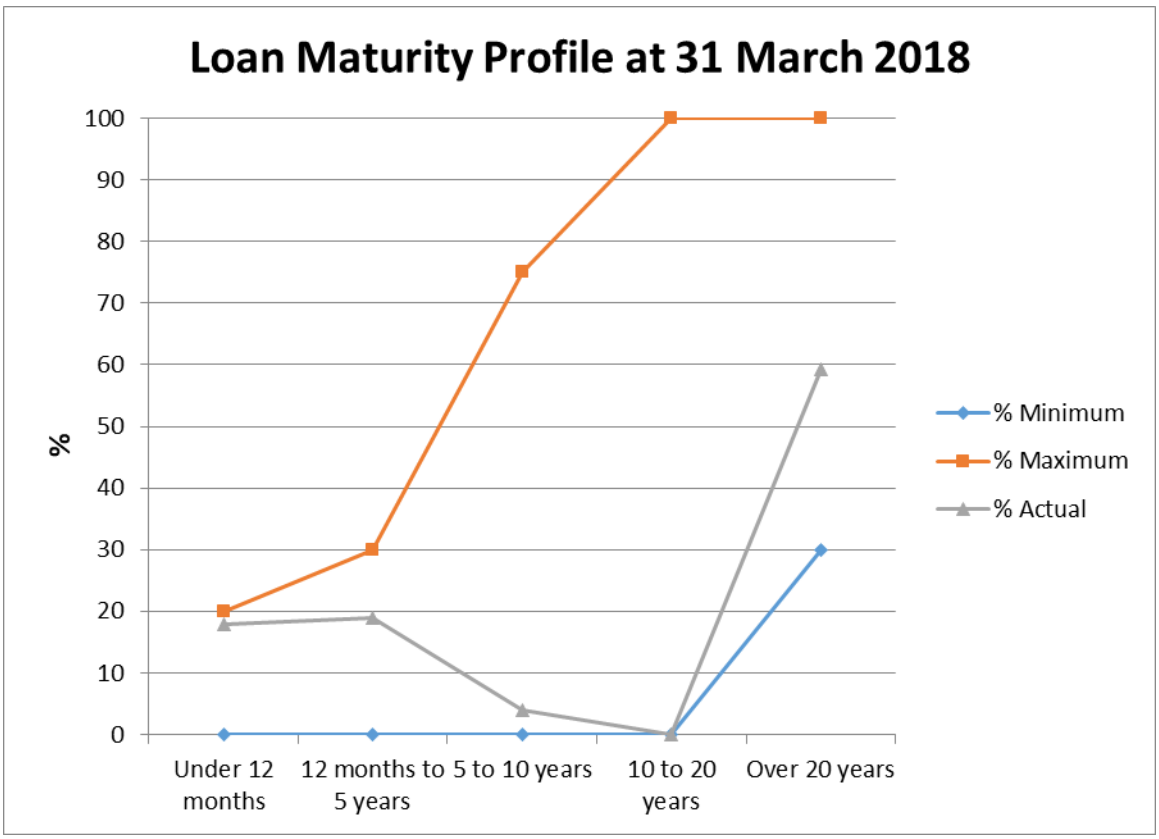
2.5 The treasury management target relating to interest rate exposure is that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 31 March 2018, 100% of borrowing was at fixed interest rates.

2.6 The treasury management target in respect of cash management is that the Authority's bank overdraft should not exceed £200,000. During the four months of up to 31 March 2018 the account was not overdrawn. A graph of cash balances for the five months up to 31 March 2018 is shown in Appendix B.

Treasury management limits relating to loan maturity are shown below:

Loan Maturity		
	Upper Limit	***Lower Limit***
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
Over 20 years	100%	30%

Actual performance against these targets at 31 March 2018 is shown in the following graph and demonstrates that none of the maturity bands have been breached.



2.7 The upper limit for sums invested for longer than 364 days is £2m. During the part of the 2017/18 financial year up to 31 March 2018, no sums were invested for a fixed term of longer than 364 days. This excludes amounts invested in call accounts with notice periods of less than 364 days, and on which notice can be given immediately if required.

UK SOVEREIGN RATING

2.8 Following on from the report to Members of this Committee in January, it is confirmed that the sovereign rating of the UK remains at AA (Fitch rating) which means that investments in UK institutions are within the current Treasury Management Strategy's parameters. On 25 September, Moody's downgraded the UK Sovereign rating from Aa2 to Aa1, which brings it in line with that of Fitch and S&P (also AA).

2.9 The Authority's policy around Sovereign Ratings has been reviewed as part of the Treasury Management Strategy at Fire Authority on 16 February 2018. Should the UK be downgraded to AA- status, the Authority's strategy will be to continue with existing banking arrangements and to retain current investments with UK institutions.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full within this report.

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

An equality impact assessment has not been undertaken because this report gives detail of performance against the approved Treasury Management Strategy and Prudential Code. These are financial policies and do not directly impact on employees or members of the public.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The Prudential Code is a framework which sets out to quantify and minimise financial risk arising from the financing of capital, the investment of surplus funds and the maintenance of operating cash balances for the Authority. The favourable performance against the prudential targets demonstrates that these areas of operation are being managed effectively.

9. COLLABRATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

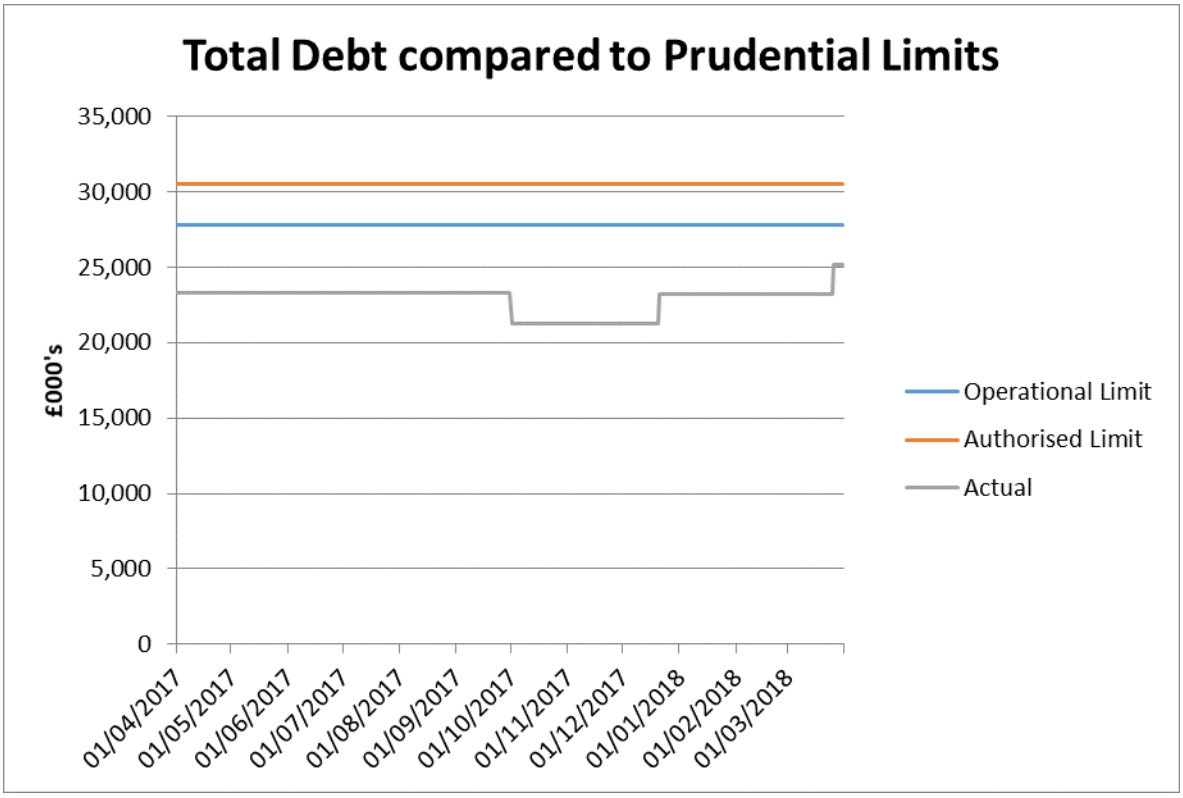
That Members note the contents of this report.

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

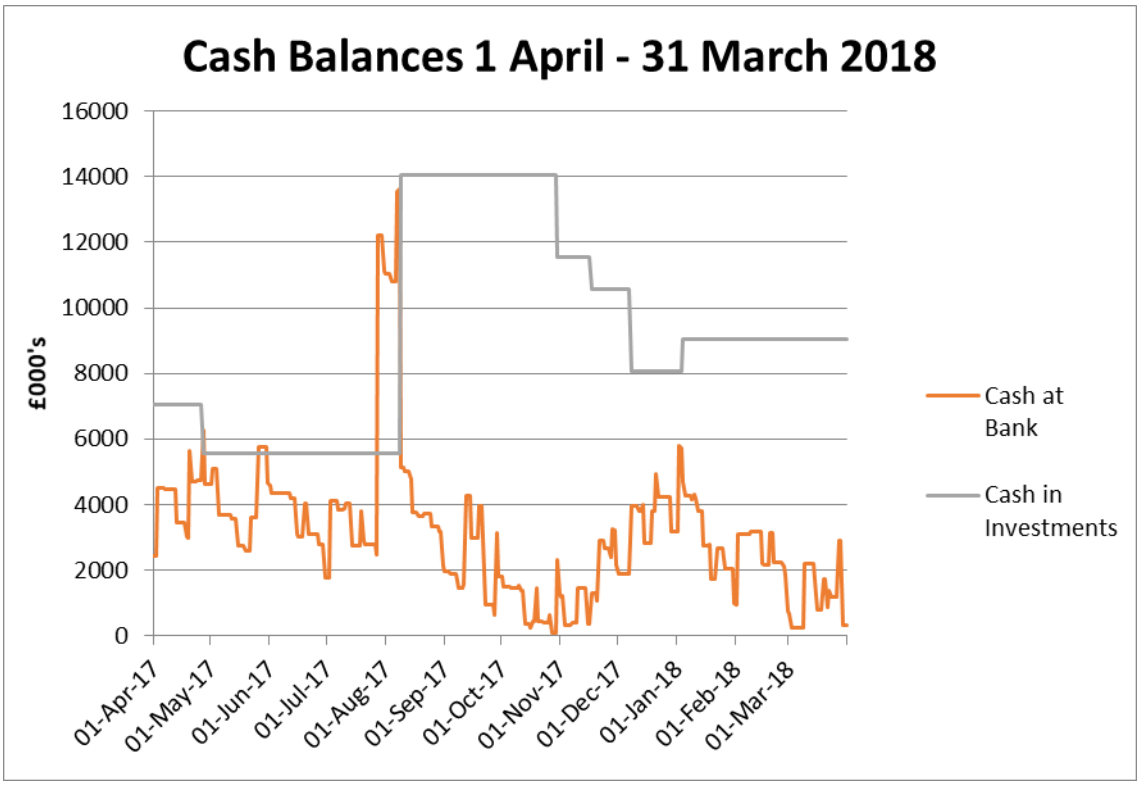
None.

Charlotte Radford
TREASURER TO THE FIRE AUTHORITY

APPENDIX A


Total Debt compared to Prudential Limits
£000's
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
01/04/2017
01/05/2017
01/06/2017
01/07/2017
01/08/2017
01/09/2017
01/10/2017
01/11/2017
01/12/2017
01/01/2018
01/02/2018
01/03/2018
Operational Limit
Authorised Limit
Actual

APPENDIX B


Cash Balances 1 April - 31 March 2018
£000's
16000
14000
12000
10000
8000
6000
4000
2000
0
01-Apr-17
01-May-17
01-Jun-17
01-Jul-17
01-Aug-17
01-Sep-17
01-Oct-17
01-Nov-17
01-Dec-17
01-Jan-18
01-Feb-18
01-Mar-18
Cash at Bank
Cash in Investments

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

REVENUE AND CAPITAL MONITORING REPORT TO 28 FEBRUARY 2018

Report of the Chief Fire Officer

Date: 27 April 2018

Purpose of Report:

To report to Members on the financial performance of the Service in the year 2017/18 to the end of February 2018.

CONTACT OFFICER

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1. BACKGROUND

Budget monitoring is a key aspect of financial management for the Fire and Rescue Authority. Regular reporting of spending against the revenue budgets is a check that spending is within available resources and, if necessary, allows for financial resources to be re-assigned to meet changing priorities.

2 REPORT

REVENUE BUDGET

2.1 The revenue monitoring position is attached at Appendix A. It shows a forecast outturn position of £41.302m against a budget of £40.805m. The additional expenditure of £497k relates to approved projects and additional work which are to be funded from Earmarked Reserves. A summary position of expenditure and funding is shown in the table below:

Table 1 – Summary Expenditure and Funding Position

	2017/18 Budget £'000	**Forecast Outturn £'000**	**Variance £'000**
Expenditure	40,805	41,302	497
Income	(40,279)	(40,328)	(49)
General Fund Reserves	(526)	(477)	49
Earmarked Reserves	0	(497)	(497)
Total	**0**	**0**	**0**

2.2 A more detailed analysis of expenditure can be found at Appendix A.

2.3 Details of the major variances are shown below:

- Wholetime pay (excluding overtime) is forecasted to overspend by £50k.
- Control pay is forecast to overspend by £69k.
- Firefighter pensions are forecast to overspend by £473k, an element of this will be met from earmarked reserves.
- The business rates budget is expected to overspend by £232k.
- The capital financing budgets for interest charges and minimum revenue provision are expected to underspend by a total of £207k.
- The budget for the rent of premises is forecasted to underspend by £73k due to the early vacation of Central Fire Station.
- Non-Domestic Rates income is currently expected to be £49k higher than originally budgeted for, which reduces the amount required from General Reserves to balance the budget.

2.4 These significant variances are explained further in the report below, together will details of other key variances.

2.5 **Wholetime Pay:** the net overspend to 28 February 2018 is £118k, although this is expected to drop to **£96k** by the end of the financial year. Expenditure relating to backfilling seconded posts has been funded from additional income of £203k and grant of £72k. This is mainly due to underspends on basic pay and bank holiday pay, and overspends on employer's national insurance and pension contributions:

- Wholetime superannuation costs are forecast to overspend by **£227k** once secondment income and grant funding are taken into consideration. The budget is overspent by £229k to date. This is due to a higher proportion of firefighters in the more expensive 1992 and 2006 scheme than was budgeted for.

- The wholetime national insurance is expected to have a net overspend of **£59k** by the end of the financial year, after taking account of secondment and grant income.

- Wholetime basic pay is anticipated to have a net underspend of **£171k** at the end of the financial year once grant funding and surplus secondment income have been taken into consideration. This is because there has been an under-establishment of posts for much of the year, although wholetime staff numbers increased at the end of February due to the migration of 10 firefighters from the retained duty system.

- Overtime is expected to overspend by **£46k**. This relates to unplanned overtime which is incurred due to crews remaining at incidents after their shifts have ended. Planned overtime, which is used to cover shortfalls on the ridership, is expected to come in on budget.

- Bank Holiday pay is expected to underspend by **£66k.** This is largely due to a recent change in accounting policy which means that bank holiday and overtime payments made in arrears will no longer be accrued for at year end. The budget assumptions have been reviewed in the 2018/19 budget.

- An interim pay settlement of 1% has been agreed and backdated to July 2017 whilst the final pay settlement negotiations are ongoing. It is planned to make a £117k provision as part of the year end accounts to cover an additional 1% backdated pay award. The estimated outturn figures include the both the 1% pay award already agreed and the additional 1% provision (2% in total). This may change if negotiations have resulted in agreement before the statement of accounts is finalised.

2.6 **Retained Pay:** This budget is underspending by £65k to date, and this underspend is expected to increase to **£80k** by the end of the financial year. This is largely due to actual establishment numbers being lower than budgeted.

2.7 **Administrative and Support Pay:** the variance to date is an underspend of £32k, however the budget is expected to underspend by **£45k** by the end of the year. The Authority has opted to prepay the secondary LGPS contributions for the three years to 31 March 2020 by making a single lump sum payment of £602k. This has resulted in a saving of £33k over three years.

2.8 **Control Pay:** the variance to date is an overspend of £67k, and this budget is expected to overspend by **£69k** by the end of the financial year. £58k of this variance is due to the creation of a temporary group manager post to work on the Emergency Services Network project. This will be offset by grant funding.

2.9 **Pension Costs:** the year-end pension revenue budgets are expected to overspend by around **£474k**. £495k of this is due to some reclassifications of ill health pensions which need to be funded by the authority rather than the pension fund as reported to the Committee on 13 October 2017. There is an ongoing cost to the authority of £45k per annum, which has been built into the 2018/19 revenue budget.

2.10 Ill health charges are forecast to underspend by **£46k** based on lower than expected ill health retirements during the year.

Premises Related Expenditure:

2.11 The business rates budget is overspent to date by £213k, and this overspend is expected to increase to **£232k** by the end of the financial year after the authority lost appeals on several business rates revaluations as previously reported.

2.12 The budget for the rent of premises is forecasted to underspend by **£73k** by the end of the financial year due to the earlier vacation of the Central Fire Station at the Guildhall than was budgeted for (£35k) and an over accrual for 2016/17 utilities costs (£38k).

2.13 The budgets for the energy costs is forecasted to overspend by **£48k** by the end of the financial year, this is a volatile budget as it depends on consumption, weather conditions and prices.

2.14 The building maintenance budget is forecasted to overspend by **£95k** by the end of the financial year which is attributable to remedial work resulting from compliance testing which has been funded from earmarked reserves (£95k).

Transport Related Expenditure:

2.15 **Fuel:** the fuel budget is expected to underspend by **£43k** by the end of the financial year. This is due to a reduction in the use of light vehicles which has been made possible by their reallocation, fuel prices were lower due to the price of crude and fewer miles being travelled by fire appliances as a result of a decrease in mobilisations.

2.16 **Supplies and Services:** The Supplies and Services budget is expected to be overspent by £11k after taking account of £235k funded from the Emergency Services Mobile Communications Programme (ESMCP).

2.17 **Government Revenue Grants:** there is a forecasted surplus of **£89k** relating to Government Revenue Grants. The budget of £461k consisted of an estimated £122k relating to New Dimensions and £339k relating to Firelink. The Home Office has indicated that the amount of Firelink grant that the Authority will receive will increase to £373k, however the amount relating to New Dimensions will reduce to £91k due to the decision to withdraw funding for the Incident Response Unit (IRU). The IRUs will be replaced nationally by Mass Decontamination Units following a review of Mass Decontamination Capability carried out by the Home Office. The Authority has been chosen to host a Mass Decontamination Support vehicle, but it is not yet known what the funding arrangements for this will be. The Authority has also been notified that it will receive a £29k grant for National Resilience Service and Maintenance.

2.18 **Secondment Income:** additional secondment income of **£215k** was received after the budget for 2017/18 had been calculated. £203k of this surplus relates to the recovery of pay-related expenditure and has been used to offset overspends on wholetime pay (section 2.5).

2.19 **Non-Domestic Rates Income**: the forecast for business rate income is currently **£49k** higher than budgeted for. There is an element of volatility around business rate income and it can be difficult to predict collection levels and the outcome of appeals. Final Business Rate Income may change when final data is provided from the Billing Authorities.

2.20 **Capital Financing Costs:** Overall the capital financing budgets are forecasted to underspend by **£207k** by the end of the financial year. This variance is comprised of two elements:

- **Interest Charges:** the budget for interest charges is expected to underspend by **£116k**. In March 2017, the Authority took out a long-term loan for 2.45% from the Public Works Loans Board (PWLB). This was 0.41% lower than budgeted for. In addition, further borrowing of £2m has now taken place in December, one loan was for £1m over 9.5 years at 1.96% and a further £1m over 49.5 years at 2.3% these rates are again at a lower rate than budgeted for.

- **Minimum Revenue Provision:** the budget for the minimum revenue provision (MRP) charge is expected to underspend by **£91k**. The budget for the MRP charge was calculated in the autumn of 2016 and was based on estimated capital expenditure for 2016/17 of £3,308k. The actual capital expenditure for the year was £2,048k, as there has been a significant amount of slippage into 2017/18. This has resulted in an underspend for 2017/18.

RESERVES

2.21 Details of the use of reserve movement during 2017/18 can be found in Appendix B. A total of £1.139m is expected to be utilised from reserves during the year - £0.974m to fund revenue expenditure and £200k to fund the capital programme. The earmarked reserve balance (including items committed) at the end of the financial year is expected to be £2.1m and the General Reserve £7.3m.

2.22 The current reserve position is attached at Appendix B. Expected levels of reserves at 31 March 2018 are £9.6m:

Reserves	**Balance 01/04/18 £'000**	**Anticipated Use 2018/19 £'000**	**Committed £'000**	**Expected Balance 31/03/19 £'000**
Earmarked	4,002	(662)	(975)	2,365
General Fund	7,836	(477)	(0)	7,359
Total	**11,839**	**(1,139)**	**(975)**	**9,725**
ESMCP* Regional Reserve	892	(181)	(829)	117
Total	**12,731**	**(1,320)**	**(1,804)**	**9,608**

* Emergency Services Mobile Communications Programme

2.23 The General Reserves is expected to be £7.3m. This remains above the minimum level of £4.3m agreed by Fire Authority on 16 February 2018.

2.24 The Emergency Services Mobile Communications Programme (ESMCP) regional reserve has been shown separately to those reserves held by the Authority to reflect that the funds are to be allocated regionally and do not belong to NFRS. This further demonstrates the Authority's commitment to collaboration and regional working.

CAPITAL PROGRAMME

2.25 The current approved 2017/18 capital programme is £6.174m. The total spend to date is £3,213k, the forecast out-turn expenditure is £4.494m and the current capital programme is shown at Appendix C.

2.26 **Transport:** The decision to extend pumping appliance life to 15 years has changed the replacement programme for rescue pump appliances and there will be no further appliance acquisitions before 2019/20. A review of the existing appliance equipment inventory will help inform the types of vehicles required to meet the operational need of Service Delivery and help fulfil the objectives of the Sustainability Strategy 2020. The outcome of this work will determine the type and number of vehicles required for part of the overall long-term vehicle capital replacement plan.

2.27 Two new appliance builds have been completed. Following delivery to the Service these appliances will have their radio & mobile data equipment

installations completed. The vehicles will then be moved to Learning & Development for end user training before both vehicles go in to service.

2.28 The Command Support Unit is currently under review as a potential collaboration project with Derbyshire Fire and Rescue Service (DFRS). The HMEPU (Hazardous Materials and Environmental Protection Unit) requires re-specification to meet the changing needs of Service Delivery and duties of the Environment Agency. This vehicle is also under review as a potential collaboration project with DFRS. It is anticipated that £150k will require slipping from the Special Appliances budget into 2018/19.

2.29 A review of light vehicle utilisation has been undertaken and further work is now in progress to look at ways of working which will promote more effective use of the light vehicle fleet. The vans and the other light vehicles were delivered in March.

Equipment

2.30 An estimated outturn of £536k is anticipated for the provision of breathing apparatus for this financial year. In addition, £52k will be slipped into 2018/19, the overall underspend to of £94k is due to a robust procurement and tendering process.

2.31 The £180k procurement of the lightweight fire coats is expected to slip to 2018/19 as this project will be carried out in collaboration with DFRS.

Estates

2.32 The London Road Fire Station Project is now complete and the new station was handed over to NFRS on 12 August 2016. The contractor has now completed all the outstanding snagging works and the final account agreed; the final payment is £169k. The post project report for the London Road Fire Station will be completed by June 2018.

2.33 The contractor for the new Newark Fire Station Project was appointed in March 2017 and work started on site with the demolition of the buildings on the western part of the site completed in June. Progress on the new fire station is running approximately four to five weeks behind schedule; the first phase of the project is now due for completion in April 2018. The existing fire station remains operational throughout the new build project. The completion of the project is anticipated for May / June 2018.

2.34 Work with the East Midlands Ambulance Service on the potential collaboration concerning the existing Hucknall Fire Station continues. A progress report on this project forms part of the agenda for this meeting.

2.35 The initial work for a new Worksop Fire Station is currently underway; this will include a potential for collaboration with the Police and Ambulance Service in a joint project. A report regarding this project forms part of the agenda for this meeting.

ICT

2.36 The £452k ICT Capital Programme is progressing to plan.

2.37 Mobile Computing – this budget is financing a variety of projects and equipment purchases relating to the growing use of mobile computing across the Service. A model of Android mobile phone will be rolled-out across the Service at the turn of the Financial Year, completing the spend against this budget.

2.38 Business Process Automation – this budget will continue to be used to finance ICT Strategic developments, most notably the implementation of the new Microsoft SharePoint website, intranet, extranet and document management solution. The slippage on this budget from 2016/17 will be used to fund the completion of the SharePoint programme of work, the upgrade of the Service electronic door-entry system, the implementation of new electronic learning management solution and a replacement Occupational Health system.

2.39 Performance Management – this project is piloting the use of two systems, as part of the feasibility study and options appraisal phase of the project. The assessment of the first product (Microsoft PowerBI) is completed and the review of the second product (Microsoft SQL Server Reporting Services) commenced in November 2017. The additional time required to fully assess both products will mean that the project will be slip beyond the end of the current Financial Year, but should be completed by June 2018 at the latest.

2.40 For business systems, the payroll replacement system project phase one is now implemented and went live on the 1st of May 2017; phase two is in its early stages with a go live date of 1St April 2018. It is anticipated that phase 2 will not need additional consultant days at this stage. Phase two of the Tri-Service Control system project is in progress and the project to upgrade the transport system is in the options appraisal stage.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report. Some of the efficiency targets will have had staffing implications which were considered as part of the decision-making process at the time.

5. EQUALITY IMPLICATIONS

An equality impact assessment has not been undertaken because this report is not associated with a policy, function or service. Its purpose is to explain variances to the approved budget, which reflects existing policies.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

Budget monitoring and the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. The process of budget monitoring is a key risk management control measure as are the management actions which are stimulated by such reporting.

9. COLLABORATION IMPLICATIONS

This report identifies several areas where collaboration is taking place between NFRS, other fire authorities, East Midland Ambulance Service and Nottinghamshire Constabulary. Opportunities for collaboration around asset use and ownership are continually being investigated.

10. RECOMMENDATIONS

That Members note the contents of this report.

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

None.

John Buckley
CHIEF FIRE OFFICER

APPENDIX A

REVENUE BUDGET MONITORING POSITION
AS AT 28 FEBRUARY 2018

Budget Area	Annual Budget £'000	Exp to Date £'000	Forecast Outturn £'000	Variance £'000
Employees	32,487	30,022	33,342	855
Premises	2,147	2,098	2,432	285
Transport	1,521	1,314	1,466	(55)
Supplies & Services	3,588	3,022	3,834	246
Third Party	58	35	48	(10)
Support Services	165	39	162	(3)
Capital Financing Costs	2,505	1,929	2,298	(207)
Fees and Charges	(147)	(157)	(169)	(22)
Other Income	(1,519)	(1,925)	(2,111)	(592)
Net Cost	**40,805**	**36,377**	**41,302**	**497**
Financed by:				
RSG	(6,978)	(6,532)	(6,978)	0
Non-Domestic Rates	(10,129)	(10,178)	(10,178)	(49)
Council Tax	(23,172)	(21,241)	(23,172)	0
Reserves	(526)		(974)	(448)
Funding Total	**(40,805)**	**(37,951)**	**41,302**	**(380)**
(Under) / Over Spend	**0**	**(1,574)**	**0**	**0**

APPENDIX B

ANTICIPATED USE OF RESERVES 2017/18

Reserve	Opening Balance 01/04/2017	Revenue Expenditure to 14 March 18 2017/18	Capital Expenditure to 14 March 18 2017/18	Commitments Approved by SLT / EDT	Estimated Balance 31/03/2018
	£'000	£'000	£'000	£'000	£'000
FUNDED BY GRANTS					
Fire Investigation	-120	32		20	-68
Safe as Houses - Smoke Alarms	-22			7	-14
Community Safety - Innovation Fund	-201	1		174	-26
Resilience Crewing and Training	-452	77		67	-308
Thoresby Estate Charitable Trust	-3				-3
National Resilience					
LPSA Reward Grant	-174	48			-126
Public Health England - Safe and Well	-10	10		5	5
Sub total	**-981**	**168**		**272**	**-540**
CREATED FROM REVENUE					
Fire Control Collaboration Project	-363	112		36	-215
ICT SharePoint Internet/Intranet	-97	9	77		-11
Fire Cadets Project	-23				-23
Backlog Buildings Maintenance	-95			95	
Pensions Ill Health	-309	180			-129
On Fire Fund - Fire Safety	-87	8			-79
Capital Reserve	-1,114				-1,114
Operational Equipment	-10				-10
ICT Systems - Emergency Services Mobile Communications	-16				-16
Agresso Development	-63	4		20	-40
Organisation Transition - one off costs	-349			281	-67
Swan Project - Ashfield					
Taxation Compliance	-10			8	-2
HEP B - Vaccinations	-22	1			-21
Communications Development - ESN	-252	15	87	51	-98
Retained Policy Change	-212			212	
Sub Total	**-3,021**	**329**	**164**	**703**	**-1,825**
Total Earmarked Reserves	**-4,002**	**497**	**164**	**975**	**-2,365**
General Reserve	**-7,836**	**477**			-7,359
Total NFRS Reserves	**-11,839**	**974**	**164**	**975**	**-9,725**
ESN Regional Reserve	-892	180	1	829	117
Total	**-12,731**	**1,154**	**165**	**1,804**	**-9,608**

APPENDIX C – Capital Monitoring to 28 February 2018

	2017/18 Revised Budget £000's	Actual to Feb £000's	Remaining Budget to be Spent £000's	Estimated Outturn £000's	Estimated Outturn Variance £000's
TRANSPORT					
Rescue Pump Replacement		8	8		
Special Appliances	530		-530	0	-530
Appliance Equipment (radios)	58		-58	58	
Light Vehicle Replacement	849	82	-767	600	-249
	1,437	**97**	**-1,347**	**658**	**-779**
EQUIPMENT					
Special Appliances Equipment (Holmatro)					
BA Sets	682	536	-146	536	-146
Conversion of hose reel equipment	200		-200		-200
Lightweight Fire Coat	180		-180		-180
	1,062	**536**	**-526**	**536**	**-526**
ESTATES					
London Road Fire Station	120	169	49	170	50
Refurbishment and Rebuilding Fire Stations	126		-126		-126
Feasibility Studies & Station Design					
Newark Fire Station	1,858	1,797	-61	2,142	284
Hucknall Fire Station	730	24	-706	24	-706
Worksop Fire Station		22	22	22	22
Retention Payments					
	2,834	**2,012**	**-822**	**2,358**	**-476**
I.T. & COMMUNICATIONS					
ICT Capital Programme - Replacement Equipment	140	209	69	210	70
Mobile Computing	20	20		20	
Business Process Automation	189	173	-16	173	-16
Telephony Replacement		19	19	19	19
Performance Management System	103	12	-91	28	-75
	452	**434**	**-18**	**450**	**-2**

APPENDIX C – Capital Monitoring to 28 February 2018

	2017/18 Revised Budget £000's	Actual to Feb £000's	Remaining Budget to be Spent £000's	Estimated Outturn £000's	Estimated Outturn Variance £000's
TRANSPORT					
Tranman Software	36	10	-26	52	16
	36	**3**	**-33**	**52**	**16**
CONTROL					
Emergency Services Mobile Communications	117	4	-113	117	
Emergency Services Mobile Communications -Earmarked Reserve		87	87	87	87
Tri-Service Control & Mobilising System	171		-171	171	
	288	**91**	**-196**	**375**	**87**
FINANCE					
Payroll System Replacement	45	40	-5	45	
Finance Agresso Upgrade	20		-20	0	-20
	65	**40**	**-25**	**45**	**20**
Grand Total	**6,174**	**3,213**	**-2,960**	**4,494**	**-1,680**
Financed by:					
Capital Grant – Tri Service	**171**			**171**	**0**
Reserves	**200**	**165**		**165**	**(35)**
Capital Receipts	**477**	**586**		**586**	**109**
Borrowing	**5,326**	**2,462**		**3,572**	**(1,754)**
Internal Financing					
Revenue					
Total	**6,174**	**3,213**		**4,494**	**(1,680)**

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

EXTERNAL AUDIT PLAN 2017/18

Report of the Chief Fire Officer

Date: 27 April 2018

Purpose of Report:

To present the external auditors' audit plan for work which they intend to carry out on the Authority's 2017/18 financial statements and value for money arrangements.

CONTACT OFFICER

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1. BACKGROUND

1.1 The external audit of the Fire Authority's accounts has been undertaken by KPMG LLP since 2012/2013. As part of their responsibilities under the external audit regime, the auditors produce an annual plan setting out the areas that they will cover during their audit and this plan is presented to the Finance and Resources Committee.

1.2 This is the final year that KPMG are undertaking external audit for the Authority. Ernst & Young LLP have been awarded the contract for the five years commencing from 2018/19.

2. REPORT

2.1 The full external audit plan is set out in Appendix A for Members' information. In summary, it covers several areas:

- Headline messages, including the audit of the financial statements and materiality;
- Audit planning and risk assessment;
- Value for money arrangements work;
- Various appendices which provide further detail to support the plan.

2.2 The plan also sets out the fees for the audit and the timescales for reporting back to the Fire Authority.

3. FINANCIAL IMPLICATIONS

The planned audit fee for 2017/18, as set out on Page 11 of the plan, is £31,050 which is unchanged from 2016/17.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report relates to statutory audit which is external scrutiny rather than a policy matter.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

The external auditors have statutory powers and responsibilities set out in the Local Audit and Accountability Act 2014.

8. RISK MANAGEMENT IMPLICATIONS

The external auditors provide a key element of the assurances that are given to elected Members and members of the public with regard to the accuracy of the financial statements and the arrangements for value for money.

9. COLLABRATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the contents of this report.

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

None.

John Buckley
CHIEF FIRE OFFICER

KPMG

External Audit Plan 2017/2018

Nottinghamshire and City of Nottingham Fire Authority

February 2018

Summary for Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. This represents a significant change for the Authority and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£1.25m**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.94m**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated.
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

Summary for Audit Committee (cont.)

Financial Statements

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus have been identified as:

- Financial Instrument
- Remunaration disclosure
- Compliance to the Code's disclosure requirements
- Bad debt
- Provision
- Accounting for leases
- Budgetary Control
- Key Financial Systems
- Pension assets
- Impairement of IPE

See pages 4 to 10 for more details

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have has identified the following VFM significant risk to date:

- **Medium Term Financial Planning.**

See pages 11 to 15 for more details

Logistics

Our team is:

- Andrew Cardoza – Director
- Umar Jillani – Assistant Manager

More details are in **Appendix 2**.

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 18**.

Our fee for the 2017/18 audit is £31,050 (£31,050 2016/2017) see **page 17.** This fee is in line with the scale fees published by PSAA.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you when? – letter dated 25/4/17 which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

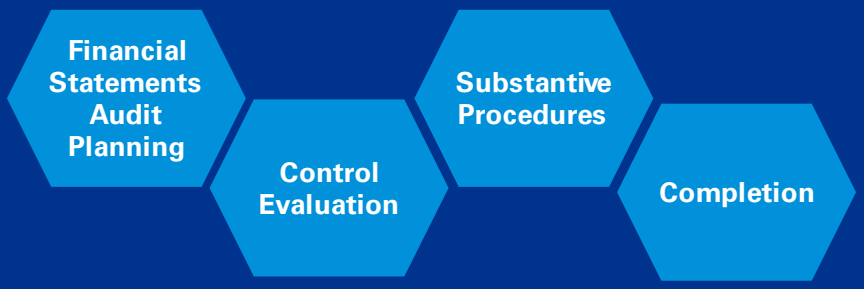
01 **Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit Committee.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January 2018 and February 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

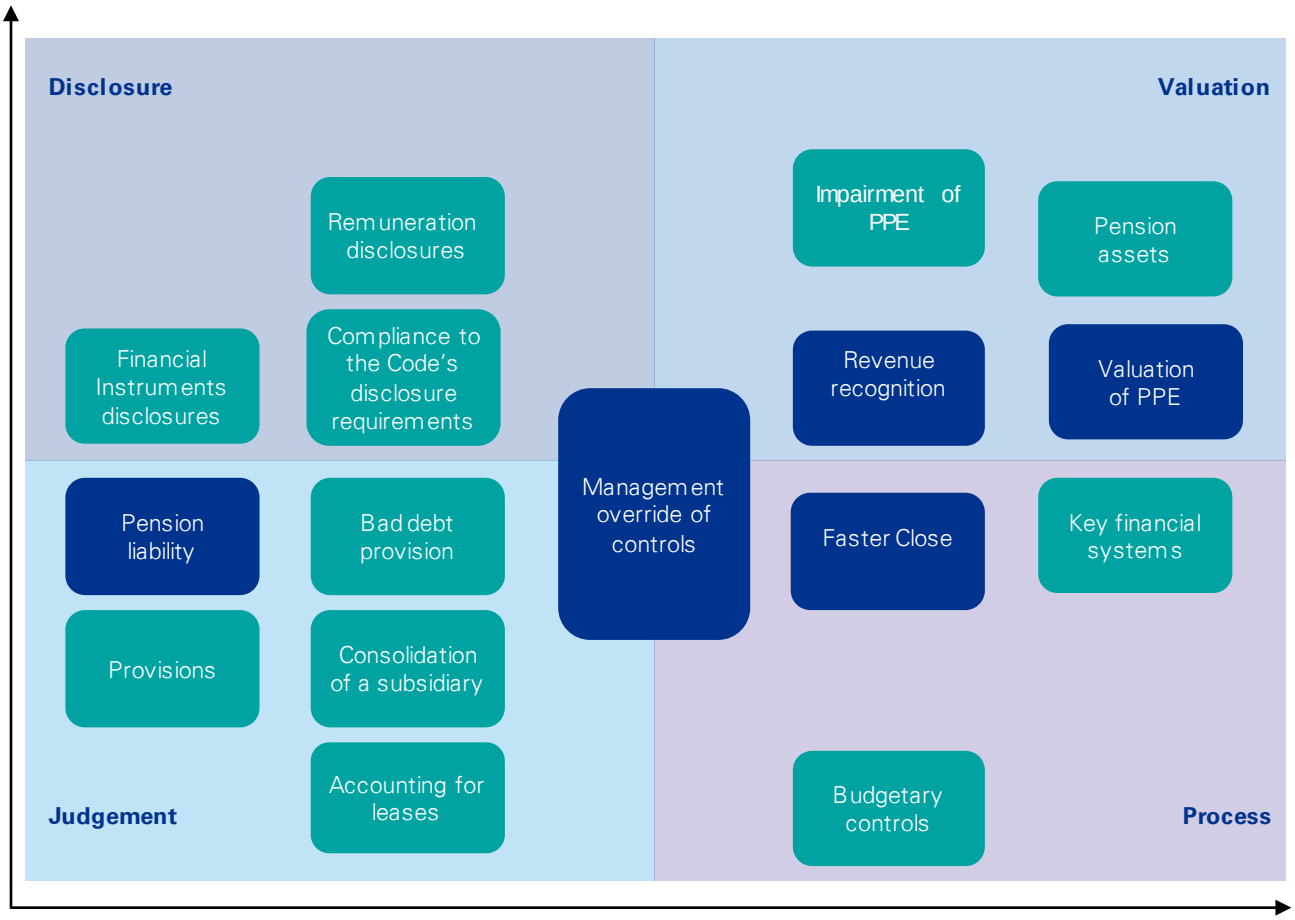
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: Significant risk | Other area of audit focus | Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.
Approach:	We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire Pension Funds, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach:

As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Nottinghamshire Pension Funds.

We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by Nottinghamshire Pension Funds.

In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuer's and actuaries,) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still on-going in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach:

We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £1.25 million for the Authority's standalone accounts, which equates to 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Prior Year Gross Expenditure: £63.5 m

Materiality

£1.25m

2% of Expenditure

(2016/17: £1m, 2%)

£62,500 Misstatements reported to the audit committee (2016/17: £50,000)

£0.94m Procedures designed to detect individual errors (2016/17: £0.75m)

£1.25m Materiality for the financial statements as a whole (2016/17: £1m)

Financial statements audit planning (cont.)

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £62,500.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We will report:

- Non-Trivial corrected audit misstatements
- Non-trivial uncorrected audit misstatements
- Errors and omissions in disclosure (Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

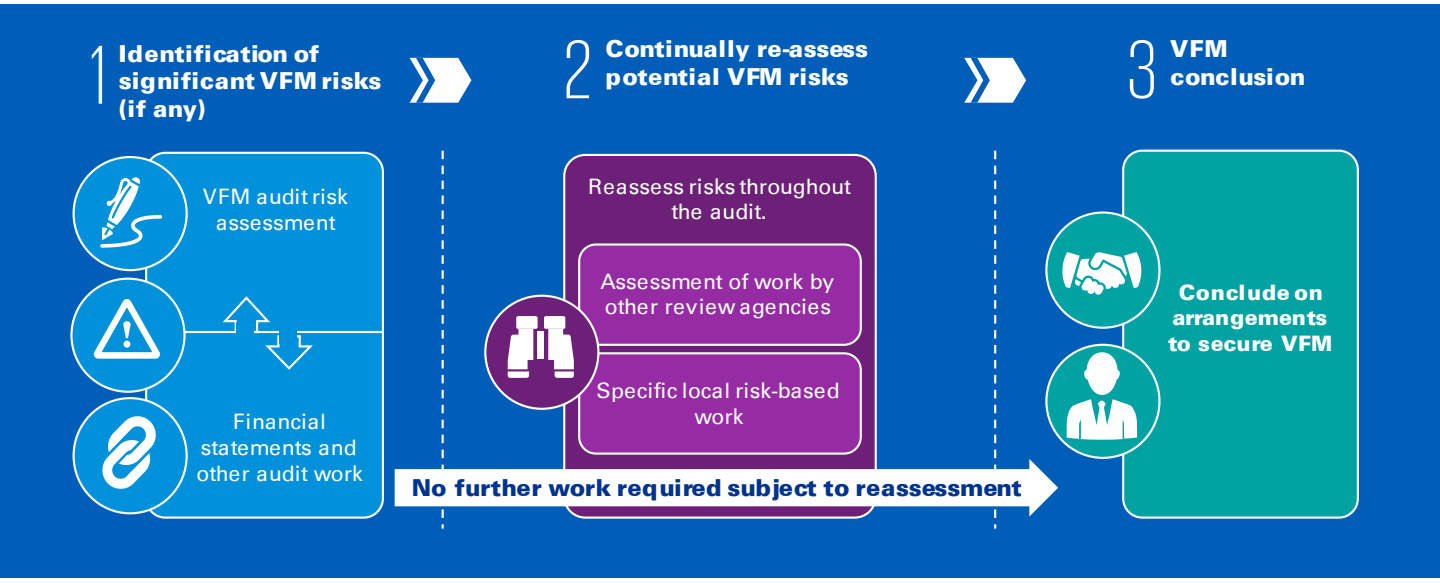
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Identification of significant risks

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Concluding on VFM arrangements

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

Audit approach

On the following page, we report the results of our initial risk assessment which is on-going. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

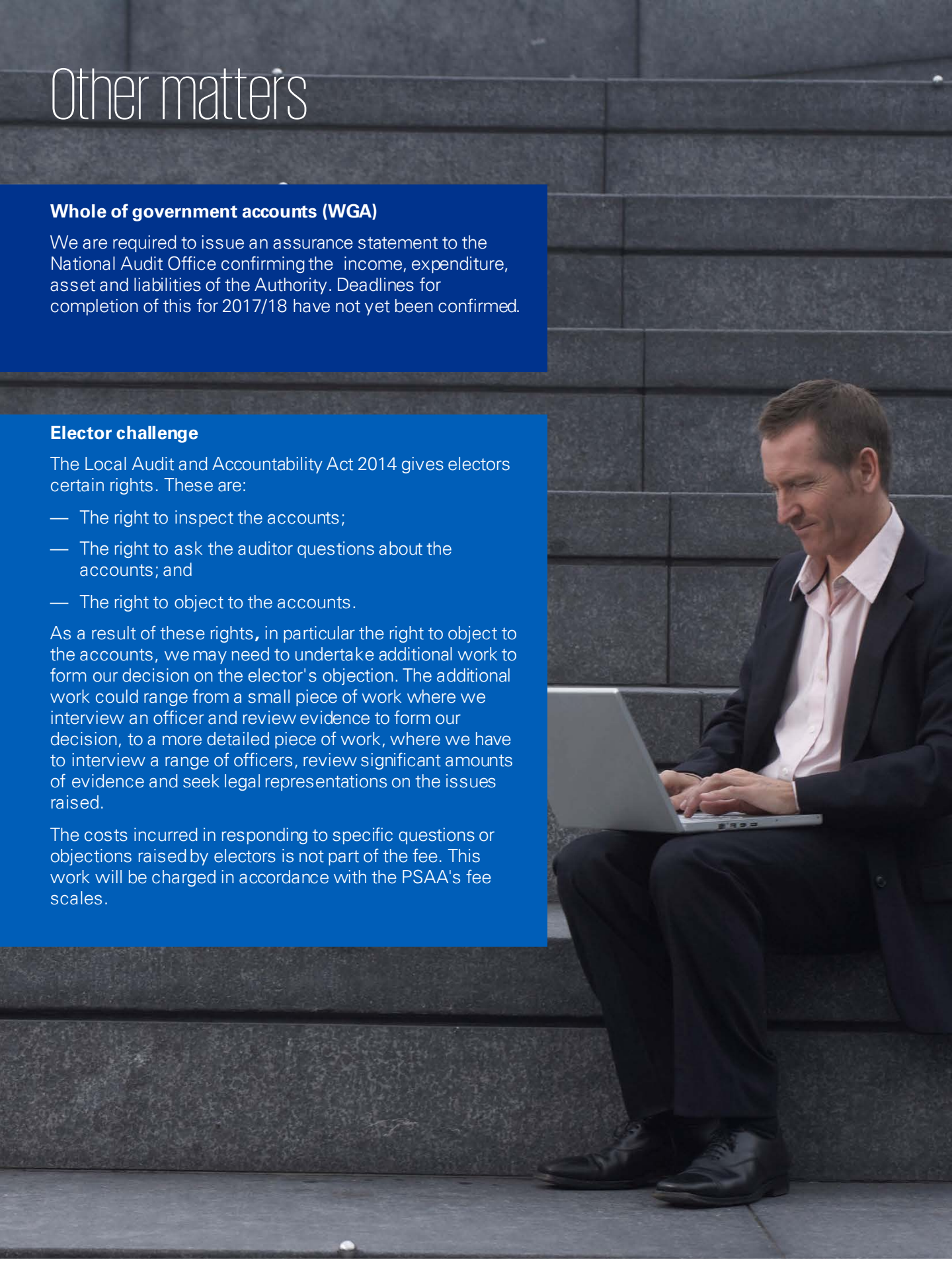
Value for money arrangements work (cont.)

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk:	**Significant Risk 1** The Authority continues to face significant financial pressures and uncertainties in relation to future funding level and grant allocations. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing savings required to balance its medium term financial plan. The Authority has determined the budget gap over the life of the medium term financial plan and needs to ensure that momentum is maintained to deliver efficiencies and savings in order to close the budget gap.
Approach:	Our value for money work will assess the arrangements the Authority has in place to deliver its annual budget and how effective it has been in identifying and delivering efficiencies and savings to support the annual budget. We will rely on our accounts audit work where relevant supported by a review of budget processes and discussions with the Senior Management team.

Other matters



Whole of government accounts (WGA)

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Authority. Deadlines for completion of this for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you when we first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fee at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is **£31,050** which is the same as our 2016/2017 audit fee.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Appendix 1:

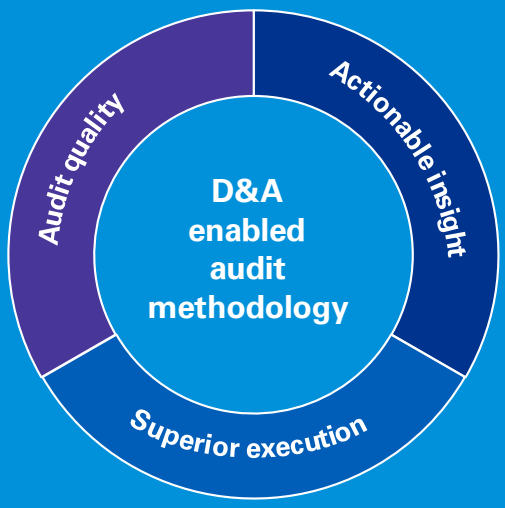
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

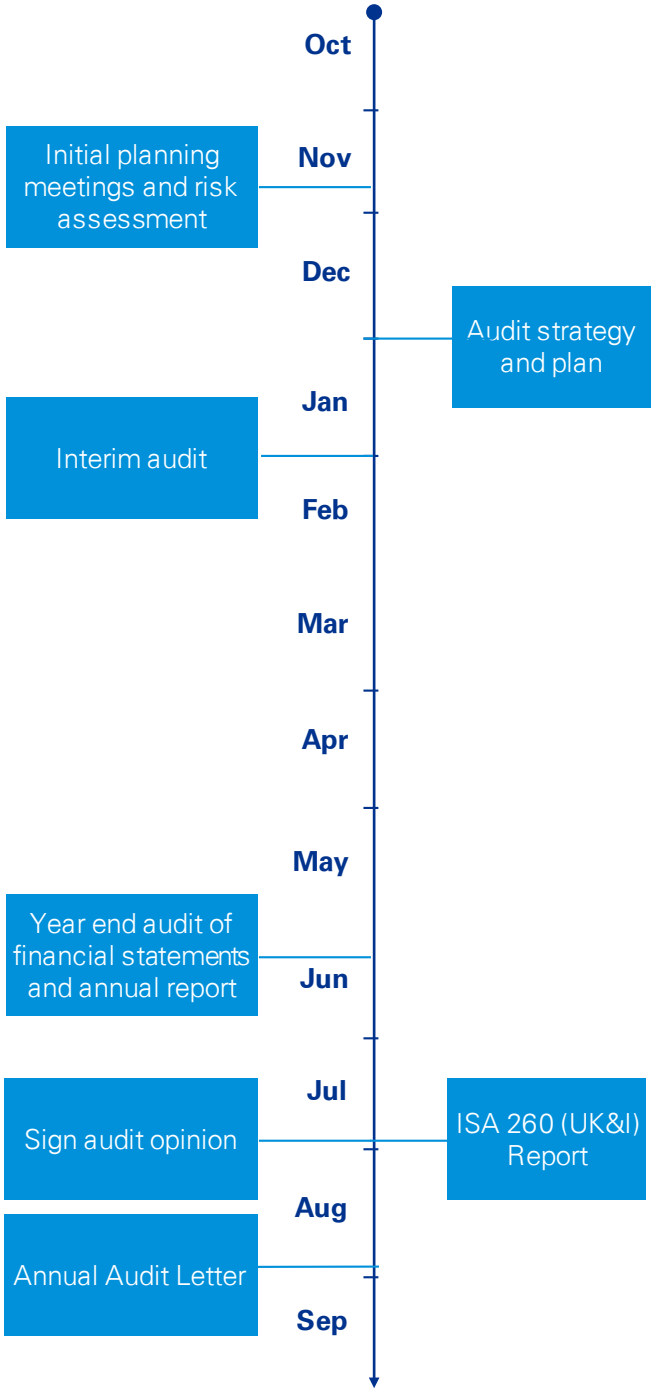
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



Communication

Continuous communication involving regular meetings between Authority, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

Substantive testing

- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit Committee reporting.

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Andrew Cardoza remains the engagement lead for the Nottinghamshire and City of Nottingham Fire Authority and Umar Jillani remains your manager.

Andrew Cardoza
Director

T: 0121 232 3869
E: andrew.cardoza@kpmg.co.uk

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Authority and Corporate Directors."

Umar Jillani
Assistant Manager

T: 0121 3352401
E: umar.jillani@kpmg.co.uk

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.

I provide quality assurance for the audit work and specifically any technical accounting and risk areas."

Appendix 3:

Independence and objectivity requirements

Assessment of our Objectivity and Independence as Auditor of Nottinghamshire and City of Nottingham Fire Authority

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values;

— Communications;

— Internal accountability;

— Risk management;

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

We confirm that there were no non-audit services provided.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.

Appendix 3:

Independence and objectivity requirements (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

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