

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY	
date	13 DECEMBER 2002	agenda item number

REPORT OF THE TREASURER

EXTERNAL AUDITOR'S MANAGEMENT LETTER

1. Background

- 1.1 The External Auditors to the Fire Authority, PriceWaterhouseCoopers, are required under the Audit Commission's code of practice to issue an annual management letter to the Authority on completion of the annual audit. This management letter is given in full as Appendix A to this report.
- 1.2 The purpose of this report is to allow PriceWaterhouseCoopers to present their management letter to the Authority and to give Members an opportunity to ask any questions arising from the letter.
- 1.3 As well as providing an executive summary in Section I, the Auditors have divided their letter into a number of sections reflecting the headings under which they are required to give a view on the performance of the Authority. These are:
 - II Governance
 - III Accounts
 - IV Performance Management
 - V Future Audit Work

2. Main Issues

Governance

- 2.1 This section deals with the financial standing of the Authority, the systems of internal financial control, standards of financial conduct and examines the legality of transactions. The Auditors bring to the attention of Members the use of reserves during 2001/2 and acknowledge the challenges that the Authority faces in 2002/3 and beyond. There are no further issues that the Auditors wish to raise.

Accounts

- 2.2 This section considers the closedown process, the audit opinion on the accounts, accounting issues and any electors questions and objections.

- 2.3 The report raises an issue with regard to the closedown process and delays in the final audit process which were caused by staff failing to deliver to agreed timescales. This criticism is accepted and the reasons for this failure have been investigated. These were largely due to changes in the presentation of the accounts required for compliance with the Best Value ACOP and an underestimate by staff involved of the amount of work required to complete the restatement of the accounts in the required format. Nevertheless this did delay the Auditors significantly in their work and steps have been taken to ensure that this does not reoccur. The Auditors also raise a staff training issue in relation to Capital Accounting with which they are willing to assist.
- 2.4 The report concludes that the Auditors will be issuing an unqualified audit opinion on the Authority's accounts.
- 2.5 During the course of an audit there are clearly a number of issues that warranted discussion between the Head of Resources and Finance and the Auditors. There are a number of minor recommendations which the Auditors have made both in their final audit and during their interim work. Nevertheless the Auditors are of the view that none of these are significant and require to be brought to the attention of Members.
- 2.7 There were no electors questions or objections.

Performance Management

- 2.8 In this part of the letter the Auditors comment on the Authority's arrangements for securing economy, efficiency and effectiveness (Value for Money) in the use of resources. Specifically they have examined the overall performance management framework, the Best Value Performance Plan and are undertaking a study into the maintenance and repair of vehicles.
- 2.9 In respect of the Best Value Performance Plan the Auditors confirm that they have issued an unqualified audit opinion reflecting to its compliance in all significant respects with the statutory requirements. The plan therefore will not be referred to the Secretary of State, nor will the Audit Commission be recommended to carry out a Best Value inspection.
- 2.10 The area of performance management although outside the statutory audit report makes a number of recommendations which management would wish to respond to. These are:

The Authority should:

Finalise its Performance Management Framework policy that is presently in draft form

Fully implement the Performance Management Framework policy by setting objectives and targets for all levels of the Brigade, thereby encouraging service improvement and the achievement of key targets and projects and :-

Monitoring performance and key targets at regular intervals during the year

The Brigade has already taken significant steps towards the implementation of these recommendations however the activity has been held up by the recent strike action.

- 2.11 In this section the Auditors make recommendation relating to the ability of the Transport Section, in its current format, to adequately manage the maintenance contract. They make specific reference to low staffing levels and recommend action.

The Brigade Management Team are aware of these issues and largely accept the recommendations. However it is considered appropriate to wait for the outcome of the recent tendering exercise before making any firm recommendations to the Fire Authority.

- 2.12 It had been the intention of the Brigade to commission a review of IT strategy during the year but due to the pressures placed on the IT Section and particularly the Head of Technology it has been agreed to postpone this work until December.

Audit Plan 2002/2003

- 2.13 This section sets out the Auditor's proposals for the 2001/2 audit and will be covered by them at the meeting.

3. Financial implications

There are no specific financial implications arising from this report.

4. Risk Management Implications

Although the External Auditors reviews of the Authority are largely of a statutory nature they nevertheless provide Members with an independent assessment of the performance of the organisation under a number of categories. This in itself can be regarded as contributing significantly to the management of risk (particularly financial risk) within the organisation. The External Auditors work closely in co-operation with finance staff and internal audit staff to provide a measure of internal control over the affairs of the Fire Authority.

5. Personnel Implications

There are no specific personnel implications arising from this report. However it is likely that the Authority's response to the Transport Review will result in some changes to staffing levels within that Section.

6. Recommendations

That Members note the contents of the External Auditor's management letter and the Brigade's response to the Auditor's' recommendations.

A L Deakin
TREASURER

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25 November 2002

Ladies and Gentlemen

Audit Letter 2001/02

We are pleased to present our Audit Letter for 2001/02. We hope that the information contained in this report provides a useful source of reference for Members.

We would like to take this opportunity to thank officers at the Authority for their support and assistance throughout the course of the audit.

We will present this Audit Letter to Members on 13 December 2002.

Yours faithfully

PricewaterhouseCoopers

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Statement of Responsibilities of Auditors and of Audited Bodies

In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. It is available from the Chief Executive of each audited body.

The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports and letters are prepared in the context of this statement.

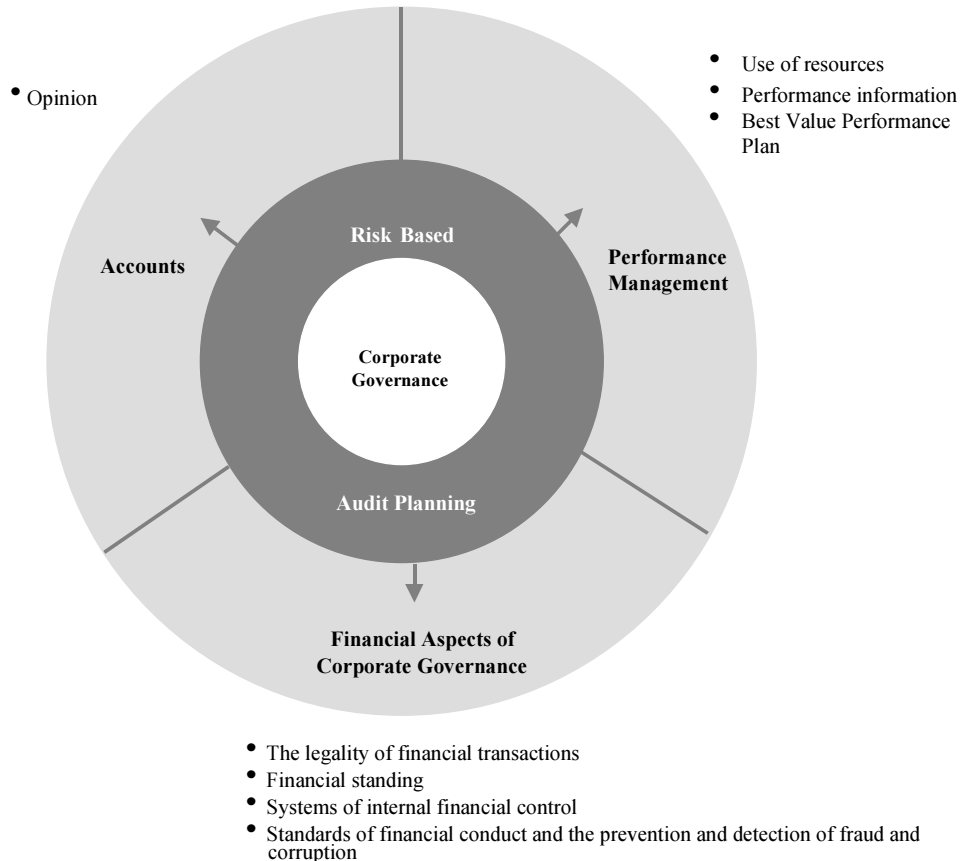
Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Section I - Executive summary

The purpose of this report

As Auditors, we are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual Audit Letter to the Authority on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work.

Figure 1 summarises our responsibilities under the Code:



It is the responsibility of the Authority to identify and address its operational and financial risks and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning and performing our audit work we have considered the significant operational and financial risks that are relevant to our responsibilities under the Code, and we have tailored our work accordingly.

We have set out below a summary of what we consider to be the key issues arising from our audit.

- Governance
- Financial Standing
- The Authority reported a deficit of £720,000 for the year ended 31 March 2002, which has contributed to a significant reduction in the Authority's revenue reserve to £64,000. The Authority budgeted to use their carried forward revenue reserve to cover this anticipated deficit.
- We concluded that the budgetary arrangements at the Authority were satisfactory.
- 2002/03 is likely to be a challenging year, as the Authority's resources will continue to come under increasing pressure. It is therefore important that the Authority continues to exercise robust budgetary controls, identifying key variances in a timely manner and appropriately reporting these to Members.

Systems of Internal Financial Control

- We were able to place reliance on the work of Internal Audit and concluded that the Authority's key financial systems were sufficient to support our planned audit approach.

Fraud and Corruption/Legality

- No significant issues arose from our work on the Authority's arrangements with respect to standards of financial conduct, for preventing and detecting fraud and corruption and ensuring the legality of financial transactions.
-

Accounts

- Accounts Closedown Process
- There is scope to improve the efficiency of the final audit process. We have discussed with the Head of Resources and Finance the need for the Authority to address this issue and consider arrangements to improve the final audit process next year.

Audit Opinion

- We have completed our audit work on the 2001/2002 financial statements of the Authority. We are pleased to report that we will be able to issue an unqualified opinion on the Authority's financial statements for the year ended 31 March 2002.
- Electors' questions
- We have not received any questions from members of the public relating to this year's financial statements.

Performance Management

2001/02 Best Value Performance Plan

- We will be issuing an unqualified opinion on the Authority's 2001/02 Best Value Performance Plan (BVPP).
- We have made a number of recommendations following the audit of the Authority's BVPP around improving:
 - systems for collecting and recording performance information;
 - the narrative on Best Value Reviews within the BVPP;
 - target setting; and
 - the performance management framework.

Vehicle Maintenance and Repair

- We have completed a performance management study, which considered the Brigade's arrangements for the maintenance and repair of vehicles. Our report contains areas of good practice identified and a number of recommendations for the Authority to consider. We are awaiting a completed action plan in response to the agreed recommendations contained within the report.

Section II - Governance

Introduction

5. In this section we summarise the results of our reviews of the financial aspects of the Authority's corporate governance arrangements relating to:

- The **financial standing** of the Authority;
- The systems of internal financial control;
- Standards of financial conduct and the prevention and detection of fraud and corruption; and
- The **legality of transactions** that might have significant financial consequences.

Financial standing

In this section we comment upon the Authority's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations. Specifically we comment on the following:

- Overall financial performance in 2001/02;
- Reserves; and
- **The financial outlook** for 2002/03 and beyond.

Overall Financial Performance in 2001/02

The Authority's budget for 2001/02 of £29.640 million, when compared with the actual position of funds to be met by constituent authorities, of £30.360 million, resulted in a deficit of £720,000. This deficit was primarily due to the significant increase in Fire Service Pensions during the year, of £1.4m (40%). These costs had to be met from revenue resources. The Authority had ring fenced its revenue reserve for this purpose.

A number of variances between budgeted expenditure and actual outturn were noted and discussed with Finance staff. The significant variances had been reported to Committee.

We concluded that the budgetary arrangements at the Authority were satisfactory.

The table below sets out the Authority's revenue income and expenditure for 2001/2002 and prior year:

	<u>2001/02</u>	<u>2000/01</u>
	<u>£'000</u>	<u>£'000</u>
Total Expenditure	32,981	30,386
Income	(611)	(533)
Net Cost of Services	32,370	29,853
Transfers to/(from) Asset Management Revenue Account	(1,165)	(1,053)
Interest Received	(59)	(99)
Appropriation Account for Stock	(100)	-
Net Operating Expenditure	31,046	28,701
Provision for Repayment of External Loan	(686)	(507)
Amount to be Met By Constituent Authorities	30,360	28,194
Contribution from:		
Nottinghamshire County Council	22,699	21,705
Nottingham City Council	6,941	6,703
	29,640	28,408
Surplus/(Deficit) for the year	(720)	214

The Authority incurred £541,000 of capital expenditure during the year. The majority of this related to two schemes, IT Equipment (£117,000) and West Bridgford Fire Station (£319,000). The Authority was able to fund this capital expenditure from a combination of internal cash resources (£41,000) and external borrowing (£500,000).

Reserves

The deficit of £720,000 has significantly reduced the Authority's revenue reserve to £64,000. The Authority budgeted to use their carried forward revenue reserve to cover this anticipated deficit. This is shown in the table below:

	2001/2002	2000/2001
	£'000	£'000
Revenue Reserve Bought Forward	784	570
Surplus/(Deficit) for the Year	(720)	214
Revenue Reserve Carried Forward	64	784

The Financial Outlook

In February 2002, the Authority reported to Members its budget proposals for 2002/03. This report set out an estimated budget of £31.502 million, which represents an increase of 6% on prior year contributions expected from the constituent authorities.

2002/03 is likely to be a challenging year as the Authority's resources will continue to come under increasing pressure coupled with further potential cost pressures following national demands for significant pay increases.

It is therefore important that the Authority continues to exercise robust budgetary controls, identifying key variances in a timely manner and appropriately reporting these to Members.

Systems of internal financial control

Our audit work on the Authority's financial systems and internal control arrangements consisted of the following:

- An assessment of the work undertaken by **Internal Audit** during the year; and
- An evaluation of the adequacy of the Authority's arrangements to satisfy itself that its **systems of internal financial control** are both adequate and effective in practice, incorporating an assessment of how the Authority manages key risks.

Internal Audit

In planning the scope of our regularity audit work each year, consideration is given to the programme of audits carried out by Internal Audit and the conclusions arising from their work. We review internal audit reports, files and working papers, in those areas where the work undertaken has a direct bearing on our audit. We also consider the effectiveness of the Internal Audit service, as a key aspect of the Authority's overall control environment. The approach is central to the Audit Commission's 'Managed Audit' methodology.

Our review of work undertaken by Internal Audit during the 2001/2002 financial year concluded that the work performed was of a satisfactory standard and that **we could place reliance on it for the purposes of our external audit work**. This allowed us to limit the scope of our audit work in certain areas and to avoid unnecessary duplication of effort.

It was disappointing to note that the Internal Audit Review of IT was postponed for the third year running. With the introduction of the new financial system during 2002/03 it will be important that the Authority ensures that Internal Audit undertakes a review in this area.

Systems of Internal Financial Control

Our work on financial systems is primarily focused on being able to rely on elements of the system of internal control in reaching an opinion on the financial statements. It is not therefore as detailed and comprehensive as reviews on systems by internal audit may be. We do, however, seek to work with internal audit and rely on their work where possible.

We made a number of minor control recommendations relating to our review of financial systems. We reported these issues to the Head of Resources and Finance earlier in the year. We are pleased to report that the Authority has agreed an action plan, which confirms how it will address the issues raised. We will follow up the progress of delivering this action plan during our 2002/03 interim audit.

Based on the findings of this work, **we have concluded that the Authority's key financial systems were sufficient to support our planned audit approach.**

Standards of financial conduct and the prevention and detection of fraud and corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Authority's management. It is the responsibility of the Authority to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. It is our responsibility to consider whether the Authority has put in place adequate arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. It is not the Auditor's' function to prevent or detect breaches of proper standards and our work does not remove the possibility that fraud or corruption has occurred and remained undetected.

Our work in respect of the standards of financial conduct and the prevention and detection of fraud and corruption focused on an assessment of the control environment at the Authority and the monitoring controls in operation designed to prevent and detect fraud and corruption.

6. In order to meet our Code objective we:

- Reviewed the arrangements in place within the Authority for ensuring proper standards of financial conduct and for preventing and detecting fraud and corruption;
- Reviewed the local applicability of relevant national issues;
- Have taken account of any action taken by the Authority on the National Fraud Initiative results; and
- Have taken account of advice issued by the Audit Commission.

7. **There are no issues arising from our work that we wish to bring to your attention.**

The legality of financial transactions

8. In order to meet our objectives in this area, we have:

- Reviewed the arrangements in place within the Authority for ensuring the legality of financial transactions;
- Reviewed the minutes of the Authority and relevant Committees;
- Discussed key issues and concerns with management;
- Had regard to the Authority's implementation of significant new legislation/statutory requirements;
- Reviewed the local applicability of relevant national issues;

- Taken account of advice issued by the Audit Commission; and
- Had regard to matters coming to the auditor's attention where legality, losses or deficiencies may be an issue.

There are no issues arising from our work that we wish to bring to your attention.

Section III – Accounts

Introduction

This section summaries our work on the Authority's statement of accounts for the year ended 31 March 2002, by commenting on:

- The efficiency and effectiveness of **the accounts closedown process**;
- Our **audit opinion**;
- Any **accounting issues** that arose during the course of our work; and
- The work we have performed in response to **electors' questions and objections** received during the year.

The Accounts Closedown Process

We are pleased to report that a full draft set of accounts was available at the start of the audit. Additionally, dialogue between officers and ourselves took place regularly, both throughout the course of the audit and during the year. This allowed potentially troublesome issues to be resolved in a timely and efficient manner.

There is scope, however, to improve the efficiency of the final audit process. We encountered some problems completing audit work this year, due to key staff within the Authority not delivering to agreed timescales, resulting in audit staff having fruitless visits to the Authority well after the final audit should have finished.

Discussions have taken place with the Head of Resources and Finance to address this issue and consider arrangements to improve the final audit process next year. We intend to aid this process with the early production and agreement of a timetable, which clearly details key dates for auditing components within the financial statements and a clear schedule of deliverables. However the onus will be on the Authority to deliver these improvements.

Audit Opinion

We have completed our audit of the Authority's financial statements and **we will be issuing an unqualified audit opinion on the Authority's accounts for the year ended 31 March 2002.**

Accounting Issues

We discussed all detailed technical accounting issues arising from our audit of the accounts with the Head of Resources and Finance at an audit clearance meeting in July 2002. The matters raised, together with any necessary action, have been summarised in a report, submitted to the Authority in November 2002. with the exception of the issue relating to the implementation of Financial Reporting Standard 17, discussed further below, none of these matters are of such significance that they require consideration or action by Members, therefore they have not been repeated here.

As might be expected, the audit process identified some issues, both of content and presentation, where we believed amendments to the accounts would enhance their accuracy and usefulness to the reader. We felt that some of these were significant enough to justify an amendment to the accounts, and the Authority agreed to process the amendments accordingly. In other instances the items were not considered material and after discussion with management it was agreed that the accounts need not be adjusted for these items.

Financial Reporting Standard (FRS) 17:accounting for retirement benefits

The introduction of FRS 17 for accounting periods ending on or after 22 June 2001 requires additional disclosure, and in subsequent years a change in accounting treatment, for the transactions for pension schemes. The aim of the FRS is to provide the reader of a set of accounts with a true and fair view of the assets and liabilities of the pension fund.

An update to the 2001 Statement of Recommended Practice (SORP) required local authorities to comply with this FRS from the 2001/02 financial year. In summary, authorities are required to disclose:

- | |
|---|
| <ul style="list-style-type: none">• Their share of the market value of the assets of the pension scheme;• The present value of their pension liabilities under the scheme; and• Their resulting surplus or deficit. |
|---|

The Authority engaged Mercer Human Resource Consulting Limited (an independent firm of actuaries) to carry out a valuation of their Fire Service Pension Scheme, to enable the FRS 17 disclosures to be made for 2001/02. This has revealed that the Authority's pension scheme is in deficit by £166million.

The Authority appropriately disclosed the information required, conforming with FRS 17. The impact of this deficit to the Authority's financial standing is still uncertain. It should become clearer once the SORP is fully implemented.

Electors Questions and Objections

Section 16 of the Audit Commission Act 1998 provides local electors with the opportunity each year to inspect the accounts of a local Authority and subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such representations must be resolved prior to the closure of the audit.

We have not received any questions from members of the public relating to this year's financial statements.

Section IV - Performance Management

Introduction

In this part of our Audit Letter we comment on the Authority's performance in securing economy, efficiency and effectiveness ('value for money') in the use of resources. We have considered these arrangements this year by:

- Auditing the Authority's **2001/02 Best Value Performance Plan** and performance indicators;
- Considering the overall **performance management framework** at the Authority and the monitoring controls within that framework; and
- Undertaking targeted audit work in respect of **Vehicle Maintenance and Repair** and an **IT Strategy Review**.

2001/02 Best Value Performance Plan

Under the Local Government Act 1999 we are required to carry out an audit of the Authority's Best Value Performance Plan (BVPP).

It is the responsibility of the Authority to ensure that it complies with the general duty of best value defined in the Local Government Act 1999 as making arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Authority is responsible for preparing the best value performance plan, the information and assessments that are set out within it, and the assumptions and estimates on which they are based. As external Auditors we consider and report on whether the Authority has complied with statutory requirements in respect of the preparation and publication of its best value performance plan. Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority in its best value performance plan.

Our audit approach was based on the Audit Commission's methodology. In tailoring this to the Authority we have:

- Worked with officers from an early stage in the process on interpreting the guidance, sharing good practice examples from and issues faced by other authorities;
- Reviewed early drafts of the BVPP to minimise areas of non-compliance once the Plan was published; and
- Focused our work on corporate management arrangements on new developments within the Authority's arrangements, relying on our existing knowledge of the Authority.

The draft Local Government Bill: *Strong Local Leadership, Quality Public Services* introduced a number of changes to the best value regime:

- From 2002 the annual date for publication of the full plan moved to 30 June so that it is based on actual rather than estimated performance information. The audit deadline also moved to 31 December; and

- Publication of summary information targeted at local taxpayers and service users is still required by 31 March. The summary publication is to be integrated with the council tax leaflet sent out with council tax bills from 2002.

We will be issuing an unqualified opinion on the Authority's 2001/02 Best Value Performance Plan. Our draft audit opinion and statutory report on the Authority's BVPP is included at Appendix A. The key elements of our work are set out below:

Element	Opinion
Compliance with statutory requirements	Our draft unqualified opinion on the Authority's Best Value Performance Plan is attached at Appendix A.
Review and assessment of: <ul style="list-style-type: none"> • The adequacy of the systems in place for collecting and recording specified performance information; and 	<ul style="list-style-type: none"> • The Authority has improved its systems used to collect and report on key performance indicators. However, there is still scope for the Authority to further improve the effectiveness of its process for recording performance information.
<ul style="list-style-type: none"> • The extent to which the procedures followed by the Authority in relation to its Best Value Performance Plan comply with the performance management framework prescribed in the legislation. 	We have: <ul style="list-style-type: none"> • followed up the Authority's progress in addressing our statutory recommendations from 2000/01; and • considered the Authority's progress in addressing our non-statutory recommendations from 2000/01 to assess whether further statutory recommendations were required this year.

Following the completion of our BVPP audit, **we request that the Authority considers the following recommendations:**

- Systems for Collecting and Recording Performance Information

The Authority has introduced an enhanced reporting system for reporting some of the Best Value Performance Indicators. The system allows the analysis of performance indicators to comparative data and to more detailed background information. We recommend that the system should be extended to cover all Best Value Performance Indicators and key local indicators.

- Best Value reviews

The results of completed reviews are briefly reported in the BVPP. We recommend that future BVPP's include more detail of alternatives considered, the results of consultation and explanation of the agreed outcome and a plan of action to achieve the new targets.

- Targets

Targets should be set for all performance indicators to enable the Authority to assess its progress and facilitate improvement.

Performance Management Framework

The Authority has continued to develop its performance management systems during the year by developing a Performance Management Framework policy and by beginning to introduce the policy across the Brigade. The following opportunities for further development have been identified. The Authority should:

- Finalise its Performance Management Framework policy that is presently in draft form;
- Fully implement the Performance Management Framework policy by setting objectives and targets for all levels of the Brigade, thereby encouraging service improvement and the achievement of key targets and projects; and
- Monitoring performance and key targets at regular intervals during the year.

Vehicle Maintenance and Repair

During the year we completed a performance management study that considered the Brigade's arrangements for the maintenance and repair of vehicles. The scope of this work was to:

- Analyse activity between planned, unplanned and out-of-hours work;
- Review the operation of the out-of-hours repair service;
- Benchmark service and inspection costs by vehicle type as far as comparative information would allow;
- Benchmark the 'client side' staffing establishment, where comparative information was available;
- Review management information requirements;
- Develop key performance indicators for service delivery; and
- Recommend any areas worthy of additional, more detailed work.

Nottinghamshire County Council maintains Nottinghamshire Fire and Rescue Service's (NFRS) vehicles under contract. The contract will shortly come to an end and the Brigade is preparing to re-tender the contract. The aim of this review was to inform this process and build on other studies and work that the Brigade has undertaken in the past under its Best Value arrangements.

During our review we found the following elements of good practice:

- A commitment to achieving best value for the Brigade and, therefore, the public;
- A willingness to embrace new working practices and outsource services together with an appreciation of the improvements this can bring; and
- Commitment to the use of technology to achieve business benefit.

However, we also found the following issues that the Brigade should seek to address:

- The Transport Unit has limited capacity to complete 'core' contract management work such as:
 - The client side of the fleet maintenance function has been operated with low staffing levels; and
 - The Unit has had to complete additional duties as a result of the loss of some of the Equipment Officer posts.
- There are limited resources available to encode data and as a result, there is a significant delay in information production, which reduces its effectiveness.
- There has been a lack of development of fleet management software. Although this is partly being addressed, NFRS should take every opportunity to participate in the user group to ensure the development is of benefit; and
- The filtering process for out-of-hours call-outs is not operated consistently or by staff with sufficient technical knowledge. There is a risk that this will lead to a higher number of out-of-hours call-outs and increased costs.

These findings were presented to the Brigade together with a pro-forma action plan detailing our recommendations for how these findings could be addressed. Although the Brigade has agreed the report and its findings, we have not yet received a completed action plan. We have been assured that this will be forwarded to us in the near future.

IT Strategy Review

The Authority has requested that we carry out a review of its IT Strategy as part of our performance management work. Key reasons for the Authority requesting this review stem from a number of concerns;

- Internal Audit have not carried out an IT review for over 3 years;
- There are concerns that the current IT strategy may not support the business needs of the Authority;
- The Authority is planning to use its own financial information system from 2003, instead of continuing to use the County Council's system; and
- The recent HMI Inspection Report contained a recommendation in relation to auditing information needs to inform the IT Strategy.

To date we have undertaken initial meetings with both the Head of Resources and Finance and Head of IT to gain an understanding of the Authority's expectations of this review and following these meetings terms of reference have been agreed, which set out the scope of our work.

The objectives of the review are to:

- Establish whether the strategy in place was written in line with good project management and appropriately approved by senior management and members;
- Determine whether the current strategy is appropriate, follows good practice in respect of its content and supports the Authority's corporate and business objectives; and

- Review whether adequate arrangements exist to manage implementation of the IT strategy and successfully take forward IT in the future.

The study has been delayed due to work commitments of IT staff in respect of contingency planning due to the current industrial action. However, we hope to begin our work during December 2002 and report our findings in the early part of 2003.

Section V – Future Audit Work

We will, as in previous years, prepare a strategic plan for our audit, which we will discuss with Officers in due course. We have already identified the following areas that may require audit attention.

Accounts

Our work on the accounts will be essentially unchanged from 2001/02. A new SORP has been issued by CIPFA for the 2002/03 financial year. However, there are few significant financial reporting changes in the document. We will therefore still wish to rely, to varying degrees, on the work of internal auditors to support our financial statement assertions. In particular, we would expect to continue to work with internal audit in the area of monitoring controls, which are an important component of the higher-level control environment.

SAS 610 “Communication of audit matters to those charged with governance” was revised in June 2001 and auditors will be required to implement it during the 2002/03 audit. The standard requires auditors to:

- communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action;
- plan with those charged with governance the form and timing of communications to them and determine whether there are particular persons to whom they should communicate certain matters. In the case of the Authority we will be assuming that the members of Nottinghamshire and City of Nottingham Fire Authority Committee will represent “those charged with governance” unless you agree with us that we should report to another committee;
- disclose to the Committee, and discuss, all relationships between the audit firm and the audited body that may reasonably be thought to bear on the firm's independence and the objectivity of the entire audit team; and the related safeguards that are in place;
- confirm to the Committee that, in their professional judgement, the firm is independent within the meaning of regulatory and professional requirements and the objectivity of the entire audit team is not impaired;
- communicate to those charged with governance an outline of the nature and scope of (including, where relevant, any limitations on) the work they propose to undertake and the form of the reports they expect to make;
- communicate to those charged with governance:
 - expected modifications to the Auditor's' report;
 - unadjusted misstatements;
 - material weaknesses in the accounting and internal control systems identified during the audit;
 - their views about the qualitative aspects of the entity's accounting practices and financial reporting;

- matters specifically required by other auditing standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

- seek written representation from those charged with governance that explains their reasons for not adjusting misstatements brought to their attention by the Auditors.

Most of the requirements of the SAS will not require a huge change from the processes we adopt at the moment although we will have to agree a communication plan with you. The major change will be the requirement for us to draw to your attention any amendments we have identified during the course of the audit which management are not proposing to make to the accounts. In drawing the unadjusted errors to your attention we will have to request that you make the adjustments. These amendments will be any balances which are not “clearly trifling” – so amendments which may not previously have been made on the grounds of immateriality.

We will prepare a more detailed presentation on the implications of SAS 610 (revised) for you when we present the 2002/03 audit plan to you.

On 7 June 2002, the European Authority approved a Regulation on the introduction of International Accounting Standards (IAS) into the UK for financial years beginning on or after 1 January 2005 for all listed groups. The ASB is in the process of aligning all UK accounting standards with IAS so that this can be achieved. The SORP may be amended in future to comply with Companies Act requirements and UK GAAP and therefore IAS. We will keep you informed of developments in this arena and the potential impact on our audit.

Governance and Performance Management

Under section 5(1)(e) of the Audit Commission Act 1998 Auditors have a statutory responsibility to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

65. The 2002/03 local Authority accounts Statement of Recommended Practice (SORP) includes a requirement for a statement of internal financial control (SIFC) to be included in the statement of accounts. The SORP requires the SIFC to be signed by the section 151 officer. An example SIFC is included as an appendix to the SORP. The Audit Commission views this requirement as an interim step towards a Statement of Internal Control, similar to that used by other bodies in the public sector. These statements refer to much wider systems of control than purely financial systems and will require the Authority to have in place arrangements to confirm that these systems are operating effectively.

66. The Authority will need to consider what mechanisms would need to be put in place in order to satisfy this requirement. The Authority will also need to consider its own governance arrangements and how it receives and acts on information relating to internal financial control. We will discuss and review this Authority’s progress of addressing this requirement as part of our 2002/03 audit.

Follow Up of Prior Year Recommendations

67. During our 2002/03 audit we will also be following up recommendations made in our Interim Audit and Final Accounts Audit Reports, which both contain an agreed action plan duly completed and agreed by the Authority.

Appendix A

Auditors' Report to Nottinghamshire and the City of Nottingham Fire Authority on its Best Value Performance Plan for the Year ended 31 March 2002 (Draft)

Certificate

We certify that we have audited Nottinghamshire and the City of Nottingham Fire Authority's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Authority and the Auditor

Under the Local Government Act 1999 (the Act) the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the ODPM.

As the Authority's Auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan;
 - whether the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming our opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

Unqualified opinion

In our opinion, Nottinghamshire and the City of Nottingham Fire Authority has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, we are required to recommend the procedures to be followed by the Authority in relation to the plan.

Basis of recommendations

For the purpose of making our recommendations, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Authority for collecting and recording specified performance information.

Recommendations

On the basis of our audit work, we consider that the matters set out below should be brought to your attention:

- The performance management system requires further development to assist the Authority in delivering improvements;
- Future BVPPs should include more detail on completed reviews;
- Targets should be set for all Best Value Performance Indicators and key local indicators; and
- The enhanced reporting system for some performance indicators should be extended to include all Best Value Performance Indicators and key local indicators.

Recommendations on Referral to the Audit Commission/ Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a best value inspection of Nottinghamshire and the City of Nottingham Fire Authority under section 10 of the Local Government Act 1999.
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Signature Date