

REPORT

Meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY	
Date	11 JUNE 2004	agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE TREASURER

STATEMENT ON INTERNAL CONTROL

1 PURPOSE OF REPORT

To inform Members of the proposed Statement on Internal Control for inclusion in the Statement of Accounts 2003/04.

2. BACKGROUND

The Accounts and Audit Regulations 2003 require the Authority to publish a Statement on Internal Control within the Statement of Accounts. This is a new requirement and replaces the Statement of Internal Financial Control produced for the 2002/03 Accounts. The new Statement has wider scope than previously and requires a review of the Authority's whole system of internal control including corporate governance and risk management.

3. REPORT

3.1 CIPFA has published some guidance to help Authorities to produce the Statement. This has only recently been made available and it makes clear that the practices and procedures described in the guidance need to be followed throughout the period under review i.e. in the financial year in question. Because this is a new requirement, CIPFA acknowledge that it would be unreasonable to expect all Authorities to be in a position to obtain the necessary assurances to support a full Statement on Internal Control for the accounting year 2003/4. Nevertheless, the guidance has been used to produce the required Statement for 2003/4 based upon processes that have been completed during 2003/4. A copy of the proposed draft Statement is attached as Appendix A.

3.2 In order to ensure that a full Statement on Internal Control can be produced for the 2004/5 Accounts, in accordance with the CIPFA guidance, an Implementation Plan has been drawn up to obtain the assurances needed for the Statement. This Implementation Plan is attached in Appendix B.

4. FINANCIAL IMPLICATIONS

The Statement is required to demonstrate the Authority has a sound system of internal control in place. This is important for the overall control of the Authority's finances as well as other areas of its operation. However, it has no direct financial implications.

5. PERSONNEL IMPLICATIONS

There are no personnel implications arising from this report.

6. EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications arising from this report.

7. RISK MANAGEMENT IMPLICATIONS

As referred to in the Financial Implications Internal Control is fundamental to the financial control of the organisation and serves to control a range of risks to finances.

8. RECOMMENDATIONS

That Members approve the proposed Statement on Internal Control 2003/4 and the Implementation Plan for 2004/5.

9. BACKGROUND PAPERS FOR INSPECTION

None

Paul Woods
CHIEF FIRE OFFICER

Alan Sumbly
TREASURER

APPENDIX A

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY

ON INTERNAL CONTROL - 2003/4

1. SCOPE OF RESPONSIBILITY

Nottinghamshire and City of Nottingham Fire Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Fire Authority is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A system of internal control has been in place at Nottinghamshire and City of Nottingham Fire Authority for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

THE INTERNAL CONTROL ENVIRONMENT

The Authority's internal control environment comprises the many systems, policies, procedures and operations in place to:-

- establish and monitor the achievement of the Authority's objectives
- facilitate policy and decision making

- ensure compliance with established policies, procedures, laws and regulations
- identify, assess and manage the risks to the Authority's objectives including risk management
- ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which the Authority's functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.
- provide appropriate financial management of the Authority and the reporting of financial management and,
- ensure adequate performance management of the Authority and the reporting of performance management

REVIEW OF EFFECTIVENESS

The Fire Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the External Auditors and other review agencies and inspectorates in their Annual Audit Letter and other reports.

Throughout 2003/4 the Authority has maintained and reviewed its system of internal control in a number of ways. In particular: -

The Strategic Management Team have reviewed the operation of the Authority's Corporate Risk Profile to ensure that all risks to the Authority's strategic objectives and corporate plans are appropriately managed.

The Fire Authority have received and/or adopted:-

- Strategic Plan targets
- Procurement Strategy
- Statement of Accounts 2002/3
- Authority's Six Month Progress Report
- Treasury Management Policy

- External Auditors Letter
- Budget Monitoring
- External Inspections
- Periodic Performance Reports
- Medium Term Financial Strategy and Budget
- External Audit Plans for the 2003/4 audit.
- Pilot Comprehensive Performance Assessment

The Improvement and Development Board has provided an additional level of scrutiny to a number of these plans and strategies.

The internal Performance Management Team carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans derived from the Risk Profile.

Internal Audit have undertaken a number of planned reviews of systems and internal control procedures across a range of functions in the Authority. Each review contains an opinion on the internal controls in place and any unsatisfactory audit opinions result in recommendations for improvement, which are implemented by Management. Copies of these reviews are sent both to the Authority's Treasurer and to the External Auditors.

3. SIGNIFICANT INTERNAL CONTROL ISSUES

The Authority faces another challenging year in 2004/5 and the following issues represent key issues in relation to internal control:-

The final accounts must be completed in accordance with the revised timescale. A plan is in place, which will require careful monitoring to ensure that the accounts for 2003/4 can be approved by the Authority by July 2004.

The Performance Management Team are to receive copies of the Internal Audit Reports and follow up recommendations as part of their wider "audit" role

Copies of the Internal Audit Reports are to be received by the Improvement and Development Board to provide a measure of scrutiny over both Internal Audit findings and subsequent management actions.

The Corporate Risk Profile must continue to be updated and should specifically include areas of financial risk.

The financial system must be further developed to provide improved levels of budget monitoring at the budget manager level and improved purchasing and procurement controls

The Authority must properly consider the impact of capping for 2005/6 should any appeal be unsuccessful and formulate appropriate financial strategies

The Authority should review its financial regulations.

Paul Woods
CHIEF FIRE OFFICER

Councillor Graham Jackson
CHAIRMAN OF FIRE AUTHORITY

STATEMENT ON INTERNAL CONTROL - 2004/5 - IMPLEMENTATION PLAN				
CIPFA Guidance	Current Status	Action Needed	Responsibility	Timescale
Establish principal statutory obligations and organisational objectives.	Obligations and objectives are detailed in the Authority's Strategic Plan, The Annual and Best Value Performance Plans and the IRMP Business Plans key aims and objectives are drawn from the IRMP, the Best Value Performance Plan and the Risk Profile.	Need to update plans as appropriate. Need to include specific financial risks and exposures to internal control weaknesses.	Strategic Management Team Head of Finance and Resources	Continuous review throughout 2004/5 July 2004
Identify principal risks to the achievement of objectives.	Principal Risks Identified by Strategic Management Team with advice from legal advisors, internal audit, external audit and other bodies.	Annual Review of Corporate Risk Profile	Strategic Management Team	Due March 2005
Identify and evaluate key controls to manage principal risks.	Heads of Department assess identified risks and management strategies/control measures Internal Audit provide input into areas of financial risk.	Risks need to be reviewed by Risk Planning Group Internal Audit Reports need to be reviewed by the IDB and Performance Management Group.	Risk Planning Group Performance Management Group and IDB	September 2004 From June 2004
Obtain assurances as to the effectiveness of key controls.	Internal Audit aims to comply with the 2003 Code of Practice for Internal Audit and provide an independent and objective	Internal Audit need to provide a general statement regarding	Head of Finance and Resources to agree with IA	September 2004

STATEMENT ON INTERNAL CONTROL - 2004/5 - IMPLEMENTATION PLAN				
CIPFA Guidance	Current Status	Action Needed	Responsibility	Timescale
	<p>assurance across the whole range of the Authority's activities.</p> <p>Internal "audit" teams will report on shortfalls relating to the implementation of procedures and policies</p> <p>The annual Audit Letter and specific performance review studies undertaken by the External Auditor provide useful, although limited, assurance on the operation of internal controls. A number of Internal Review sources will also cover areas of the internal control environment. The work of the IDB, the Performance Management Group and the Risk Planning all provide a source of information on the operation of internal controls.</p>	<p>internal control based on their audit work for 2003/4 Internal Audit Reports need to be forwarded to "audit teams" for follow up.</p> <p>Ensure annual Audit Letter and other relevant External Audit reports are considered in formulating the Statement on Internal Control.</p> <p>Consider the results of the work of the Internal Review mechanisms in formulating the Statement on Internal Control.</p>	<p>Head of Finance and Resources</p>	<p>From June 2004</p>
Evaluate assurances and identify gaps in control	The assurances received from the sources detailed previously should be reviewed and	Internal "audit" processes need to collate information	Head of IS and Head of Finance and Resources	From September

STATEMENT ON INTERNAL CONTROL - 2004/5 - IMPLEMENTATION PLAN				
CIPFA Guidance	Current Status	Action Needed	Responsibility	Timescale
measures.	related to the list of principal objectives. At present this does not yet happen effectively.	for consideration by the Risk Planning Group.		2004
Produce an Action Plan to address weaknesses and ensure continuous improvement of the system of internal control.	The Risk Profile constitutes the Authority's action plan on all matters.	Ensure that financial risks are acknowledged within the Risk Profile.	Strategic Management Team and Head of Resources and Finance	From July 2004
Produce statement on Internal Control	Annual Statement on Internal Control produced	Produce statement of internal control.	Head of Finance and Resources	From May 2004