

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE &amp; RESCUE AUTHORITY</b>	
date	<b>9 June 2006</b>	agenda item number

### **JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE TREASURER TO THE FIRE & RESCUE AUTHORITY**

#### **REVIEW OF INTERNAL CONTROL**

##### **1 PURPOSE OF REPORT**

To inform Members of the Review of the Internal Control environment recently carried out and the proposed Statement on Internal Control for inclusion in the Statement of Accounts 2005/6.

##### **2. BACKGROUND**

2.1 The Accounts and Audit Regulations 2003 require the Authority to publish a Statement on Internal Control with its Statement of Accounts. Whilst it is convenient to include this statement within the Authority's final accounts, it is not specifically a finance related statement and forms part of the Authority's corporate obligations in respect of corporate governance and risk management.

2.2 CIPFA has published extensive guidance to help Authorities to produce the Statement and this guidance has been followed as far as practicable.

2.3 This report is divided up into two sections :

- i) An assessment of the achievement or otherwise of the actions set out in the 2005/6 action plan for internal control ;
- ii) An assessment of the current state of internal control and a comparison of the CIPFA guidance on expectations with current practice.

2.4 It also sets out in two appendices in the following areas which Members are required to approve :

- i) An action list for internal control improvements during 2006/7 (Appendix D) ;
- ii) A draft statement of internal control to be included in the 2005/6 accounts. (Appendix E).

### **3. 2005/6 ACTION PLAN**

- 3.1 The Statement of Internal Control (SIC) included in the 2004/5 final accounts, included an action plan for improvements to be made during 2005/6. This plan, along with the achievements against it, is given as Appendix A and shows that there are a number of areas where work remains to be done. None of these could be regarded as serious internal control issues however they will fall to be addressed as part of the 2006/7 action plan.
- 3.2 One of the areas relates to training both of staff and Members in areas such as good governance and risk management. As the new governance structure has only recently been put into place it has been inappropriate to organise training on governance matters. Risk management training for Officers is being gradually extended and specific training for Members is to be arranged.
- 3.3 Whilst a significant amount of work has been carried out on business continuity planning this should not yet be regarded as complete. This will need to be included in the 2006/7 action plan.
- 3.4 Whilst progress has been made in terms of allocating risk to departmental "owners" this is far from complete. This is included within the performance management framework and all risks are identified to individual managers, however this needs to gain maturity.

### **4. CURRENT STATE OF INTERNAL CONTROL**

- 4.1 CIPFA have set eight specific objectives in relation to internal control, each of which has been considered and the Authority's actual position measured against CIPFA's model. The Authority's response under each of CIPFA's eight objectives is attached as Appendix B, which whilst somewhat lengthy, can be summarised as follows :
- 4.2 Objective 1 deals with the establishment of principal statutory obligations and organisational objectives. The Authority is mostly compliant with this objective apart from the following areas :
- i) There is no specific training given to Elected Members in respect of governance matters ;
  - ii) There has been no staff training or awareness programmes relating to governance ;
  - iii) Current routine performance measurement reports to Members do not indicate comparisons with family group performance, nor do they clearly highlight areas where corrective action is required ;
  - iv) "Smart" compliant action plans are not drawn up to address under performance.
- 4.3 Objective 2 considers the identification of principal risks to the achievement of objectives. Whilst the Authority has made significant progress in this area and can be regarded as one of the more "progressive" Authorities, there are a number of areas which require action in 2005/6. These mainly relate to training and the embedding of the risk management culture throughout the

organisation. There is also an issue that the Authority has no formal Risk Management IT system.

- 4.4 Objective 3 requires the Authority to identify key controls in order to manage risk. Again the Authority is generally compliant, but need to make some progress in the area of business continuity planning and the development of key risk indicators which will be used to track and review the movements of key risks.
- 4.5 Objective 4 requires the Authority to seek assurances on the effectiveness of key controls. Again there is general compliance, however the guidance requires that individual assurances are sought from departmental managers which is not currently carried out. However, because of the way that the risk profile is maintained by SMT members (ie: the Departmental Heads) there is a general awareness of emergent risk which is dealt with through this process.
- 4.6 Objective 5 is concerned with the evaluation of assurances and the identification of gaps in control. This is an area where no specific assurances have been sought from Departmental Managers, although as mentioned above, the risk register is reviewed by the whole of SMT periodically. The Head of Resources and Finance has also carried out a detailed review of the financial risk profile, the results of which are given as Appendix C.
- 4.7 Objective 6 concerns the action plan for the improvement of the internal control environment and is evidenced by both the preparation and review of the action plan for 2004/5 and the production of the action plan for 2005/6, which is given as Appendix D to this report.
- 4.8 Objective 7 relates entirely to the production of the statement of internal control which is attached as Appendix E to this report.
- 4.9 Objective 8 sets out the requirement for this report on the review of internal control to be presented to Members for information and approval.

## **5. FINANCIAL IMPLICATIONS**

There are no specific financial implications for the Authority arising from this report, other than the requirement for the Statement of Internal Control to be included within the Authority's published accounts, which need to be approved by the Authority by 31 July 2006.

## **6. PERSONNEL IMPLICATIONS**

There are no personnel implications arising from this report.

## **7. EQUALITY IMPACT ASSESSMENT**

An initial assessment has revealed there are no equality issues arising from this report.

**8. RISK MANAGEMENT IMPLICATIONS**

The Statement of Internal Control is fundamental to the risk management of the Authority. The statement shows that the Authority has critically examined the internal control environment and drawn up a set of actions to improve this environment over the coming year.

**9. RECOMMENDATIONS**

That Members approve the proposed Statement on Internal Control 2005/6 and the Implementation Plan for 2006/7.

**10. BACKGROUND PAPERS FOR INSPECTION**

None.

Paul Woods  
**CHIEF FIRE OFFICER**

Alan Sumbly  
**TREASURER TO THE FIRE & RESCUE AUTHORITY**

**APPENDIX A**

<b>STATEMENT ON INTERNAL CONTROL - 2004/5 – Progress</b>				
<b>CIPFA Guidance</b>	<b>Identified Problem</b>	<b>Action Needed</b>	<b>Complete</b>	<b>Comment</b>
Establish principal statutory obligations and organisational objectives.	Currently The Authority has not reviewed the code of corporate governance	Need to review the current code	Part	Not formally reviewed by the CFA but the new governance structure meets the code requirements.
	The Authority does not measure compliance with the code	Annual report required to assess compliance with code	Y	
	No specific training is given on governance matters	Need to arrange training for staff and members on governance issues.	Part	As new structure has only just been introduced there has been no formal staff training. Reporting requirements need to be reviewed.
	Performance Management Reports do not benchmark against family groups or result in action plans for improvement.	New performance management framework needs to take into account these requirements	N	
Identify principal risks to the achievement of objectives.	Communication and training on the risk profile is limited to SMT and PMG only	Training and awareness of Members and Staff to be improved.	N	Risk Management training for Members planned but not yet implemented
	Processes for risk identification have not been disseminated to staff	As above	N	As above
	Managers at present are not fully accountable for risks in their functional areas.	To be included in training processes	Partly	Performance Framework allocates risks
	No externally run diagnostic survey of corporate risk	May consider a diagnostic	Y	Diagnostic tested but not used.
	Risk Management in partnership working and projects needs to be developed	To be incorporated within business case and project	Partly	Needs more work to complete

**STATEMENT ON INTERNAL CONTROL - 2004/5 – Progress**

<b>CIPFA Guidance</b>	<b>Identified Problem</b>	<b>Action Needed</b>	<b>Complete</b>	<b>Comment</b>
	No risk management information system in place	management protocols. System currently being trialed	Y	
Identify and evaluate key controls to manage principal risks.	Business Continuity Planning is poor.	Heath Lambert engaged to help with BCP	Partly	Significant work done but needs to be completed
	No identification or monitoring of Key Risk Indicators	Indicators to be developed by the Risk Manager	Partly	Some work done but needs completion
Obtain assurances as to the effectiveness of key controls.	No process for departmental managers to give assurances regarding risks in their specific areas.	This process to be developed for 2005/6	N	
Evaluate assurances and identify gaps in control measures.	No process of evaluating departmental risks.	This process to be developed in 2005/6	N	
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.	No action required	Y	
Produce statement on Internal Control	Annual Statement on Internal Control produced	Produce statement of internal control.	Y	
Report to Fire Authority	None	Statement to be signed by chairman and Chief Officer	Y	

## APPENDIX B

### Objective 1 - Establishing principal statutory obligations and organisational objectives:

Step 1: In support of objective 1 – Mechanism established to identify principal statutory obligations	
<u>Examples of assurance:</u>	<u>Evidenced by:</u>
1. Responsibilities for statutory obligations are formally established.	Inspection of: <ul style="list-style-type: none"> <li>• Documents (e.g. constitution) recording individual officer and member responsibilities</li> <li>• Scheme of Delegation</li> <li>• Financial principles and delegation profiles.</li> <li>• Job descriptions of key officers</li> <li>• Departmental Structures.</li> <li>• Subscriptions to information sources</li> <li>• Membership of Professional Bodies</li> </ul>
2. Record held of statutory obligations	<ul style="list-style-type: none"> <li>• Accessible record of statutory obligations in Library</li> <li>• Subscription to Local Government Library</li> <li>• Availability on Intranet</li> </ul>
3. Effective procedures to identify, evaluate, communicate, implement, comply with monitor legislative change exist and are used.	<ul style="list-style-type: none"> <li>• Appointment of suitably qualified and experienced employees, selected against accurate and specific job descriptions and person specifications.</li> <li>• Evidence of good arrangements for internal and external communication of legislative and regulatory changes.</li> <li>• Consideration given to this area in the Risk Profile.</li> <li>• Significant legislative changes have been reported to the CFA.</li> </ul>
4. Effective action is taken where areas of non-compliance are found in either mechanism or legislation	Review of evidence to demonstrate that action has been taken to overcome identified areas of non-compliance, for example: <ul style="list-style-type: none"> <li>• Internal /external audit reports to Improvement and Development Board.</li> <li>• Risks requiring Actions from the Risk Profile are incorporated into departmental business plans and progress monitored by the Performance Management Group.</li> </ul>

**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 2: In support of Objective 1 – Mechanism in place to establish corporate objectives.	
<b><u>Examples of assurance:</u></b>	<b><u>Evidenced by:</u></b>
1. Consultation with stakeholders on priorities and objectives	<ul style="list-style-type: none"> <li>Stakeholders Seminar used as a consultation vehicle on IRMP. Further plans for consultation in terms of budget consultation and wider inclusion planned for 2005/6.</li> </ul>
2. The authority's priorities and organisational objectives have been agreed (taking into account feedback from consultation).	<ul style="list-style-type: none"> <li>Authority's approved and published corporate plan takes account of all consultation and local and national priorities</li> </ul>
3. Priorities and objectives are aligned to principal statutory obligations and relate to available funding	<ul style="list-style-type: none"> <li>Corporate priorities and objectives are clearly set out in the Corporate plan.</li> <li>Corporate priorities are informed by the IRMP.</li> <li>Corporate plan takes account of annual budget and medium term financial plan</li> </ul>
4. Objectives are reflected in departmental plans and are clearly matched with associated budgets	<ul style="list-style-type: none"> <li>Departmental business plans are aligned to the corporate plan and strategy.</li> <li>The budget setting process takes full account of the findings of the IRMP and are therefore reflected in departmental business cases.</li> <li>Reports are produced on the Outcome of departmental and/or Service plans</li> </ul>
5. The authority's objectives are clearly communicated to staff and to all stakeholders	<ul style="list-style-type: none"> <li>A communication strategy in respect of the corporate objectives has been developed, approved and implemented.</li> <li>Examples include the newsletter and staff briefings.</li> </ul>



**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 3: In support of objective 1 - Effective corporate governance arrangements are embedded within the authority	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1. Code of corporate governance	A Code of Corporate Governance in line with CIPFA/SOLACE guidance has been adopted by the authority.
2. Review and monitoring arrangements	<ul style="list-style-type: none"> <li>• The Code itself incorporates an annual review.</li> <li>• There are plans for an annual report on compliance with the Code of Corporate Governance</li> <li>• Internal/external audit reports on adequacy of corporate governance arrangements</li> </ul>
3. Committee charged with governance responsibilities	Standards Committee as well as the full Fire Authority deal with matters of governance.

**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 3: In support of objective 1 - Effective corporate governance arrangements are embedded within the authority	
4. Governance training provided to key officers and all members	<ul style="list-style-type: none"> <li>• Currently there have been no specific training courses provided on governance matters</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>
5. Staff, public and other stakeholder awareness of corporate governance	<ul style="list-style-type: none"> <li>• There is no general staff awareness training programme</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• The Code has been published and is accessible to all staff, the public and other stakeholders</li> </ul>

**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 4: In support of objective 1 - Performance management arrangements are in place	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1. Comprehensive and effective performance management systems operate routinely	<ul style="list-style-type: none"> <li>• The Authority has a developing performance management framework which it is acknowledged can be improved however it already shows:               <ul style="list-style-type: none"> <li>• Sources of performance measures</li> <li>• Who is responsible for achieving each performance measure</li> <li>• Who is responsible for collating the data for each one</li> <li>• Who determines and approves the performance measures who receives reports on performance and how often</li> <li>• How poor performance is addressed</li> <li>• How performance is driven upwards over time</li> </ul> </li> <li>• Reports resulting from internal or external reviews of performance management</li> <li>• Year-on-year comparison of achievement against performance targets (e.g. in annual reports) Best value reviews, including benchmarking results</li> <li>• Departmental and/or service benchmarking results</li> </ul>
2. Key performance indicators are established and monitored	<ul style="list-style-type: none"> <li>• Appropriate key performance Indicators (KPIs) have been established and approved for each service element and are included in departmental and service business/annual plans</li> <li>• A robust monitoring system has been Approved and implemented There are regular reports on progress on delivering approved KPIs</li> <li>• There is an approved mechanism for Reviewing the continuing suitability of KPIs and for securing continuous Improvement</li> </ul>

**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 4: In support of objective 1 - Performance management arrangements are in place	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
3. The authority knows how well it is performing against its planned outcomes	<ul style="list-style-type: none"> <li>• Regular reports are presented to members on the delivery of national, authority and departmental performance targets</li> <li>• Internal and external auditor's reports on key performance indicators.</li> <li>• Comprehensive Performance Assessment (CPA) reviews</li> <li>• Monitoring reports on the achievement of local performance targets are presented to the Fire Authority.</li> <li>• Best Value Performance Indicators (BVPI)</li> <li>• Internal performance indicators</li> <li>• Regular budget monitoring reports (capital and revenue, current year and medium-term)</li> <li>• Public Service Agreements (Home Office/ODPM related etc)</li> <li>• External audit/agency reports on performance</li> </ul>

**Objective 1 - Establishing principal statutory obligations and organisational objectives:**

Step 4: In support of objective 1 - Performance management arrangements are in place	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
4. Knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	<ul style="list-style-type: none"> <li>Monitoring reports are regularly presented to the CFA</li> <li>The reports include detailed performance results, both absolute and relative to family group authorities a clear indication of below target, on target and at, or above, target results, highlighting areas where corrective action is necessary</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>Committee reports on below par performance do not include 'SMART' action plans to improve performance</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>Performance targets in subsequent corporate and departmental and/or service business plans are revised in the light of actual performance</li> <li>Continuous improvement is strived for by increasing the difficulty of performance targets when they have been met over a period (e.g. year-on-year movements on KPI results)</li> <li>Performance trends are established and reported upon over the medium term and are fed into the corporate and departmental and/or service planning process</li> <li>Performance targets are adjusted in the light of the performances of peer authorities</li> </ul>
5. The authority continuously improves its performance management	<ul style="list-style-type: none"> <li>The performance management systems are regularly reviewed and updated to take account of changes in organisational structure, new performance measurement frameworks (i.e. new Government initiatives, new internal performance measures etc) and other factors</li> <li>The performance management arrangements are revised in line with external or internal review of the arrangements</li> <li>Performance management arrangements are reviewed to assimilate new techniques and/or technology e.g. developments in performance management information systems</li> </ul>

**Objective 2 – Identify principal risks to achievement of objectives;**

Step 1: In support of objective 2 - The authority has robust systems and processes in place for the identification and management of strategic and operational risk	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
<p>1. There is a written strategy and policy in place for managing risk which:</p> <ul style="list-style-type: none"> <li>• Has been formally approved at political and risk management board (or equivalent) level</li> <li>• Is reviewed on a regular basis</li> <li>• Has been communicated to all relevant staff</li> </ul>	<ul style="list-style-type: none"> <li>• An approved risk profile and strategy is in place.)</li> <li>• The risk profile is regularly reviewed to take account of the changing environment.</li> <li>• Communication presently limited to the Performance Management Group.</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• Examples of dissemination e.g. induction, briefings, awareness sessions, policy and strategy published on intranet, strategic diagnostic questionnaire results</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>
<p>2. The authority has implemented clear structures and processes for risk management which are successfully implemented and:</p> <ul style="list-style-type: none"> <li>• Management board and elected members see risk management as a priority and support it by personal interest and input</li> <li>• Decision making considers risk</li> <li>• A senior manager has been appointed to "champion" risk management</li> <li>• Roles and responsibilities for risk management have been defined</li> <li>• Risk management systems are subject to independent assessment</li> <li>• Risk management is considered in the annual business planning process</li> </ul>	<ul style="list-style-type: none"> <li>• SMT Minutes and CFA minutes reflect Risk Considerations</li> <li>• All CFA Reports carry Risk Management Implications</li> <li>• Head of Finance and Resources carries a specific reference for Risk Management at the strategic level.</li> <li>• Internal audit reports and external Audit comments on risk management System</li> <li>• CPA or PPAF review comments on risk Management</li> <li>• Annual business plans Option</li> <li>• The corporate business plan and financial plan assess risks as appropriate and in particular take account of new and emerging risks facing the authority</li> </ul>
<p>3. The authority has developed a corporate approach to the identification and evaluation of risk which is understood by staff</p>	<ul style="list-style-type: none"> <li>• Systematic procedures for risk identification and evaluation have been agreed.</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• Little evidence of dissemination beyond PMG</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• Risk Manager appointment approved by CFA to take on the role of "Risk Champion"</li> </ul>

**Objective 2 – Identify principal risks to achievement of objectives;**

Step 1: In support of objective 2 - The authority has robust systems and processes in place for the identification and management of strategic and operational risk	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
4. The authority has well defined procedures for recording and reporting risk	<ul style="list-style-type: none"> <li>• Risk Management strategy and policy is reviewed annually by the SMT</li> <li>• Corporate Risk profile is reviewed periodically by SMT.</li> <li>• Risk Issues are reported to Members.</li> <li>• Internal Audit carry out risk based auditing.</li> <li>• Where appropriate risks not properly addressed identified in internal audit reports are fed into the risk management process (see financial risks)</li> <li>• New and emergent risks are fed into the risk management process.</li> </ul>
5. The authority has well-established and clear arrangements for financing risk	<ul style="list-style-type: none"> <li>• The Head of Finance and Resources carries out an annual review of risk financing.</li> <li>• All legal requirements for insurance are Met</li> <li>• Insurance claims are managed in Accordance with 'Woolf principles</li> <li>• Regular meetings held between Head of Finance and Resources and claims handlers to ensure that “lessons” and/or additional risk exposures are fed into the profile.</li> </ul> <p>Participation in Firebuy Alternative risk financing project.</p>
6. The authority has developed a programme of risk management training for relevant staff	<ul style="list-style-type: none"> <li>• There has been some training in risk management but this has not been comprehensive.</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• There are no means of communicating risk management issues to staff</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>

**Objective 2 – Identify principal risks to achievement of objectives;**

Step 1: In support of objective 2 - The authority has robust systems and processes in place for the identification and management of strategic and operational risk	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
<p>10. The corporate risk management board (or equivalent) adds value to the risk management process by:</p> <ul style="list-style-type: none"> <li>• Advising and supporting corporate management team on risk strategies</li> <li>• Identifying areas of overlapping risk</li> <li>• Driving new risk management initiatives</li> <li>• Communicating risk management and sharing good practice</li> <li>• Providing and reviewing risk management training</li> <li>• Regularly reviewing the risk register(s)</li> <li>• Co-ordinating the results for risk reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Management Issues are dealt with directly by the Strategic Management Team</li> <li>• Risk Management Training is not specifically delivered at present although the appointment of the Risk Manager has improved this position.</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>
<p>8. A corporate risk officer has been appointed with the necessary skills to analyse issues and offer options and advice and:</p> <ul style="list-style-type: none"> <li>• Support decision making and policy formulation</li> <li>• Provides support in the risk Identification and analysis process</li> <li>• Provides support in prioritising risk mitigation action</li> <li>• Provides advice and support in determining risk treatments</li> <li>• Inspires confidence in managers</li> </ul>	<ul style="list-style-type: none"> <li>• Job description of Risk Manager</li> <li>• Key task matrix of the Risk Manager</li> <li>• Risk Manager will report to SMT</li> <li>• Currency of expertise is already in place as training sessions by ALARM and CIPFA Better Governance Forum are attended.</li> <li>• Corporate membership of ALARM</li> <li>• Head of Finance and Resources is a member of the IRM</li> <li>• Use of consultancy as appropriate e.g Heath Lambert.</li> </ul>
<p>9. Managers are accountable for managing their risks</p>	<ul style="list-style-type: none"> <li>• PMG members are involved in the risk identification and analysis process.</li> <li>• Risks are identified in corporate/departmental risk register(s) and business plans</li> <li>• Further evidence required of review of risk at service/operational levels</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>



**Objective 2 – Identify principal risks to achievement of objectives;**

Step 1: In support of objective 2 - The authority has robust systems and processes in place for the identification and management of strategic and operational risk	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
10. Risk management is embedded throughout the authority	<ul style="list-style-type: none"> <li>• There is some evidence of a general risk management culture at most levels</li> <li>• There is no Risk management training programme</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>
11. Risks in partnership working are fully considered	<ul style="list-style-type: none"> <li>• Risk assessments are undertaken before the commencement of major projects. This will be included in the original CFA report.</li> <li>• Risk assessment are not formally reviewed during the project period</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• No evidence that potential partners are Required to produce and submit risk Assessments</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p> <ul style="list-style-type: none"> <li>• Partnership arrangements are reviewed in terms of risk before they are entered into however there is no evidence that these risks are subsequently reviewed.</li> </ul> <p style="text-align: center;"><b>ACTION REQUIRED</b></p>
12. Where employed, risk management information systems meet users' needs	There is a risk management system in place

**Objective 3 – Identify key controls to manage principal risks:**

Step 1: In support of objective 3 – The authority has robust system of internal control which includes systems and procedures to mitigate principal risks	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
<p>1. There are written financial regulations in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff:</p> <ul style="list-style-type: none"> <li>• Authority has adopted CIPFA code on Treasury Management (note: recent legislative requirement by virtue of the prudential code)</li> <li>• Compliance with the Prudential Code</li> </ul>	<p>Financial Regulations in place. CIPFA code on treasury management adopted Prudential code complied with External Audit review of compliance Financial Regulations published on the intranet Regular review by CFA</p>
<p>2. There are written contract standing orders in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<p>Written standing orders have been adopted by the CFA in respect of contracts Available on the intranet Contract procedures internally required advice from an experienced officer</p>
<p>3. There is a whistle blowing policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<p>There is an approved whistleblowing policy in place and this is reviewed by the Standards Board.</p>
<p>4. There is a counter fraud and corruption policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<p>There is a counter fraud and corruption policy in place which has been formally approved and is regularly reviewed.</p>
<p>5. There are codes of conduct in place which have been formally approved and widely communicated to all relevant staff</p>	<p>Codes of conduct for both Officers and Members are in place and have been reviewed and approved by Members.</p>
<p>6. A register of interests in maintained, regularly updated and reviewed</p>	<p>A register of interests in maintained, regularly updated and reviewed</p>
<p>7. Where a scheme of delegation has been drawn up, it has been formally approved and communicated to all relevant staff</p>	<p>The Authority has a written and approved scheme of delegation both to the Chief Officer and for other specific functions e.g. finance.</p>

**Objective 3 – Identify key controls to manage principal risks:**

Step 1: In support of objective 3 – The authority has robust system of internal control which includes systems and procedures to mitigate principal risks	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
8. A corporate procurement policy has been drawn up, formally approved and communicated to all relevant staff	The Authority has a corporate procurement policy and strategy and procurement procedures are well understood.  The policy is reviewed (recent review to incorporate EOPPS advice).
9. Business/service continuity plans have been drawn up for all critical service areas and the plans: <ul style="list-style-type: none"> <li>• Are subject to regular testing</li> <li>• Are subject to regular review</li> </ul>	The process of creating robust BCPs for the Authority is well advanced but has yet to complete.
10. The corporate/departmental risk register(s) includes expected key controls to manage principal risks	Corporate Risk Profile does include key control requirements.
11. Key risk indicators have been drawn up to track the movement of key risks and are regularly monitored and reviewed	Key Risk Indicators are included within the performance management framework but this is not yet mature.
12. The authority's internal control framework is subject to regular independent assessment	Internal Audit give a view on the internal control environment as do the external auditors.
13. A corporate health and safety policy has been drawn up, formally approved, is subject to regular review and has been communicated to all relevant staff	A health and safety policy has been drawn up, formally approved, is subject to regular review and has been communicated to all relevant staff
14. A corporate complaints policy/procedure has been drawn up, formally approved, communicated to all relevant staff, the public and other stakeholders is regularly reviewed	A corporate complaints policy/procedure has been drawn up, formally approved, communicated to all relevant staff, the public and other stakeholders is regularly reviewed

**Objective 4 – Obtain assurance on the effectiveness of key controls:**

<p>Step 1: In support of objective 4 – Appropriate assurance statements are received from designated internal and external assurance providers:</p> <ul style="list-style-type: none"> <li>• The authority has identified appropriate sources of assurance</li> <li>• Appropriate external assurances are identified and obtained</li> </ul>	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1. The authority has determined appropriate internal and external sources of assurance	Internal Audit Plan External Audit plan Audit reports
2. Appropriate key controls on which assurance is to be given have been identified and agreed	Internal/External Audit plans
3. Departmental assurances are provided	No departmental assurances are currently sought  <b>ACTION REQUIRED</b>
4. External assurance reports are collated centrally <ul style="list-style-type: none"> <li>• Reports are reviewed by relevant senior management and reported to appropriate committee</li> <li>• Action plans are prepared and approved as appropriate</li> <li>• Follow up reports on recommendations are requested and reviewed by relevant senior management team and progress is regularly reported to relevant committee</li> </ul>	Audit reports are sent to relevant senior officers and reviewed by the Improvement and Development Board. Action Plans are sought by the auditors Follow up reviews take place Internally the performance management team review compliance with Audit Recommendations.

**Objective 4 – Obtain assurance on the effectiveness of key controls:**

Step 1: In support of objective 4 – Appropriate assurance statements are received from designated internal and external assurance providers: <ul style="list-style-type: none"><li>• The authority has identified appropriate sources of assurance</li><li>• Appropriate external assurances are identified and obtained</li></ul>	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
5. Internal Audit Arrangements	Internal Audit contract in place Compliance with CIPFA code Adequacy reviewed by External Audit
6. Corporate Government Arrangements	CPA review External Audit Review
7. Performance monitoring arrangements	CPA Review

**Objective 5 – Evaluate assurances and identify gaps in control/assurances:**

Step 1: In support of objective 5 – The authority has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify areas of weakness in controls	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1. Responsibilities for the evaluation of assurances are clearly defined throughout the organisation	Not done  <b>ACTION REQUIRED</b>
2. Mechanism established for collecting SIC assurances <ul style="list-style-type: none"> <li>• Overall responsibility allocated to SIC senior officer group</li> <li>• Required assurances are agreed and recorded</li> <li>• Central record of all assurances (either evidence file, or showing clear link to where evidence is held)</li> <li>• Clear guidance as to evaluation procedure including assurance over risks, independence and objectivity of assurances</li> <li>• Defined evaluation mechanism</li> <li>• Timetable for completion by statutory deadline</li> <li>• Gap assessment - performed and challenged</li> </ul>	Compilation of SIC carried out by an SMT member. File kept for SIC matters CIPFA Guidance followed Timetable in line with Final Accounts timetable. Gap analysis and action plans produced Previous years action plans reviewed.

**Objective 6 - Action plan to address weaknesses and ensure continuous improvement of the system of internal control:**

Step 1 : In support of objective 6 - There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1 . An action plan is drawn up and approved	Action plan prepared and approved by CFA for 2004/5
2. All actions are 'SMART': <ul style="list-style-type: none"> <li>• Specific</li> <li>• Measurable</li> <li>• Achievable</li> <li>• Realistic</li> <li>• Time-bound</li> </ul>	All actions for 2004/5 completed
3. Actions communicated and responsibilities assigned	Done
4. Implementation timescales agreed	Done
5. Ongoing review of progress and of continuing appropriateness of action	Done

**Objective 7 - Statement on Internal Control:**

Step 1: In support of objective 7 - A statement on internal control has been drafted in accordance with the statutory requirements and timetable set out in the Accounts and Audit Regulations 2003 and is in accordance with CIPFA guidance

<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1. Responsibility for the compilation of the statement on internal control has been assigned	Assigned to Head of Resources and Finance
2. There is a statement on internal control production timetable that meets the statutory deadline	Done
3. The statement on internal control is reviewed, challenged and approved by the authority	To be presented to the Authority 9 <sup>th</sup> June 2006



**Objective 8 - Report to cabinet / executive committee:**

Step 1 : In support of objective 8 - An annual report to the authority (or delegated committee) on the Statement on Internal Control is presented, in accordance with the CIPFAproforma <sup>5</sup>	
<b>Examples of assurance:</b>	<b>Evidenced by:</b>
1 . Responsibility for reporting is clearly defined	See above
2. The signatories to the SIC are defined and are appropriate in accordance with statutory requirements (i.e. Most senior officer and most senior member of the organisation)	Signatories will be Chief Fire Officer and Chairman of the Authority.
3. The report is likely to be published in a timely fashion with the statutory accounts	Timetable ensures this.

**FINANCE RISK & PLANNING PROFILE**

<b>Corporate Risk: Those risks which pertain to the corporate financial health of the organisation. These risks are primarily associated with external influences and are covered in detail within the risk profile drawn up for the creation of balances and reserves</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Score</b>	<b>Insurable</b>	<b>Action</b>	<b>Responsible</b>	<b>Position at 31/3/06</b>
1. Sex or Race Discrimination case	Equalities Officer in post Extensive Equalities Training General zero tolerance approach	Still remains a large risk as the actions of individuals are difficult to contain	N	25 2 in 5 years	N	Retain 100,000 in reserves to deal with this uninsurable risk	Finance	Balances and Reserves paper to CFA 24/2/06
2. Environmental Protection Case	High Potential Costs but Risk controls in place with environment agency	Large liability unlikely	N	15 1 in 5 years	N	Retain £50,000 in balances	Finance	Balances and Reserves paper to CFA 24/2/06
3. Negligent Fire Safety Work	All personnel receive basic fire safety course All fire safety officers sent on core fire safety courses Fire safety training delivered on CC/WCC Minimum core of experienced officers (18mth)maintained (90% of time)	No minimum training requirement necessary for transfer/promotion into department. Still some potential for litigation.	N	10 1 in 5 years	Y	Transfer risk to insurers leaving residual 1/5 of excess layer (£2,000) in reserves.	Finance	As Above
4. Asbestos Claims and exposures	Detailed and reviewed operating procedures	Some risk will always remain in this area.	N	12 1 in 5 years	Y	Transfer risk to insurers leaving residual 1/5 of excess layer (£2,000) in reserves.	Finance	As Above
5. Personal Injury to Staff	SOP's Working practices H&S Interventions and reviews	Opportunity for injury still fairly high, corporate impact low.	N	15 4 per annum	Y	Transfer risk to insurers leaving residual of excess layer (£40,000) in reserves. Assumes 4 incidents per annum.	Finance	As Above
6. Attacks on Staff	Operating procedures Working practices	Increasing risk area but major risk is to staff absences. Incidence is still rare	N	12 1 in 5 years	Y	Transfer risk to insurers leaving residual 1/5 of excess layer (£2,000) in reserves.	Finance	As Above
7. Stress Claims	Possible ET	Difficult to prove and also good Occy Health	N	16 1 in 2 years	Y	Transfer risk to insurers leaving £5,000 to cover excess layer.	Finance	As Above

**Corporate Risk: Those risks which pertain to the corporate financial health of the organisation. These risks are primarily associated with external influences and are covered in detail within the risk profile drawn up for the creation of balances and reserves**

Risk	Response/s	Considerations	Accept Y/N	Risk Score	Insurable	Action	Responsible	Position at 31/3/06
8. Re-ignition or negligence	Operating procedures	Primarily reputational risk but could be large litigation.	N	15 1 in 5 years	Y	Transfer risk to insurers leaving residual 1/5 of excess layer (£2,000) in reserves.	Finance	As Above
9. Hot Summers	None	Increased demand on retained personnel and fuel.	N	10 over 5 years	N	Provide £100,000 within reserves.	Finance	As Above
10. High Pay Awards	Good General Contingency	Potential risk for future budgets	Y	20 2% error over time	N	No provision but requires review	Finance	As Above
11. Flooding Risk	None	Risk to retained payroll of flooding call outs	N	10 over 5 years	N	Provide £100,000 in reserves for a ½ probability.	Finance	As Above
12. Discovery of a major structural problem	Structural Survey	Little work to date on Asset Management Plans	N	9 over 5 years	N	Provide £50,000 in reserves	Finance	As Above
13. Fire or other peril	Normal Fire Precautions and alarms etc.	24 hour presence on station reduces risk	N	4	Y	Insure. Provide no reserve as risk is too low	Finance	As Above
14. Theft of Assets	Security procedures, locked gates/doors etc.	24 hour presence reduces risk	N	15, 10 incidents	Y	Insure. Provide £2,500 uninsured losses reserve	Finance	As Above
15. Own Damage	Training and Procedures	Now medium risk	N	10, 1 incident	Y	Provide no reserve	Finance	As Above
16. Vehicle accidental damage	Training and procedures	High risk and will certainly occur	N	25 30 incidents	Y	Insure. Provide £30,000 uninsured losses reserve	Finance	As Above
17. Serious injury to public	Training and procedures	High impact, ½ probability of occurrence	N	20, 1 in 5 years	Y	Insure. Provide £5,000 uninsured losses reserve	Finance	As Above
18. Serious Injury to Staff	Training and procedures	High impact medium probability	N	20 1 in 5 years	Y	Insure. Provide £5,000 uninsured losses reserve	Finance	As Above
19. Major Vehicle defect	None	High impact low probability	N	10, 1 in 5 years	N	Retain £20,000 in reserves	Finance	As Above
20. Unexpected rise in fuel prices	None	High risk but some inflation allowed for.	N	12	N	Retain £10,000 in reserve	Finance	As Above
21. Legislative Change	Currency of staff training and awareness	Low Risk but high cost	N	4, 1 in 10 years	N	Retain £4,000 in reserve (full cost could be £100,000+)	Finance	As Above
22. Change in legislation regarding PPE or Equipment	Usually not without notice if major	Low risk	N	5, 1 in 5 years	N	Provide £10,000 in reserves	Finance	As Above
23. Major defect in PPE or equipment	Inspection routines	Low likelihood but high impact	N	5/1	10, 1 in 5 years	Provide £10,000 in reserves	Finance	As Above

**Corporate Risk: Those risks which pertain to the corporate financial health of the organisation. These risks are primarily associated with external influences and are covered in detail within the risk profile drawn up for the creation of balances and reserves**

Risk	Response/s	Considerations	Accept Y/N	Risk Score	Insurable	Action	Responsible	Position at 31/3/06
24. Major Fraud	Cost of Fraud	Internal Controls	N	2	Y	No excess layer for fraud	Finance	As Above
25. Increase in Interest Rates	Increase costs	Fixed rate borrowing so little exposure	N	12, 1 in 10 years	N	Provide £5,000 in reserves	Finance	As Above
26. Failure of major borrower	Significant loss of cash	Careful borrower selection	N	10, 1 in 10 years	N	Provide £100,000 in reserves	Finance	As Above
27. Failure of Financial System	Threats to service delivery	Internal controls, backup and recovery	N	8	Part	No reserve	Finance	As Above
28. Major WAN Failure	Loss of Use, Life Risk	Contingency Plans in place	Y	15	N	No reserve	Finance	As Above
29. Admin WAN Failure	Loss of use	Maintenance and Support	N	9 1 in 5 years	N	Reserve £5,000	Finance	As Above
30. IT Sabotage	Security Measures	Low Risk	Y	10	N	None	None	As Above
31. Theft of Equipment	Security Measures	Medium probability but high impact	N	1 in 5 years	Y	Provide £5,000 in reserves for 1 in 5 year occurrence	Finance	As Above
32. Breach of Security	Loss of confidential data	Security measures	N	1 in 5 years	N	Minor reserve of £5,000	Finance	As Above
33. Radio System Failure	Loss of Comms	Alternative Procedures, phones etc.	N	1 in 10 years	N	Minor Provision £1,000	Finance	As Above
34. Major CBRN Incident	Policies, Agreements, national guidelines	Potential high impact but low risk	Part	1 in 10 years	Part	£10,000 insurance reserve	Finance	As Above
35. Terrorist Attack on emergency services	Major Loss of function	Policies, business continuity plans	N	1 in 10 years	Y	Fully insured – no excess	Finance	As Above
36. Natural disaster	S.2.12 arrangements, Belwin scheme		N	1 in 10 years	N	Provide £15,000 in reserves	Finance	As Above
37. Multiple large incidents	S.2.12 arrangements	Potential impact on retained	N	15	N	Provide £15,000 in reserves	Finance	As Above
38. Loss of Trading Income	Budget Monitoring and forecasting	Low risk, Low impact	N	1 in 10 years	N	Provide £25,000 in reserves	Finance	As Above
39. Loss of sponsorship funding	Careful assessment of projects.	Should be well signposted before funding is withdrawn.	N	8	N	Provide £25,000 in reserves	Finance	As Above
40. Loss of key personnel	Documentation of key procedures	Major costs associated with recruitment.	N	1 in 5 years	N	Provide £40,000 in reserves	Finance	As Above
41. Major personal litigation	Disruption legal costs	H&S OHU procedures	N	9	Y	Fully Insured	Finance	As Above
42. Change in legislation affecting procedures	General Awareness		N	1 in 5 years	N	Provide £10,000 in reserves	Finance	As Above

**Corporate Risk: Those risks which pertain to the corporate financial health of the organisation. These risks are primarily associated with external influences and are covered in detail within the risk profile drawn up for the creation of balances and reserves**

Risk	Response/s	Considerations	Accept Y/N	Risk Score	Insurable	Action	Responsible	Position at 31/3/06
43. Industrial Dispute	Maintain adequate contingency	Impossible to reserve an adequate amount.	N	1 in 5 years	10	Provide £500,000 in reserves	Finance	As Above

## FINANCE RISK & PLANNING PROFILE

<b>Treasury Management: Those risks which pertain to the function of Treasury Management and transactions for loans and investments</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
44. Borrower fails to meet repayment or interest obligations.	Fitch and IBCA ratings sufficiently high to minimise risk  Fire Authority approve lending list annually  Wherever possible use a spread of borrowers.	Risk will remain as no financial institution is totally secure.  Difficult sometimes to get a spread of borrowers particularly short term.	Y	4/2	8	Reporting to CFA to continue	Finance	Now using Fitch only. IBCA no longer available.
45. Interest rates fluctuate sufficiently to cause financial losses	Prudential code indicators set out the extent to which the Authority should be exposed to interest rate risk from both fixed and variable rate investments and borrowing.	There is a still a market risk to budgets in that even fixed rate deals are agreed after the budget is set.	Y	2/2	8	Report Quarterly to CFA on compliance with prudential code indicators	Finance	Quarterly reporting done
46. Surplus Cash is invested inappropriately.	Investment strategy agreed monthly by Head of Resources and Finance	Balances to invest longer term	Y	3/4	8	New procedures in place	Head of Finance	Sector appointed to advise
47. Failure to invest	Procedures used ensure that surplus cash is not left in current accounts.	Exceptions to this are Petty Cash Accounts	Y	2/1	9	Exploring ways of providing better "back stop" arrangements with the bank.	Head of Finance	Procedures in place
48. Insufficient liquid funds to meet immediate obligations.	Cashflow forecasts carried out monthly and updated weekly.  All large payments notified to responsible officer.  Overdraft facility in place		Y	4/1	8	Examine overdraft facility after 6 months operation under precepting regime	Finance	Overdraft limit OK

## FINANCE RISK & PLANNING PROFILE

<b>Banking Arrangements Cheque Stocks etc. Those risks inherent in the use of bank accounts and electronic banking arrangements</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
49. Misappropriation of funds directly by using the electronic banking system	Any funds transfer requires to be authorised separately from the officer originating the transfer.  Transfers can only be made to beneficiaries already set up in the system which also need to be authorised.  Detective control of bank reconciliation and supplier feedback.	Some risk remains but this would require collusion	Y	5/2	7	Periodic review of procedures	Head of Finance	Review done Procedures OK
50. Transfer of funds to wrong account in error.	Limited number of beneficiaries set up.  All transactions require to be authorised  Detective control via bank reconciliation and supplier feedback	No formal reporting of any instances at present	Y	3/2	7	Needs a reporting procedure.	Head of Finance	No incidences reported
51. Misappropriation of funds by misuse of the BACS system	Supplier feedback and bank reconciliation	Will need strengthening to include normal BACS controls	N	4/4	7	Request Internal Audit to examine BACS controls available and their use.	Head of Finance	Not Done
52. Theft of Cheques	Cheques kept in safe.  Cheques unsigned and therefore low risk  All cheques require two authorised signatories	Low risk area.	Y	2/1	7	None. Further review required if position changes	Head of Finance	Remains low risk. Internal Audit Reviewed this area
53. Theft of Petty Cash Cheques	Cheques unsigned and therefore low risk  All cheques require two authorised signatories	Low risk area	Y	2/1	7	None. Further review required if position changes	Head of Finance	Position constant

**Banking Arrangements Cheque Stocks etc. Those risks inherent in the use of bank accounts and electronic banking arrangements**

<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
54. Misappropriation of funds using cheques	Bank reconciliation  Cheques require two signatories	Low risk	Y	3/1	7	Sign off of bank reconciliation required.	Head of Finance	Done



## FINANCE RISK & PLANNING PROFILE

<b>Purchase Order and Invoice Processing: Risks from the Issue of purchase orders and the payment of invoices</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
55. Non-Legitimate suppliers are set up on the system	Supplier file maintenance is separated from order processing and invoice processing.	This is generally true but requires a regular review of all user access rights.	Y	4/5	8	Review of access rights of users undertaken	Head of Finance	No Action Required
56. Orders are raised without budget holder authority or appropriate funds	Little control in this area. Control focuses around the small number of people able to raise orders	New system will allow such controls to be formalised.	N	3/5	6	System still unable to enforce controls. Manual process being developed	Head of Finance	Position unchanged. Action required
57. Invoices are paid when no goods have been received.	GRN Process prevents this for order based invoices.  Non-order based invoices require certification from and authorised officer.	GRN process is slow which puts BVPI8 under threat.	Y	3/5	6	Extension of Kypera system has speeded up the GRN process.	Head of Finance	Completed
58. Invoices are paid twice	Controls in place for order based invoices. None order based relies on managers not certifying the same invoice twice.  Risks remain of an invoice being order based but processed as non-order based thus appearing to be due twice.	Medium risk.	N	3/5	4	Need to move to a wholly order based process. This may be inconvenient but no more so than insisting that "every invoice" is certified. Including all the order related ones.	Head of Finance	Position unchanged. Action required
59. Invoices paid late or not at all.	Controls within the system ensure that invoices are paid within 25 days of entry.  Supplier feedback	No controls over invoices prior to entry onto the system.	Y	2/5	3	May require a logging or scanning process to really tighten this up.	Head of Finance	Can take no further action at present as controls are working.
60. Invoices paid for wrong amount	Invoices matched against GRN and Order. Variations require authorisation.  Where no order reliance is placed on authorised officers.	As good as many systems but could be improved by a wholly order based approach.	Y	2/2	3	Order based approach will improve this	Head of Finance	Part

**Purchase Order and Invoice Processing: Risks from the Issue of purchase orders and the payment of invoices**

<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
61. Spurious invoices paid	Supplier set up controls  Division of duties around functions of ordering GRN and invoice processing	Theoretically sound.	Y	2/3	5	None	Head of Finance	OK
62. Fraudulent claims by staff	Checking processes in place.  Senior officer authorisations required	Rules complex and value of authorisations questionable.	Y	1/3	5	Rules being simplified	Head of Finance/Head of HR	No Action required
63. Goods ordered from wrong supplier	Limited number of staff able to place orders	Still presents a major risk area not necessarily financial	N	4/4	6	New systems use has reduced risk but needs further development	Head of finance	Action required
64. Goods ordered other than by official order	None	Largest risk area of all. Encouraged by suppliers and exploited by staff	N	4/5	4	Need to move to wholly order based process. Suppliers must be notified.	Head of Finance	Position unchanged. Action required

## FINANCE RISK & PLANNING PROFILE

<b>Sales Ledger and Invoicing: Risks from allowing credit income</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
65. Failure to recover debt promptly	System allows for series of reminder letters and telephone calls to be made to recover debt	System and processes improved greatly during 2005/6	Y	4/5	6	Requires review to ensure systems still adequate	Head of Finance	Improving.
66. Credit Notes issued without authorisation	Credit Notes issued manually and all authorised appropriately.	System also requires authorisation	Y	3/2	10	None	Head of Finance	No action required
67. Failure to issue invoices as required.	Interface controls between FEM and Financials.  Instructions to staff	Problems remain with Commercial Training	Y	3/3	6	Continue to remind Commercial Training	Head of Finance	No action required
68. Failure to correctly post cash.	Cash presently not posted as promptly as it could be.  Errors are difficult to detect other than by prompt action on debt.	Process now more effective than previously.	Y	'3/4	9	None	Head of Finance	No action required
69. Inadequate provision made for bad debts	Bad debt provision reviewed annually and adjusted as required.  Validated by Head of Finance		Y	'1/2	9	None	Head of Finance	Review May 2006
70. Debt written off improperly	Head of Finance Authorises all debt write off.	Manual process and procedure	Y	1/1	2	None	Head of Finance	Review done
71. Credit given to bad risk customers	No controls in this area	Difficult to achieve as most customers are of a one off nature	Y	'1/4	1	Controls now as good as they can be	Head of Finance	No action required
72. Invoices paid too slowly	System allows good process but not yet properly implemented.	Need attention to aged debt analysis and reporting	Y	3/3	5	Processes much improved	Head of Finance	No action required

## FINANCE RISK & PLANNING PROFILE

<b>Nominal Ledgers: Risks associated with the manipulation of nominal ledger accounts</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
73. Improper journals entered	All journal entries are authorised		Y	'1/2	1	None	Head of Finance	No action required
74. Journals not reversed as required	Little use made of reversing journals  Detective controls only	Failure to reverse journals would create imbalances	Y	'1/2	1	None	Head of Finance	No action required
75. Unauthorised amendments to the chart of accounts	Authorisation required for amendments to the chart.	Work in progress to devise authorisation process.	N	'1/4	6	None	Head of Finance	No action required
76. Unauthorised amendments to budget and accounting structures.	No process of authorisation at present although only old chart has been loaded.	Work in progress to devise authorisation process.	N	'1/4	6	None	Head of Finance	No action required
77. Nominal Ledger does not balance to Bank Accounts	Bank reconciliation carried out on a regular basis  Independently validated.	None	Y	1/1	1	None	Head of Finance	No action required
78. Nominal ledger does not balance to supporting ledgers	Checks made each morning to ensure systems remain in balance	None	Y	1/1	1	None	Head of Finance	No action required
79. Opening Balances do not agree to closing balances	System prevents this to point.  Full validation carried out prior to final closeout.	None	Y	1/1	1	None	Head of Finance	No action required

## FINANCE RISK & PLANNING PROFILE

<b>Budgets and Reporting: Risks from inadequate budgetary control</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
80. Authority fails to set a legal budget within statutory timeframe	Timetabling is such that CFA meetings are scheduled to comply with statutory deadlines	Process actually begins very early	Y	5/1	10	Continue to existing timetable.	Head of Finance	No action required
81. Authority fails to set an appropriate precept	CFA are aware of obligations to set a legal precept and timetable facilitates this.	None	Y	5/1	10	Continue to existing timetable	Head of Finance	No action required
82. Budget is insufficient to meet requirements of the Authority	Base Budget review carried out periodically.  Some measure of integration between IRMP, business planning and budget preparation	Responses are appropriate but it is recognised that even more can be done	Part	5/2	5	Continue BBR Process and closer integration	Head of Finance	No action required
83. Authority fails to maintain a reasonable level of reserves	Full risk assessment carried out of financial risks and how these can best be provided for by way of reserves and balances.	1 <sup>st</sup> year of holding reserves means that the Authority is currently building up to an acceptable level.	Y	4/3	8	Continue to build up reserves	Head of Finance	Reviewed Feb 06
84. Authority significantly over/underspends agreed budgets	Budget Monitoring Process in place	Continual process of improvement in place	Part	3/2	4	Seeking to refine and improve budget monitoring information and support mechanisms	Head of Finance	Continuing process
85. Budgets in system do not agree with agreed authority budget	Checked monthly to ensure that this remains in balance	None	Y	2/1	1	None	Head of Finance	No action required
86. Distribution of budgets does not reflect organisational structure	System flexible enough to allow changes to be made reasonably quickly.	Needs work to cope with recent organisational changes and to take on managers' views.	Part	2/3	3	Continuous review required	Head of Finance	Need to continue to develop this area

**Budgets and Reporting: Risks from inadequate budgetary control**

<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
87. Budget reports not produced in a timely manner	Timetable for publication of reports agreed and performance measured against this.  Medium term plan to make "real time" reports available over the web	Continue implementation of Kypera	Y	3/3	3	Process improved ad performance targets agreed with staff	Head of Finance	No action required
88. Budget reports are inaccurate	Reports are quality checked by finance staff and at the Authority level by the Head of Finance and Resources.	None	Y	4/2	5	None	Head of Finance	No action required
89. Management fail to properly act upon budget variances	Account Managers assist budget holders in budget management and dealing with variances and actions.	No formal documentation	Part	3/3	6	Process agreed and in place but needs to be refined and actioned consistently	Head of Finance	Need to develop this.
90. Senior Managers are unaware of the financial performance of the Authority.	SMT Receive regular budget reports and updates.	None	Y	3/1	5	None	Head of Finance	Done and improved
91. Fire Authority is unaware of financial performance	CFA receive regular reports and updates.	None	Y	3/1	5	None	Head of Finance	No action required

## FINANCE RISK & PLANNING PROFILE

<b>Assets: Risks to the Authority's asset base</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
92. Inadequate Asset Registers	Asset registers are in place but patchy in term of their quality.	New asset management system will replace all existing Asset Registers.	N	3/5	3	Introduce new asset management system	Head of Finance	Not Done
93. Lack of Inventory Control	No use made of local inventories	Poor control over assets at the local level.	N	3/5	3	Need to reintroduce proper local inventories via the asset management system	Head of Finance	Not Done
94. No control over disposal of assets	Processes exist for disposal and these are generally followed.	Difficult to be certain due to the lack of inventory records.	Part	2/2	2	Need to reintroduce proper local inventories via the asset management system	Head of Finance	Not Done
95. Unplanned acquisition of assets.	All assets particularly those related to capital schemes are planned	Acquisition of revenue assets can be more piecemeal.	Part	3/4	4	Business case model requires to be introduced.	SMT	Not effective

## FINANCE RISK & PLANNING PROFILE

<b>Payroll: Risks from the operation of a payroll service</b>								
<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
96. Unauthorised amendments to standing data.	All amendments to standing are authorised by the Personnel Dept.	Some issues remain around post process checking	Y	4/4	6	Introduced process where originators check payroll amendments	Head of Finance/Head of HR	No action required
97. Payment of "ghost" employees	Some cross checking is done between personnel records and finance records for wholetime staff. There is a significant residual risk with Retained and Non-Uniformed staff.	Poor control, High Risk	Y	4/4	6	Need to implement an existence checking process	SMT	Sample checking done
98. Failure to pay individuals	Payroll Timetable well publicised. Staff will report non payment promptly.	None	Y	2/1	1	None	N/A	No action required
99. Failure to remove leavers	As 89. No real cross checks	Poor control, High Risk	N	3/3	8	Needs existence checking.	Head of Finance/Head of HR	Not done
100. Failure to make proper deductions	All payroll input is checked. Deductions are made using standard formulae independently validated.	None	Y	2/1	1	None	N/A	No action required
101. Making unauthorised deductions	All payroll input is checked. Deductions are made using standard formulae independently validated.	None	Y	2/1	1	None	N/A	No action required
102. Failure to deal with Temporary promotions promptly	Control in this area very flaky	Improved internal procedures outside Payroll	Y	3/4	7	Insist that all temporary promotions are enacted through the personnel office	Head of Finance/Head of HR	No action required
103. Inadequate exception reporting	Exception reporting poor	Cyborg problem which cannot be solved. Staff doing all that can be achieved.	Y	3/4	2	NCC have implemented improvements in this area.	Head of Finance	No action required
103. Failure to pay staff on due date.	Payroll Timetables are well publicised. Staff leave is moved around deadline dates. Contingency arrangements in place.	None	Y	1/1	1	None	N/A	No action required



**Payroll: Risks from the operation of a payroll service**

<b>Risk</b>	<b>Response/s</b>	<b>Considerations</b>	<b>Accept Y/N</b>	<b>Risk Profile</b>	<b>Planning Profile</b>	<b>Action</b>	<b>Responsible</b>	<b>Position @ 31/3/06</b>
104. Failure to implement pay awards promptly and accurately.	Major changes are planned. Staff flexible working Calculations checked	None	Y	3/2	1	None	N/A	No action required
105. Fraudulent Overtime Claims	All claims are authorised	None	Y	3/2	1	None	N/A	No action required

**APPENDIX D**

<b>STATEMENT ON INTERNAL CONTROL - 2005/6 – IMPLEMENTATION PLAN</b>				
<b>CIPFA Guidance</b>	<b>Identified Problem</b>	<b>Action Needed</b>	<b>Complete</b>	<b>Comment</b>
Establish principal statutory obligations and organisational objectives.	Currently The Authority has not reviewed the code of corporate governance	Need to review the current code	N	New code only introduced in January so no immediate review required.    Performance Management Framework under review.
	The Authority does not measure compliance with the code	Annual report required to assess compliance with code	N	
	No specific training is given on governance matters	Need to arrange training for staff and members on governance issues.	N	
	Performance Management Reports do not benchmark against family groups or result in action plans for improvement.	New performance management framework needs to take into account these requirements	N	
Identify principal risks to the achievement of objectives.	Communication and training on the risk profile is limited to SMT and PMG only	Training and awareness of Members and Staff to be improved.	N	
	Processes for risk identification have not been disseminated to staff	As above	N	
	Managers at present are not fully accountable for risks in their functional areas.	To be included in training processes	N	
	No externally run diagnostic survey of corporate risk	May consider a diagnostic	N	
	Risk Management in partnership working and projects needs to be developed	To be incorporated within business case and project	N	

**STATEMENT ON INTERNAL CONTROL - 2005/6 – IMPLEMENTATION PLAN**

<b>CIPFA Guidance</b>	<b>Identified Problem</b>	<b>Action Needed</b>	<b>Complete</b>	<b>Comment</b>
	No risk management information system in place	management protocols. System currently being trialed	N	
Identify and evaluate key controls to manage principal risks.	Business Continuity Planning is poor.	Heath Lambert engaged to help with BCP	N	
	No identification or monitoring of Key Risk Indicators	Indicators to be developed by the Risk Manager	N	
Obtain assurances as to the effectiveness of key controls.	No process for departmental managers to give assurances regarding risks in their specific areas.	This process to be developed for 2005/6	N	
Evaluate assurances and identify gaps in control measures.	No process of evaluating departmental risks.	This process to be developed in 2005/6	N	
Report to Fire Authority	None	Statement to be signed by chairman and Chief Officer	N	

**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY**

**STATEMENT ON INTERNAL CONTROL - 2005/6**

**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. This does not imply that risk is to be eliminated but rather that it is to be effectively identified and managed. Risk in this context is the overall corporate risk that the Authority may not be able to achieve its policies, aims and objectives as set out in the Corporate Plan. This statement can therefore only provide reasonable and not absolute assurance of the effectiveness of internal control and risk management. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fire and Rescue Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A system of internal control has been in place at Nottinghamshire and City of Nottingham Fire Authority for the year ended 31 March 2006 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.

**3. 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

#### **4. 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 the Corporate Risk Profile and risk register. It is also informed by comments made by the External Auditors and other review agencies and inspectorates in their Annual Audit Letter and other reports.

Throughout 2005/6 the Authority has maintained and reviewed its system of internal control in a number of ways. In particular: -

- (a) 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.
- (b) The Fire Authority have received and/or adopted :-
  - Strategic Plan targets
  - Statement of Accounts 2004/5
  - External Auditors Management Letter
  - Budget Monitoring Reports
  - Periodic Performance Reports
  - Medium Term Financial Strategy and Budget
  - External Audit Plans for the 2005/6 audit.
  - Pilot Comprehensive Performance Assessment and latterly the actual assessment (results to be published shortly).
  - Internal Audit Annual report 2004/5.
- (c) The Improvement and Development Board has provided an additional level of scrutiny to a number of these plans and strategies.
- (d) 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. This activity has been further strengthened by the introduction of a Performance Management software system which is driving a new ethos of performance management throughout the organisation.

- (e) 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.
- (f) The Authority has recently adopted a new corporate governance model which brings elected members closer to the decision making process and serves to strengthen both scrutiny and internal control.

## **5. SIGNIFICANT INTERNAL CONTROL ISSUES**

The Authority faces yet another challenging year in 2006/7 and a full action plan to deal with all issues related to Internal Control has been produced and approved. However the following issues represent the key areas in relation to internal control:-

- (a) Copies of the Internal Audit Reports are to be received by the Finance and Resources Committee acting in its role as Audit Committee. This committee will provide proper scrutiny over internal audit and will ensure that appropriate actions are taken by managers.
- (b) The Corporate Risk Profile must continue to be updated and developed into the performance management environment.
- (c) 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.
- (d) The Authority must review compliance with the code of conduct and carry out training for both Members and Staff in relation to governance.
- (e) The Authority must develop a set of appropriate actions in response to the latest Fire Service performance framework which includes Service Delivery, Use of Resources and Value for Money assessments.
- (f) The Authority must continue to develop the system of performance management which requires variances in performance to be monitored and appropriate actions initiated.
- (g) The Authority must seek to embed the Risk Management ethos throughout the organisation using a combination of training and awareness programmes. Risk ownership must be devolved further into the organisation.
- (h) The Authority must develop its business continuity plans both for compliance with the Civil Contingencies Act and for good risk management.
- (i) Proper assurances should be sought from Departmental Managers concerning the levels of risk.

**Paul Woods**  
**Chief Fire Officer**

**Councillor Darrell Pulk**  
**Chairman of Fire Authority**