



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

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

# **INTERNAL AUDIT ANNUAL REPORT 2007/8**

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 25 July 2008

**Purpose of Report:**

To bring to the attention of Members the annual report prepared by the Authority's Internal Auditors and to inform Members of the Review of Internal Audit which has been conducted by the Head of Finance and Resources.

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## **1. BACKGROUND**

- 1.1 Nottinghamshire County Council have provided an Internal Audit service to the Fire and Rescue Authority since its formation in 1998. It has been agreed that in the interests of good governance that the Internal Auditors annual report should be presented directly to the Finance and Resources Committee.
- 1.2 The annual report for 2007/8 is attached at Appendix A in full.
- 1.3 Under the provisions of the Statement of Recommended Practice the Authority is required to annually review its arrangements for the provision of Internal Audit and comment on that review. This report sets out the basis of that review and a draft statement on Internal Audit is attached.

## **2. REPORT**

### **AUDITORS REPORT**

- 2.1 The Auditors report is divided up into three sections:
  - A A Narrative Summary
  - B A Detailed analysis of progress against the plan 2006/7
  - C Summary of reports issued to date
- 2.2 The auditors comment in their narrative summary, that the audit reports issued during the year confirmed that satisfactory procedures are in operation.
- 2.3 The narrative section also shows the amount of audit time spent during 2007/8 and the level at which this was provided i.e. over 60% provided by senior or qualified staff.
- 2.4 The Auditors have also provided a view on the internal control environment and conclude that also provide a Statement on Internal Control which concludes that::

“Based on the Internal Audit work completed during the year, we have concluded that the overall level of internal control is satisfactory.”
- 2.5 Section B of the audit report shows the auditors actual performance against planned activity for the year 2007/8 which shows that they managed to complete 80 days from an original program of 95 days due to difficulties with staff sickness. They have nevertheless carried 15 days forward to complete in 2008/9.

- 2.6 Section C of the report deals with the Internal Audit Reports that have been issued during 2007/8 and the opinions of the auditors on the particular areas that have been examined. In all cases management actions have been agreed where possible.

## **REVIEW OF INTERNAL AUDIT**

- 2.7 The requirement for an Authority to maintain an Internal Audit function is derived from the local government legislation including Section 151 of the Local government Act 1972 and the Accounts and Audit Regulations 2003 amended in 2006 in that a relevant body must:

“maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

- 2.8 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.
- 2.9 The Authority views Internal Audit as an integral part of the corporate governance framework particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility Internal Audit can provide managers with independent assurance that the system is working effectively and draw to the attention of managers deficiencies in the system.
- 2.10 These assurances however can only be relied upon providing the internal audit service is adequate to meet the needs of the organisation and is provided professionally.
- 2.11 The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and under a set of conditions which require them to operate within the guidelines set down by CIPFA for the Internal Audit of Local Government. This is known as the CIPFA Code of Practice.
- 2.12 Operating within this Code and to the standards set out therein ensures that the Authority meets its obligations under statute.
- 2.13 The External Auditors, in their general review of controls and as part of their specific annual audit are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

## **3. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

#### **4. HUMAN RESOURCES AND LERANING AND DEVELOPMENT IMPLICATIONS**

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

#### **5. EQUALITY IMPACT ASSESSMENT**

An equality impact assessment is not required for this report.

#### **6. CRIME AND DISORDER IMPLICATIONS**

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

#### **7. RISK MANAGEMENT IMPLICATIONS**

Internal Audit form part of the wider system of internal control which deals entirely with the Authority's exposure to financial, and to some extent non-financial risk. Presenting the annual report to the Authority enables members to see the work of internal audit and the contribution that they make to the overall system of internal control.

#### **8. RECOMMENDATIONS**

That Members note the contents of this report.

#### **9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Frank Swann  
**CHIEF FIRE OFFICER**

**INTERNAL AUDIT ANNUAL REPORT 2007/08**  
**TO THE CHIEF FIRE OFFICER**

<b><u>SECTION</u></b>	<b><u>CONTENTS</u></b>
<b>A</b>	<b>Narrative Summary for the Year</b>
<b>B</b>	<b>Detailed Analysis of Progress against Plan for 2007/08</b>
<b>C</b>	<b>Summary of Reports Issued to Date</b>

**INTERNAL AUDIT ANNUAL REPORT 2007/08****SUMMARY****1 Audit Coverage 2007/08**

- 1.1 A total of 80 days have been completed to date with a further 15 days being required to complete the 2007/08 plan (95 days). Although No 'Cardiff Check' invoices were provided in the year, the time allocated to these checks has been used on the audits of Risk Management, Corporate Governance and the IT audits which have all exceeded their original budget due to the complexity of the reviews. Over 60% of the audits were carried out by senior or qualified staff.
- 1.2 Twelve audits were planned for 2007/08. At the instigation of External Audit, two of the planned managed audits were not carried out (Purchasing/Creditors & Treasury Management) and, after agreement with the Head of Finance and Resources, the time was re-allocated to a review of Risk Management. This gave a revised plan of 11 audits.
- 1.3 Due to unprecedented levels of vacancies and sickness (now resolved), only seven audits were completed in the year with another two being started but not completed by April 2008. No Cardiff checks were carried out and one audit (Transport Follow-up) was deferred at the request of management and will be carried out in 2008 (but not as part of the 2008/09 plan). An analysis of the planned and actual audit days is attached (Section B).
- 1.4 A summary of reports issued in the 2007/08 financial year, together with main findings, is also attached (Section C). As in previous years, the managed audit work carried out on behalf of External Audit has been presented in one report detailing all areas covered.
- 1.5 The audit reports issued during the year confirmed that satisfactory procedures are in operation.

**2 Audit Strategy 2007/8 to 2009/10**

- 2.1 The three year, risk based, Internal Audit strategy document was approved at the April 2007 meeting of the Finance and Resources Committee, together with the detailed audit programme for 2007/8. The strategy and plan for 2008/09 was presented to the Finance and Resources Committee on 4 April 2008.

### **3 Annual Governance Statement**

- 3.1 The Accounts and Audit Regulations 2003 require the publication by a local authority (including Fire Authorities) of an annual Statement on Internal Control to cover the effectiveness of the Authority's systems for risk management and internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) issue guidance to Local Authorities from time to time to assist with compliance. They have determined that an Annual Governance Statement should be provided within the annual accounts which will satisfy the requirement for a Statement of Internal Control.
- 3.2 In order to satisfy the principles of effective risk management and internal control, the Authority needs to put in place effective risk management systems, including sound systems of internal control and an internal audit function. These arrangements need to ensure compliance with all applicable statutes and regulations and other relevant statements of best practice, and need to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively.
- 3.3 Internal Audit is appointed by the Chief Fire Officer and Treasurer (who is the Section 151 officer for the Fire Authority), and provides management with an independent appraisal of these matters.
- 3.4 The scope and cyclical frequency of work carried out by Internal Audit during each financial year is mainly based on an assessment of (predominately) financial risk on all activities that form the responsibility of the Combined Fire Authority. Annual reviews of key control areas for the main financial systems are also conducted on behalf of external audit, under the managed audit programme.
- 3.5 The objectives of the audits are to form an opinion on the adequacy of the systems of internal control put in place by management; to review efficiency, effectiveness and best value issues and to ensure that the assets of the authority are properly safeguarded. Formal audit reporting procedures are in place to provide assurance to management where effective controls are being operated, and to make recommendations for change and improvement where control weaknesses are identified. No high risk recommendations were made during the year.
- 3.6 From the work carried out during the 2007/08 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management.
- 3.7 The Chief Fire Officer and his managers have responded positively to all recommendations made in the reports that have been finalised, and there is an internal monitoring function which follows up and obtains an assurance of implementation from responsible Officers.

## **4 Conclusion**

- 4.1 Based on the Internal Audit work completed during the year, we have concluded that the overall level of internal control is satisfactory.

**Roger Smith**  
**Group Manager (Audit)**  
**23 May 2008**



**INTERNAL AUDIT ANNUAL PLAN AND ACTUAL DAYS 2007/2008**

Area of Service Activity	Planned Audit	Managed Audit	Annual Plan	Days to date	Days to complete	Report Ref:	Comments
Payroll		7	7	6		FRS 802	Managed audit - combined report.
Pensions		4	4	5		FRS 802	Managed audit - combined report.
Pensions	8		8	7		FRS 804	Review the transfer of pensions records to the new AXISe system
Capital & Assets	8		8	2	5		Review of Use of Assets - to be completed.
Purchasing/Creditors		6	6			N/A	Carried out by External Audit - see Risk Management below
Transport	5		5		5		Follow-up review of new transport management system. This was delayed at the request of management.
KYPERA Financial System	12		12	13		FRS 801	Review of the main accounting system.
Treasury Management		6	6			N/A	Carried out by External Audit - see Risk Management below.
Income/Debtors		5	5	5		FRS 802	Managed audit - combined report.
IT Audit	7		7	12		FRS 805	Review of controls over the implementation of systems.
Cardiff Checks / Contingency	10		10				Sample of paid invoices selected by CFA Members for detailed investigation. None were provided in 2007/08.
Corporate Governance	10		10	5	5		Review of Corporate Governance arrangements - to be completed.
Risk Management			0	14		FRS 803	* Suggested by External Audit in substitution for the two managed audit they carried out.
Irregularities and Investigations			0	2			Time spent on various investigations requested by the Head of Finance and Resources.
Advisory Service & Client Management	7		7	9			
Total Audit Days for the Year	67	28	95	80	15		

**SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE  
FOR THE FINANCIAL YEAR 2007/2008**

**1. FRS 801 – Review of the KYPERA Accounting System**

The overall opinion given was 'satisfactory'. Some recommendations were made to improve the control over user log-on procedures, the reporting of purchase commitments and the authorisation of credit notes.

**2. FRS 802 – Combined report for 3 Managed Audits (Awaiting responses)**

The three areas reviewed in 2007/08 were: 1) Pensions, 2) Payroll and 3) Income and Debtors. The overall opinion for each of these areas was satisfactory. One minor recommendation was made for each system to improve controls where appropriate.

**3. FRS 803 – Risk management**

The audit opinion given was satisfactory. All areas of risk management are being addressed effectively. Some recommendations were made regarding the risk appetite, members' terms of reference, risk-based audit planning and, monitoring and review of arrangements.

**4. FRS 804 – Transfer of pensions records to AXISe system (Draft Report Stage)**

In our opinion, all data has been transferred to the AXISe system completely and accurately.

**5. FRS 805 – Implementation of IT systems (Draft Report Stage)**

The main conclusion was that, although the procedures in place were satisfactory, there was significant scope for improvement. Recommendations have been made to address the issues identified.

**2007/08 AUDITS STILL IN PROGRESS**

- 6. Corporate Governance
  - 7. Asset Management
  - 8. Follow-up of Transport
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