



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNAL CONTROL

Report of the Chief Fire Officer

Agenda Item No:

Date: 27 March 2009

Purpose of Report:

To report to Members on the system of internal control operating within the Service and report on its effectiveness.

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1. BACKGROUND

- 1.1 The 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.
- 1.2 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.
- 1.3 This report sets out the existing framework of internal control and reviews its effectiveness and fitness for purpose. This review is carried out on an annual basis to inform the statement on governance which will appear in the final accounts.

2. REPORT

The Purpose of the System of Internal Control

- 2.1 It is important to understand that the internal control environment is not specifically related to finance, but instead encompasses a much wider definition of risk exposure.
- 2.2 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.
- 2.3 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.4 A system of internal control has been in place at Nottinghamshire and City of Nottingham Fire Authority for the year ended 31 March 2009 and will continue up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues detailed below, accords with proper practice.

The Internal Control Environment

- 2.5 The Authority's internal control environment comprises the many systems, policies, procedures and operations in place to:
- a) Establish and monitor the achievement of the Authority's objectives;
 - b) Facilitate policy and decision making;
 - c) Ensure compliance with established policies, procedures, laws and regulations;
 - d) Identify, assess and manage the risks to the Authority's objectives including risk management;
 - e) Ensure the economical, effective and efficient use of resources, and to secure 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;
 - f) Provide appropriate financial management of the Authority and the reporting of financial management; and
 - g) Ensure adequate performance management of the Authority and the reporting of performance management.

Review of Effectiveness

- 2.6 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, the corporate risk profile and risk registers. It is also informed by comments made by the External Auditors in their Annual Audit Letter and by other review agencies and inspectorates in their reports.
- 2.7 Throughout 2008/09 the Authority has maintained and reviewed its system of internal control in a number of ways. In particular:
- (a) The Strategic Management Team keeps the operation of the Authority's risk registers under review via the business planning and performance management processes.
 - (b) The Fire Authority has received and/or adopted:
 - Strategic Plan Targets via the Community Safety Plan;
 - Statement of Accounts 2007/8;
 - External Auditors' Annual Audit Letter;
 - External Auditors Governance Report;
 - Budget Monitoring Reports;
 - Business Risk Management Policy;
 - Periodic Performance Reports;
 - Medium Term Financial Strategy and Budget;
 - External Audit Plans for the 2008/09 Audit;
 - The Results of the Use of Resources Auditor Judgements 2008;

- Internal Audit Annual Report 2007/08;
 - Treasury Management Strategy;
 - Policy on Minimum Revenue Provision;
 - Report on Sustainable Capital Strategies;
 - Specific Reports on the Impact of the Global Financial Crisis;
 - Prudential Code Limits;
 - Prudential Code Monitoring Reports.
- (c) The Performance Monitoring and Policy & Strategy Committees have provided an additional level of scrutiny to a number of these plans and strategies.
- (d) The internal Performance and Co-ordination 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.
- (e) Internal Audit has 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) All Internal Audit reports are presented for scrutiny by the Finance and Resources Committee acting in the role of Audit Committee to the Authority and management are required to discuss their responses to these reports.
- (f) The corporate governance model has brought Elected Members closer to the decision making process and has strengthened both scrutiny and internal control.
- 2.8 A number of the reports listed above are received on an annual basis and therefore Internal Audit for example will produce another annual report for 2008/9 which will be presented to the Finance and Resources Committee. The receipt of documents and monitoring reports referred to in paragraph 2.7a) therefore represents the ongoing monitoring of internal control rather than a specific set of annual reports.
- 2.9 The traditional financial approach to internal control is maintained through the conduct of specific audits and a series of controls implemented and executed by the Head of Finance and Resources.
- 2.10 It is reasonable to conclude on the basis of the above that the internal control environment is indeed effective and it has responded to changes in the external environment throughout the year.

Significant Internal Control Issues into 2009/10

- 2.11 Although the internal control environment continues to improve year on year there are always areas where either external factors combine to create new areas of risk or where particular areas require further improvement.
- 2.12 The External Auditors in their Use of Resources Judgement document (elsewhere on this agenda) highlight two areas where additional work is required.
- 2.13 The issues which management seek to consider during 2009/10 are:
- i) Take a more pro-active approach to the prevention of fraud and corruption by reviewing the existing policy and carrying out staff and Member training;
 - ii) Engaging with suppliers to ensure that they are aware of the standards of probity and integrity that the Authority requires in its dealings;
 - iii) Review the existing “whistleblowing” policy and carry out training for both staff and Members;
 - iv) Consider particular areas of internal control which may require to be strengthened as a result of the banking crisis;
 - v) Consider the extent to which the risk of fraud and /or corruption may change as a result of the economic downturn;
 - vi) Specifically consider the extent to which the Authority is exposed to the risk of fraud from bogus suppliers;
 - vii) Specifically consider the extent to which the Authority is exposed to the risk of “electronic fraud” via incursions into electronic systems or the use of credit cards.

3. FINANCIAL IMPLICATIONS

There are no specific financial implications arising from this report, although clearly there are financial risks which would arise from a poor internal control environment.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no implications for human resources arising from this report. It is envisaged that any training will be delivered by internal staff and not require the commitment of resources. It will however, require the release of staff to be trained/briefed.

5. EQUALITY IMPACT ASSESSMENT

There are no implications for equality arising from this report. However, any changes to existing policies which are proposed as a result of reviews during 2009/10 will require initial equality impact assessments.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in full within the report.

9. RECOMMENDATIONS

That Members note the contents of this report.

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

None.

Frank Swann
CHIEF FIRE OFFICER