



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

USE OF RESOURCES AUDITOR JUDGEMENTS 2008

Report of the Chief Fire Officer

Agenda Item No:

Date: 27 March 2009

Purpose of Report:

To present to Members the External Auditors' Use of Resources Auditor Judgements report.

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1. BACKGROUND

- 1.1 The External Auditors undertook the third assessment of the Authority's Use of Resources during the period May to October 2008 as part of their responsibility under Section 5(1)(e) of the Audit Commission Act 1998 to report on the economy, efficiency and effectiveness of the Authority's use of resources. This also constitutes part of the overall Comprehensive Performance Assessment (CPA) of the Authority.
- 1.2 Under the present framework for assessment the focus of this judgement is very much on the financial performance of the Authority ,however under the new CPA this emphasis will change. Therefore this is the last of the assessments under the current framework.
- 1.3 This report introduces the full Auditors' assessment which is attached in full as Appendix A.

2. REPORT

- 2.1 The Use of Resources judgements asses how well authorities manage and use their financial resources and judgements are made across the following five themes:
- i) Financial Reporting;
 - ii) Financial Management;
 - iii) Financial Standing;
 - iv) Internal Control;
 - v) Value for Money.

- 2.2 The auditors use a scoring system across a range of indicators and requirements within each category before finally scoring each category on a four point scale and making an overall judgement. The scoring categories are:

Score	Description
1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above requirements – performing strongly

- 2.3 In each of the first three categories the Authority is assessed as performing well with the last two categories performing adequately. Overall the score of level three indicates that overall the Authority is performing well. These scores mirror those achieved in 2007.

- 2.4 The key messages set out in the Auditors' report are:
- i) The Authority is demonstrating value for money in its use of resources;
 - ii) It has sustained performance compared to last year;
 - iii) The Authority is demonstrating strengths in the following areas:
 - Financial reporting, in particular the annual accounts.
 - Financial management with a soundly based strategy.
 - Financial standing.
 - Value for money in achieving efficiency targets and improving national performance indicators (PIs).
- 2.5 The Auditors do point out however that there are some areas where there is scope for improvement and identify key actions as follows:
- i) Ensure members have adequate time to scrutinise the accounts;
 - ii) Formulate and approve a comprehensive property management plan;
 - iii) Develop local performance measures to evaluate asset use and performance;
 - iv) Secure greater member involvement in risk management;
 - v) Take a more proactive approach to countering fraud and maintaining high standards of probity and propriety;
 - vi) Establish baseline costs and performance for all procurement decisions;
 - vii) Develop information on costs linked to performance and quality of service; and
 - viii) Focus attention on poor performing indicators.
- 2.6 The Auditors also set out a number of detailed actions under the theme summaries section on page 7 of their report. These are the actions required to move to the next level, all of which are being worked towards.
- 2.7 It will be of particular concern that the Internal Control assessment is only adequate and Members will be concerned as to whether this indicates any poor practice within this area. The Auditors set out their detailed actions on page 12 of their report and they relate to three specific areas:
- i) The ownership by members of the role of reviewing the effectiveness of risk management systems;
 - ii) Strengthening the governance arrangements of partnerships;
 - iii) Issues around "promoting" probity and propriety in relation to the prevention of fraud and corruption.
- 2.8 The items relating to risk management and fraud are covered to some degree in the risk management paper elsewhere on this agenda and the issues around governance of partnerships whilst not of great importance at the present time, will need to be addressed as partnerships become more financially based.
- 2.9 In respect of value for money the comment that "The Authority is low cost but low performance" is unfortunate because it is derived from the relative

performance of the Authority compared to other East Midlands Authorities that in some cases are starting from a much lower base.

- 2.10 Similarly the comment that “cost per head falls below the level expected based on the level of deprivation for the County” might be interpreted as the Auditors saying that the Authority should raise Council Tax and spend more, which of course is impossible given rules around capping.
- 2.11 The real message in this section is that, despite some examples of good practice, the Authority is not performing as well as many others in terms of national performance indicators. This of course is one of the issues that affected the Direction of Travel score so markedly.
- 2.12 The Auditors are very complimentary in terms of their view of the Authority’s achievements in terms of efficiency savings and general approach to value for money. They also comment however that there is more to do in terms of embedding value for money within the organisation.
- 2.13 The Use of Resources assessment is a tougher test every year and both the Auditors and Officers are content that retaining an assessment that the Authority is performing well is a good achievement

3. FINANCIAL IMPLICATIONS

There are no financial implications within this report, although it does report and give assurance on all of the areas of the finance function.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITY IMPACT ASSESSMENT

There are no implications for equality within this report.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The Use of Resources assessment is a report prepared by the external auditors which, whilst fulfilling its primary purpose of providing a CPA assessment, also gives Elected Members significant assurances that one of the more obvious areas of risk – ie: finance is being appropriately managed.

9. RECOMMENDATIONS

That Members note the contents of the Use Of Resources Auditor Judgements 2008.

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

None.

Frank Swann
CHIEF FIRE OFFICER

Fire Authority

Use of Resources

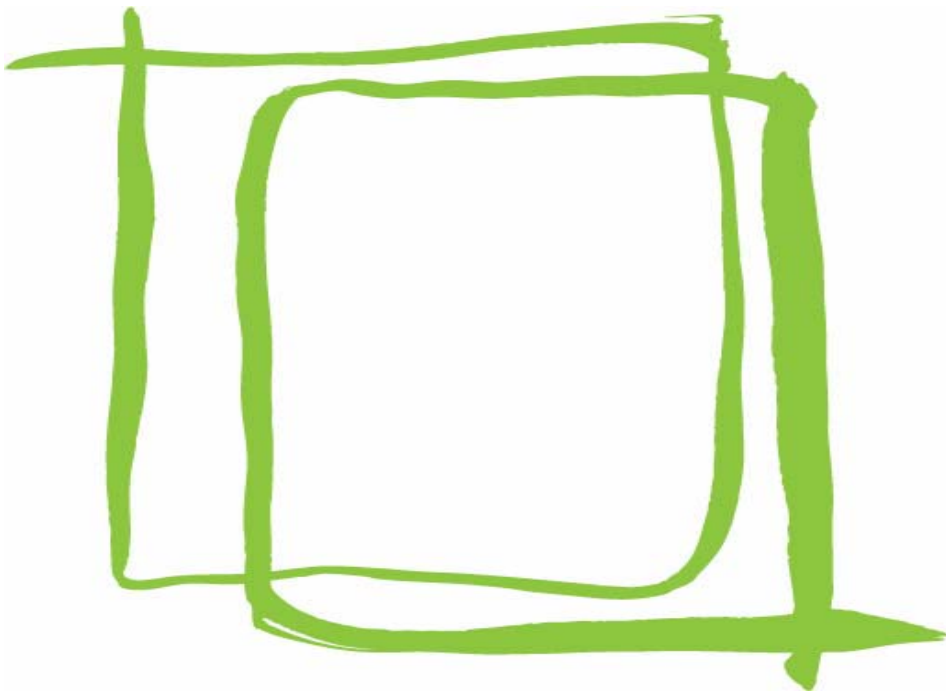
Auditor

Judgements 2008

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

Audit 2007/08

December 2008



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Status of our Reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 The use of resources judgements assess how well authorities manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the authority's priorities and improve services. Judgements are made across the following five themes.
 - Financial reporting.
 - Financial management.
 - Financial standing.
 - Internal control.
 - Value for money.
- 2 This is the third assessment carried out at Nottinghamshire Fire and Rescue Authority and is the last under the Comprehensive Performance Assessment framework. Next year there will be a new organisational assessment which will form part of the Comprehensive Area Assessment.
- 3 As the Audit Commission's appointed auditor to the Authority, we undertook this review during the period May 2008 to October 2008, as part of our responsibility to examine the economy, efficiency and effectiveness of the Authority's use of resources under section 5(1)(e) of the Audit Commission Act 1998. This assessment relates to the 2007/08 financial year.

Approach and scoring

- 4 Judgements are made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance.
3	Consistently above minimum requirements – performing well.
4	Well above minimum requirements – performing strongly.

-
- 5 The Audit Commission will formally report the overall score for use of resources in early 2009. The scores for Nottinghamshire Fire Authority for the five themes are outlined below.

Summary scores for each theme

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
Financial reporting		
1.1 The authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The authority promotes external accountability.	3	3
Financial management		
2.1 The authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The authority manages performance against budgets.	3	3
2.3 The authority manages its asset base.	2	2
Financial standing		
3.1 The authority manages its spending within the available resources.	3	3
Internal control		
4.1 The authority manages its significant business risks.	2	2
4.2 The authority has arrangements in place to maintain a sound system of internal control.	3	3
4.3 The authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	2
Value for money		
5.1 The authority currently achieves good value for money.	2	2
5.2 The authority manages and improves value for money.	2	2

Key messages and actions for the Authority

- 6 The Authority is demonstrating value for money in its use of resources. It has sustained performance compared to last year. The Authority is demonstrating strengths in the following areas.
- Financial reporting, in particular the annual accounts.
 - Financial management with a soundly based strategy.
 - Financial standing.
 - Value for money in achieving efficiency targets and improving national performance indicators (PIs).
- 7 However, there remains scope for improvement. The key actions for the Authority are:
- ensure members have adequate time to scrutinise the accounts;
 - formulate and approve a comprehensive property management plan;
 - develop local performance measures to evaluate asset use and performance;
 - secure greater member involvement in risk management;
 - take a more proactive approach to countering fraud and maintaining high standards of probity and propriety;
 - establish baseline costs and performance for all procurement decisions;
 - develop information on costs linked to performance and quality of service; and
 - focus attention on poor performing indicators.

Theme summaries

8 The key findings and conclusions for each of the five themes are summarised in the following tables.

Table 3 Financial reporting

Theme score 3	
Key findings and conclusions	
<p>The Authority has always met the deadlines for its accounts despite the many statutory changes required. However members were unhappy this year with the limited time they had to review the accounts and the accompanying report. This was due to last minute changes required so that members had the most up to date version. The accounts were subject to robust member scrutiny. The closure process was well-managed in 2007/08 and, as with the last two years, only a small number of errors were found in the accounts. The authority produces good working papers and we had prompt responses to all our queries.</p> <p>All statutory requirements for the early closure of accounts were met and the authority follows professional standards in all significant respects. The draft accounts presented for audit contained one 'non-trifling' error, but this would not materially distort the accounts and lead to a potential qualification if unaltered. All the suggested amendments were made promptly. We reported on the accounts to members on 19 September 2008 in our Governance Report.</p> <p>The Authority produced its first annual report in 2007/08 and this includes summary accounts and performance information. This document generally follows CIPFA and Audit Commission good practice.</p>	
Improvement opportunities	
KLOE 1.1 The authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Ensure members have ample time to review the accounts. Minimize members' scrutiny.
KLOE 1.2 The authority promotes external accountability.	Consult on the annual report to ensure it meets the needs of users. Develop a rounder and fuller view of the Authority's environmental performance for the annual report.

Financial management

Theme score 3	
Key findings and conclusions	
<p>The Authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. The Authority has a robust and embedded process of budget-setting and a three-year Medium Term Financial Strategy, which integrates well with strategic and operational planning. The process has worked well over a number of years and has allowed the Authority to build up its planned reserves and exceed target efficiency savings.</p> <p>The Authority manages performance against budgets well. There are effective systems of budgetary control and enhancements are continually being made.</p> <p>Asset management is improving with the collection of environmental footprint data to provide a holistic assessment. Property upgrading work required was assessed some time ago and a capital programme is underway. However the property management and strategy arrangements need to be formalised and members should approve a property management plan.</p>	
Improvement opportunities	
<p>KLOE 2.1 The authority's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>Ensure the key messages from the MTFS are conveyed to stakeholders. Review the operation of all financial plans and strategies to demonstrate that they contribute to the achievement of the Authority's corporate objectives.</p>
<p>KLOE 2.2 The authority manages performance against budgets.</p>	<p>Introduce a 'traffic light' reporting system (or similar) to focus members attention on key variances. Produce accrued financial monitoring reports at appropriate key points during the year including both revenue account and balance sheet items. Include relevant non-financial information giving better interpretation of finances in terms of units of activity, outputs and performance.</p>

Theme summaries

Improvement opportunities	
KLOE 2.3 The authority manages its asset base.	Formalise the property management strategy/plan and secure member approval. Develop a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives, including the Authority's environmental footprint. Continue to improve asset management systems.

Table 4 Financial standing

Theme score 3	
Key findings and conclusions	
<p>The Authority has a strong track record of managing its spending within available resources and manages its reserves to a level consistent with the assessed risks. There is a sound policy for reserves which is regularly monitored and reported. Effective Prudential Code and treasury management strategies are in place.</p>	
Improvement opportunities	
<p>KLOE 3.1 The authority manages its spending within the available resources.</p>	<p>Need to evidence wider consideration and understanding by members of the opportunity costs of maintaining the present level of reserves and balances. Set financial health indicators and monitor them regularly - more than just a budget variance analysis</p>

Table 5 Financial standing

Theme score 3	
Key findings and conclusions	
<p>The Authority has a strong track record of managing its spending within available resources and manages its reserves to a level consistent with the assessed risks. There is a sound policy for reserves which is regularly monitored and reported. Effective Prudential Code and treasury management strategies are in place.</p>	
Improvement opportunities	
<p>KLOE 3.1 The authority manages its spending within the available resources.</p>	<p>Need to evidence wider consideration and understanding by members of the opportunity costs of maintaining the present level of reserves and balances. Set financial health indicators and monitor them regularly - more than just a budget variance analysis</p>

Table 6 Internal control

Theme score 2	
Key findings and conclusions	
<p>The Authority is strong on risk management and this contributes to an effective assurance framework. Risk management is embedded in the business planning of each of the Authority's departments. Risk management implications are included in all reports to members who are kept informed of the level of risk in relation to the Authority's risk appetite. However, there needs to be greater member involvement in monitoring the risk registers and action taken to ensure risk is controlled.</p> <p>The Authority has arrangements in place to maintain a sound system of internal control and produce a Statement of Internal Control (SIC) which is now included within the wider ranging Governance Statement. During the year a local Code on Corporate Governance was adopted. The internal audit service provides valuable assurance on the internal control framework. Partnership governance arrangements need strengthening.</p> <p>The Authority has adequate basic arrangements to prevent and detect fraud, corruption and misconduct but needs to actively promote probity and propriety in the conduct of its business.</p>	
Improvement opportunities	
KLOE 4.1 The authority manages its significant business risks.	Members need to demonstrate a wider ownership over reviewing the effectiveness of risk management systems.
KLOE 4.2 The authority has arrangements in place to maintain a sound system of internal control.	Continue to strengthen partnerships governance arrangements e.g. ensuring financial regulations cover partnerships.
KLOE 4.3 The authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>Need to be able to demonstrate that:</p> <ul style="list-style-type: none"> ● members and staff exhibit high standards of personal conduct; ● a strong counter fraud culture exists throughout the authority; and ● staff have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption. <p>There should therefore be a more proactive approach to counter fraud and maintaining high standards of probity and propriety.</p>

Table 7 Value for money

Theme score 2
Key findings and conclusions
<p>The Authority is low cost but low performance. Costs are relatively low and (11 lowest of 39 authorities) but the cost per head falls below the level expected based on the level of social deprivation for the County. Satisfaction with the overall service was top quartile in 2006/07 and year on year performance improvement is good with 85 per cent PIs improving over three years. Nationally, the Authority is ranked 21 of 48 for per cent PI improvement over the last year. However, its comparative performance against East Midlands' fire authorities is poor with 76 per cent PIs below the median and the highest proportion of indicators in the worst quartile (52 per cent). The Authority continues to show poor performance in relation to sickness levels and payment of invoices (both fourth Quartile).</p> <p>There is some evidence of benchmarking within its VfM programme and in specific projects. The Authority has compiled detailed information on the characteristics and inherent risks of each ward and has information on the location of disadvantaged communities amongst which the risk of residential fires is high. However, the Authority's progress in completing equality impact assessments upon its policies and service delivery was poor in 2007/08 although a new programme is now in place and managers given further training.</p> <p>The Authority's performance against costs is mixed. Good performance has been achieved in reducing killed and seriously injured road traffic collision victims, but for the resources invested, performance in relation to accidental dwelling fires is below expectations. Unintended high spending has been confined to provision of emergency support in response to flooding, and overall spend on community safety has increased 41 per cent over the last three years.</p> <p>Capital expenditure fully reflects policy decisions. Capital expenditure was focused upon a new fire station, expansion of Headquarters, vehicle replacement and IT enhancements. Proportionate business cases are required for capital expenditure proposals and whole life costings utilised. The capital programme is generally well managed, with a new fire station project being completed within its revised budget and within three weeks of target. However, costs of the headquarters extension rose from £436k to £1 million due to additional facilities and features being commissioned during the building work programme. The Authority regards slippage of capital projects as inevitable and acceptable where external constraints are not within its control.</p> <p>Within its annual VfM programme, the Authority has undertaken a number of specific and successful VfM exercises, but remains at an early stage in developing a robust transaction costing mechanism linked to performance and quality of service which can be used across the Service. Smaller projects have taken place where outcomes can be measured and linked to outputs but there is limited benefits realisation and post-implementation review across the service as a whole. Ward based information is available identifying vulnerable groups and costing mechanisms are being improved.</p>

Theme score 2	
<p>The existing committee structure separates finance from performance. Positive progress is being made with the Authority's regional partners across a number of areas including the regional control room and regional recruitment.</p> <p>Significant success has been achieved in identifying and delivering efficiencies. The Authority's efficiency target has been exceeded by a significant margin and the efficiency recording and monitoring process is robust and there is both high level officer commitment and adequate member involvement in the process. However, despite the success achieved in delivering efficiencies to date, the Authority recognises that VfM is not yet embedded at all levels of the organisation and work is in progress to ensure all managers engage with the VfM process on a daily basis.</p> <p>The Authority has taken positive steps to gain from joint procurement but with limited success to date. Some regional procurement has taken place, eg dosimeter provision, and the Authority is working through the challenges of the national procurement framework to increase opportunities for savings. Benchmark data has yet to be established and there is no specific procurement related target. External funding is sought effectively and adequate safeguards are put in place to reduce the risks of its cessation. The Authority works well with its LAA partners through which significant funding has been achieved. Opportunities to gain from IT developments have already been taken and further gains are on the point of delivery.</p>	
Improvement opportunities	
<p>KLOE 5.1 The authority currently achieves good value for money.</p>	<p>Focus efforts on improving performance in the areas indicated by the national PIs comparisons.</p> <p>Continue to develop benchmarking analysis of comparable performance with other FRAs to provide comprehensive value for money information and identify potential areas for further improvements.</p>
<p>KLOE 5.2 The authority manages and improves value for money.</p>	<p>Ensure that the performance reporting process includes due consideration and assessment of comprehensive cost and performance comparisons across the service in relation to other FRAs as well as past performance. Ensure that, along with local targets, national and local comparisons are included.</p> <p>Establish a formal systematic and structured process to establish baseline costs and performance for all procurement decisions.</p>

Conclusion

- 9** The Authority's performance in 2007/08 demonstrates that improvements have been made but not strongly and not in comparison with other FRAs. Performance is good in many key areas but some weaker areas need attention. The FRA gives value for money but several of the national performance indicators must improve before 'a performing well' assessment can be made.

Use of resources 2008/09

- 10** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 11** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12** The assessment is structured into three themes as follows.
- Managing finances: sound and strategic financial management.
 - Governing the business: strategic commissioning and good governance.
 - Managing resources: effective management of natural resources, assets and people.
- 13** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year
- 14** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

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