



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNAL AUDIT ANNUAL REPORT 2009/10

Report of the Chief Fire Officer

Agenda Item No:

Date: 09 July 2010

Purpose of Report:

To bring to the attention of Members the annual report prepared by the Authority's Internal Auditors.

CONTACT OFFICER

Name : Neil Timms
Head of Finance and Resources

Tel : 0115 967 0880

Email : neil.timms@notts-fire.gov.uk

**Media Enquiries
Contact :** Elisabeth Reeson
(0115) 967 5889 elisabeth.reeson@notts-fire.gov.uk

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, the Internal Auditors annual report should be presented directly to the Finance and Resources Committee.
- 1.2 The annual report for 2009/10 is attached in full at Appendix A to this report.
- 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 for the year.
 - B A detailed analysis of progress against the plan 2009/10.
 - C Summary of reports issued to date.
- 2.2 The Auditors again 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 2009/10 and the level at which this was provided – ie: 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:

“from work carried out during the 2009/10 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.”
- 2.5 Section B of the audit report shows the Auditors actual performance against planned activity for the year 2009/10. This shows that they completed 115 days from the planned delivery of 95 days in 2009/10. This was in part due to some work carried forward from 2008/9 and some certification that was required to capital grants.

- 2.6 Section C of the report deals with the Internal Audit Reports which have been issued during 2009/10 and summarises the opinions of the Auditors on the particular areas which have been examined. In all cases management actions have been agreed and the reports have been submitted to the Finance and Resources Committee.

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, it is considered that 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 the Chartered Institute of Public Finance and Accountancy (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 or learning and development implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

An initial equality impact assessment has identified no specific aspects relating to a disproportionate effect in respect of the key equality strands.

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

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.

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

INTERNAL AUDIT ANNUAL REPORT 2009/10

TO THE CHIEF FIRE OFFICER

<u>SECTION</u>	<u>CONTENTS</u>
A	Narrative Summary for the Year
B	Detailed Analysis of Progress against Plan for 2009/10
C	Summary of Reports Issued to Date

INTERNAL AUDIT ANNUAL REPORT 2009/10**SUMMARY****1 Audit Coverage 2009/10**

- 1.1 The six audits planned for 2009/10 together with four managed audits were all completed during the year. In addition, we also carried out work to provide an audit certificate for the capital grant received from DCLG in 2009/10. Over 60% of the audit work carried out in the year was undertaken by senior and/or qualified staff.
- 1.2 A summary of reports issued in the 2009/10 financial year, together with main findings, is 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.
- 1.3 The audit reports issued during the year confirmed that satisfactory procedures are in operation.

2 Audit Strategy

- 2.1 This is the last year of the risk based Internal Audit strategy for 2007/8 to 2009/10 approved at the April 2007 meeting of the Finance and Resources Committee. The strategy and plan for 2009/10 was updated and presented to the Finance and Resources Committee on 27 March 2009 together with the audit plan for 2009/10.
- 2.2 A new three year strategy for 2010/11 to 2012/13 together with the plan for 2010/11 was presented to the Finance and Resources Committee on 9 April 2010.

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 have 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.
- 3.6 From the work carried out during the 2009/10 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)
25 May 2010

NOTTINGHAMSHIRE & CITY OF NOTTINGHAM COMBINED FIRE AUTHORITY

B

INTERNAL AUDIT ANNUAL PLAN AND ACTUAL DAYS 2009/2010

Area of Service Activity	Planned Audit	Managed Audit	Annual Plan	Days to date	Report Ref:	Comments
Payroll	12		12	12	FRS 1005	Review of controls over payroll processing
Payroll - Managed Audit		7	7	5	FRS 1007	Managed audit - combined report.
Pensions - Managed Audit		4	4	4	FRS 1007	Managed audit - combined report.
Stores Purchasing	11		11	14	FRS 1001	Review of stores purchasing arrangements
Purchasing & Creditors - Managed Audit		6	6	4	FRS 1007	Managed audit - combined report.
Financial Management - Kypera	12		12	15	FRS 1003	Review of the Financial Accounting system
Income & Debtors - Managed Audit		5	5	4	FRS 1007	Managed audit - combined report.
IT Audit	10		10	12	FRS 1002	Review of plans to ensure IT service continuity
Cardiff Checks / Contingency	10		10	11	FRS 1004	Sample of three paid invoices selected by CFA Members for detailed investigation.
Partnerships	11		11	15	FRS 1006	Review of partnership arrangements
Advisory Service & Client Management	7		7	10	N/A	
Irregularities and Investigations			0	-	N/A	
Total Audit Days for the Year	73	22	95	106		
Additional time needed to complete 2008/09						
Various jobs c/f from 2008/09				8		
Unplanned work requested in 2009/10						
Audit certificate for 2009/10 Capital Grant				1	FRS 1008	
Total Audit Days for the Year	73	22	95	115		

SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE
FOR THE FINANCIAL YEAR 2009/2010

1. FRS 1001 – Stores purchasing

This audit reviewed the purchasing of stores consumable items. The controls over stock were found to satisfactory. The main concern was the widespread use of 'preferred suppliers' that had not been subject to market testing for several years.

2. FRS 1002 – IT Service continuity

The planning for IT Service continuity was still in progress during the audit. We were concerned that there was insufficient input from operation managers. This apart, we are satisfied the continuity plans are being developed in a rigorous and comprehensive way.

3. FRS 1003 – Financial management - Kypera

A number of system weaknesses are inherent to the Kypera system and we accept that it is not cost effective to remedy them. In the main, satisfactory compensating controls have been devised. The introduction of the new accounting system (Aggresso) in 2010 should address the system concerns.

4. FRS 1004 – Cardiff checks

This review examined three invoices selected by Members in depth. The following issues were identified:-

- The lack of market testing for preferred suppliers,
- Non reporting of variations to financial regulations,
- Incorrect tariffs were used for water charges at Clifton Community Safety Centre. The audit facilitated a reduction in the annual charges plus a refund for monies already paid.

5. FRS 1005 – Payroll

The controls over the payroll are very good.

6. FRS 1006 – Partnerships

The arrangements for engaging with partners are still being developed and were not wholly satisfactory at the time of audit. All recommendations were accepted and partnership arrangements will be satisfactory once they have been implemented.

7. FRS 1007 – Managed audit

The main conclusion was that the key controls examined were working well. Only a small number of low risk recommendations were made.

8. FRS 1008 – Capital grant audit certificate 2009/10

Our review confirmed that the capital received from DCLG had been accounted for correctly and had been used in accordance with the relevant grant conditions.
