



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

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

# **INTERNAL AUDIT ANNUAL REPORT 2010/11**

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 07 October 2011

**Purpose of Report:**

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

## **CONTACT OFFICER**

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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, the Internal Auditors annual report should be presented directly to the Finance and Resources Committee.
- 1.2 The annual report for 2010/11 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 2010/11.
  - 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 the work carried out during the 2010/11 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 2010/11. This shows that they completed 72 audit days from the planned delivery of 95 days in 2010/11. They did however complete a further 18 days on a special assignment reviewing water charges which was paid separately from the audit fee and resulted in significant savings to the authority as reported previously. The remaining 23 audit days will be carried forward and used in 2011/2012.
- 2.6 Section C of the report deals with the Internal Audit Reports which have been issued during 2010/11 which have all been previously reported to the Finance

and Resources Committee and summarises the opinions of the Auditors on the particular areas which have been examined. In all cases management actions have been agreed.

## **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 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.
- 2.14 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. The cost of purchasing Internal Audit Services from Nottinghamshire County Council in 2010/11 was £29.5k for the planned 95 days of audit work plus an additional £8.5k for the review of water charges referred to in paragraph 2.5.

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

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

### **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because 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 2010/11**  
**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 2010/11</b> |
| <b>C</b>              | <b>Summary of Reports Issued to Date</b>                      |

## INTERNAL AUDIT ANNUAL REPORT 2010/11

### SUMMARY

#### **1 Audit Coverage 2010/11**

- 1.1 Eight audits were planned for 2010/11 plus a further four managed audits. All four managed audits were completed during the year with four of the other planned audits being completed by the year end. The review of corporate governance was substantially completed but the draft report had not been issued by the end of March.
- 1.2 Three audits were not carried out in the year at the request of NFRS because the timing of these audits was considered to be premature. By agreement with NFRS, all three audits will be carried forward into 2011/12 in addition to the audits identified in the 2011/12 plan.
- 1.3 Over 60% of the audit work carried out in the year was undertaken by senior and/or qualified staff.
- 1.4 A summary of reports issued in the 2010/11 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.
- 1.5 The audit reports issued during the year confirmed that satisfactory procedures are in operation.

#### **2 Audit Strategy**

- 2.1 This is the first year of the risk based Internal Audit strategy for 2010/11 to 2012/13 approved at the Finance and Resources Committee meeting 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 2010/11 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)  
21 April 2011



**INTERNAL AUDIT PLAN AND ACTUAL DAYS 2010/2011**

**B**

| <b>Area of Service Activity</b>             | <b>Planned Audit</b> | <b>Managed Audit</b> | <b>Annual Plan</b> | <b>Days to date</b> | <b>Report Ref:</b> | <b>Comments</b>  |
|---|----------------------|----------------------|--------------------|---------------------|--------------------|--|
| <b>Corporate Governance</b>                 | 10                   |                      | 10                 | 14                  | FRS 1104           | Review of Governance   |
| <b>Financial Management – Kypera</b>        | 5                    |                      | 5                  | 4                   | FRS 1107           | Transfer of balances to Agresso  |
| <b>IT Audit</b>                             | 10                   |                      | 10                 | 11                  | FRS 1103           | Review of the IT Service Desk  |
| <b>Capital</b>                              | 10                   |                      | 10                 | 10                  | FRS 1102           | Review of contract management  |
| <b>Payroll</b>                              |                      | 5                    | 5                  | 5                   | FRS 1106           | Managed audit - combined report.   |
| <b>Pensions</b>                             |                      | 5                    | 5                  | 4                   | FRS 1107           | Managed audit - combined report.   |
| <b>Puchasing / Creditors</b>                |                      | 5                    | 5                  | 4                   | FRS 1004           | Managed audit - combined report.   |
| <b>Trading Activities</b>                   | 10                   |                      | 10                 |                     | N/A                | 10 days C/F to 2011/12   |
| <b>Assets</b>                               | 8                    |                      | 8                  |                     | N/A                | Follow-up of RedKite system - 8 days C/F to 2011/12                        |
| <b>Income / Debtors</b>                     |                      | 5                    | 5                  | 5                   |                    | Managed audit - combined report.   |
| <b>Cardiff Checks</b>                       | 10                   |                      | 10                 | 9                   | FRS 1105           |  |
| <b>Fin Regs advice</b>                      | 5                    |                      | 5                  |                     | N/A                | 5 days C/F to 2011/12  |
| <b>Client Management</b>                    | 7                    |                      | 7                  | 6                   | N/A                |  |
| <b>Total Audit Days for the Year</b>        | 75                   | 20                   | 95                 | 72                  |                    | N.B. A total of 23 days work will be completed in 2011/12                  |
| <b>Additional work requested in 2010/11</b> |                      |                      |                    |                     |                    |  |
| <b>Review of Water Charges</b>              |                      |                      |                    | 18                  | FRS 1101           | This work was paid for separately from the fee for the planned work above. |
| <b>Total Audit Days for the Year</b>        | 75                   | 20                   | 95                 | 90                  |                    |  |

**SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE**  
**FOR THE FINANCIAL YEAR 2010/2011**

**1. FRS 1101 – Water Charges**

This audit reviewed the water charges being paid for NFRS establishments. Considerable savings were identified which has resulted in one-off savings in 2010/11 of £40,000 plus ongoing savings of about £20,000 p.a.

**2. FRS 1102 – Contract Management**

A number of major supplies were being obtained without any formal contract in place. This, together with the absence of suitable contract management policies and guidance notes for staff mean the current arrangements for contract management are unsatisfactory. These weaknesses are now being addressed.

**3. FRS 1103 – IT Service Desk**

At the time of audit, there was no permanent manager for this service and the system being used for problem reporting and recording was not the latest version. In addition, no performance measures were in use and no policy for the prioritisation of problem resolution was in place. These issues are now being addressed.

**4. FRS 1105 – Cardiff checks**

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

- Tendering procedures have not been followed in respect of significant expenditure on maintenance work.,
- There is no legally binding contract in place for maintenance work provided by ARG (Mansfield) Ltd,
- There is no evidence that maintenance work carried out by ARG (Mansfield) Ltd is providing value for money.

**5. FRS 1106 – Managed audit**

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

**6. FRS 1107 – Agresso Opening Balances**

Our review confirmed that the account balances were transferred completely and accurately from the Kypera system to the new Agresso system.

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