



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNAL AUDIT REPORTS

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 30 March 2012

Purpose of Report:

To present to Members the reports which have been issued by Internal Audit during 2011/2012 following audit work they have carried out.

The report also sets out the response of management to the recommendations made.

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1. BACKGROUND

- 1.1 The Fire Authority is provided with an Internal Audit Service by Nottinghamshire County Council on a contract basis. Members may recall that the Auditors present their plans for the forthcoming year to the Finance and Resources Committee and this report is elsewhere on this agenda.
- 1.2 As part of the internal governance arrangements of the authority the internal auditors will issue reports on their findings and recommendations relating to their audit work to management who respond to the recommendations formally.
- 1.3 From time to time the auditor's reports are presented to the Finance and Resources Committee in order that this committee acting in its capacity as an Audit Committee can see the results of audit work being carried out and gain assurances from the Internal Auditors.

2. REPORT

- 2.1 The reports for consideration at this meeting are:

FRS 1104 Corporate Governance
FRS 1106 Managed Audit
FRS 1107 Agresso Opening Balances
FRS 1201 Asset Management
FRS 1203 Treasury Management
FRS 1204 Transport
FRS 1205 Trading Activities
FRS 1206 Business Risk Management

- 2.2 A further report, 1207, concerning Cardiff Checks is elsewhere on this agenda. All reports are given in full as appendices to this report.

FRS1104 - Corporate Governance

- 2.3 This was the first Internal Audit review of corporate governance and considered the level of compliance with the CIPFA/SOLACE framework for the delivery of good governance.
- 2.4 The report concludes that most of the arrangements are satisfactory although they are in need of a comprehensive review and update.
- 2.5 The Auditors made three recommendations for improvements summarised as follows:
 - i) They considered that some of the fire Authority's committees were only just quorate and one had been inquorate and recommend that the size of committee is expanded. The response of management to this was that the Chair considers an annual review of committees and attendances and will take his into consideration when doing so. Management also have concerns about expanding the workload of

members such that they may need to be on several committees if this recommendation is implemented.

- ii) The Auditors note that some committee meetings are of very short duration and question whether travelling to Fire HQ for a very short meeting is good use of Members time. They suggest the use of alternate venues or the use of teleconferencing. Management suggest that Members give consideration to this recommendation before pursuing any action.
- iii) Auditors recommend that a training needs analysis is carried out for members and that appropriate training is provided. Management are keen to pursue this and will discuss the matter with the Chair when the new back office structures are in place at HQ.

FRS1106 - Managed Audit of Key Financial Controls

- 2.6 This audit reviewed the key financial controls within the four major systems of Payroll, Creditors, Debtors and Pensions Administration. It concludes that controls are satisfactory and makes one recommendation regarding the checking of exception reports in payroll, particularly in relation to new starters and leavers. This recommendation was implemented immediately.

FRS1107 - Agresso Opening Balances

- 2.7 This was a report specifically commissioned by the Director of Finance to give him assurance that the account balances being transferred into the new accounting system had been properly validated. This was considered essential for reliance to be placed on the final accounts. The Auditors concluded that the accounting records and balances had been transferred completely and accurately and no recommendations were made.

FRS1201 - Asset Management (Red Kite)

- 2.8 This was a review of the Authority's asset management system which is being migrated onto a computerised tracking system called Red Kite. The Auditors concluded that where Red Kite had been implemented controls were satisfactory but implementation was too slow. They recommended that the system should be implemented in the Stores without delay and that full implementation should be speeded up. Management have since implemented the system within the Stores and have begun to implement across the Service with the help of some supernumery staff that have become available.

FRS1203 - Treasury Management

- 2.9 This report considers the controls around treasury management and particularly those around the management of investments and loans. They conclude that arrangements are satisfactory but nevertheless make a number of recommendations.
- 2.10 The Auditors comment that the policy for treasury management practices had not been reviewed since its publication in 2008. Whilst current practices are considered by management to be compliant with the latest codes of

practice on Treasury Management this needs to happen. Management initially undertook to review all of these procedures before 31st March 2012 however due to staff shortages it will not now be possible to do this before the Autumn. This is considered to be a low risk item for the auditors.

- 2.11 There was a minor issue with the updating of the loans register which has since been corrected and an issue that the schedule of investments did not include the £50,000 working capital investment in the trading company.
- 2.12 The auditors also noted that the policy limits had been breached in respect of the maximum investment duration by a period of 21 days. This was an error and was an unusual occurrence. The issue with allowing more than £2m to be invested with a single counterparty was more of a technical breach as the counterparty in question was the authority's own bankers, Barclays.

FRS1204 - Transport

- 2.13 This audit considered whether the processes around fleet management will ensure that the fleet is sufficient to meet the Service's needs, is properly maintained and that costs are controlled. The auditors conclude that some aspects of the system are satisfactory but that there are concerns over the lack of meaningful management information and some issues with the new City Council contract.
- 2.14 The auditors make 6 recommendations which are:
- i) That the reasons for the inaccuracy of servicing information in TRANMAN should be identified and corrected.
This was an issue which resulted from a misunderstanding about a particular aspect of the TRANMAN system. This has now been corrected
 - ii) That the service category allocated to each vehicle should be reviewed periodically, particularly for those that may meet the criteria for service category 1.
A process of reviewing service level categories annually will be reinstated.
 - iii) That the department should centrally review mileage and fuel use per vehicle using reports from the Merridale system.
Merridale have been contacted to write the necessary reports for this recommendation to be implemented.
 - iv) The department should continue to address the promptness and format of invoicing from the supplier
This is being addressed by a series of contract management meetings with the City Council
 - v) The department should monitor maintenance costs per vehicle.
This will be easier when the management information required is extracted from the TRANMAN system.

- vi) The finance department should provide monthly budget monitoring reports.

In previous years budget monitoring information has always been available on time but in 2011/2012 this was not the case. The recent introduction of the Agresso system and the complications surrounding the closure of accounts prevented this last piece of system implementation taking place until later in the year.

FRS1205 - Trading Activities

- 2.15 The Audit of trading activities is a report that was prepared for the directors of the trading company who the Fire Authority entrusts to deal with the affairs of that company. Nevertheless this report is included for completeness.
- 2.16 This audit set out to consider the controls in place to ensure that the business meets its objectives and also compliance with Financial Regulations. The auditors conclude that these arrangements are unsatisfactory and have made 12 recommendations for improvement.
- 2.17 All of the recommendations were accepted by the Directors and all have been implemented.

FRS1206 - Business Risk Management

- 2.18 This review set out to consider the structure, framework and processes for managing business risk along with the relationship between business risk and other key processes. The auditors also set out to confirm that previous audit recommendations had been implemented.
- 2.19 The report concludes that arrangements are currently unsatisfactory and makes 5 recommendations as follows:
- i) That a report on the Authority's risk management strategy is taken to the Finance and Resources Committee.
 - ii) That a Corporate Risk Register should be presented to the Authority
 - iii) A regular programme of monitoring should be introduced with reports going to the Corporate Management Board.
 - iv) That the current identified weaknesses in Risk Management are acknowledged and addressed.
 - v) That corporate risk management needs to be developed in a manner that integrates it with other decision making.
- 2.20 The Auditors were requested to look at Risk Management because it was an area that was being reviewed by Management and it was considered that the auditors could bring a broader view to this. Rather than responding to each recommendation in turn it is considered more useful to bear these recommendations in mind when conducting an internal management review of Risk Management generally which is about to take place.

- 2.21 Audit reports received this year have generally been satisfactory and all recommendations have or are being implemented

3. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

4. HUMAN RESOURCES AND LEARNING 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 this report does not relate to a change in policy of any kind.

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 beyond compliance with the local government act which requires that the Treasurer shall maintain an adequate internal audit. .

8. RISK MANAGEMENT IMPLICATIONS

Internal Audit forms a significant part of the internal control environment of the Authority.

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 Report

CONFIDENTIAL

To: The Chief Fire Officer
Subject: Asset Management (Red Kite)
Report reference: FRS1201
Date: November 2011

1 Introduction

- 1.1 This report sets out the findings and recommendations arising from a recent review of the Red Kite asset management system.
- 1.2 The value of assets recorded on the system is currently approximately £1m.

2 ***Objectives and scope of the audit***

2.1 Audit objectives:

- To follow up the previous report FRS 806 issued in 2009 and to confirm the Red Kite system has been properly tested and is suitable for the effective management of operational equipment within Notts Fire & Rescue Service (NFRS).
- To determine the arrangements and planning for the roll-out of the system to all NFRS fire stations.

2.2 Scope:

The following control objectives were examined. The key risks associated with each control objective are explained below.

1. An effective Asset Management Policy is in place. *(Equipment may be procured which is not fit for the purpose or may be under utilised.)*
2. Operational equipment is subject to planned inspection and testing. *(Equipment could be damaged and as a result malfunction or not comply with legislation and Health & Safety regulations.)*
3. The Red Kite system is adequately tested and staff receive appropriate training prior to implementation. *(The system could be installed without proper testing or training resulting in plant and equipment not being recorded, inspected or maintained in accordance with requirements.)*
4. An effective roll-out plan is in place. *(The benefits of the system may not be achieved)*
5. Previous audit recommendations have been implemented as agreed *(Risk: known risks are being tolerated)*

3 Audit Findings

The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings together with the associated risk and a recommendation for improvement in the attached Action Plan.

- 3.1 We examined the Asset Management policy and identified those objectives of the policy which are supported by the Red Kite system. We confirmed Red Kite offers improved recording and monitoring of assets but noted that the system is currently implemented at only three fire stations.
- 3.2 We confirmed operational equipment is subject to planned inspection and testing. However, limitations with existing paper based systems identified at our previous audit will not be addressed until the Red Kite system is fully implemented.
- 3.3 Red Kite has been subject to extensive testing and significant initial problems, e.g. with Wi Fi and the hand held scanners, have been successfully addressed. We confirmed the training offered to staff has been revised and improved as a result of experience gained at the initial test locations.
- 3.4 A roll-out plan has been produced. This is dependent on implementing Red Kite at Stores in order to support roll-out to the remaining fire stations. This implementation has been delayed for several months as a result of implementation of the new finance system. In addition, the roll-out plan identifies several different options to achieve complete implementation with varying resources/ timescales. Under the lengthiest timeframe implementation would not be achieved for a further three years. **(see Action Plan para 1)**
- 3.5 Our follow-up of recommendations made in our previous audit report FRS/806 dated June 2009 confirmed that most recommendations would be addressed by ensuring Red Kite was fully implemented.

4 Audit opinion

- 4.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.
- 4.2 In our opinion, most of the arrangements for asset management are satisfactory but only where Red Kite has been implemented. Delays in the roll out programme will leave the organisation exposed to significant risks until the system is fully deployed.

Audit conducted by:

L Bulman ACMA, Auditor

Audit supervised by:

J M Bailey CPFA, Head of Internal Audit

Audit Finding	Recommendation	Management Response
<p>1. Asset Management [See Audit Findings para 3.4] Although NFRS has a current comprehensive asset management policy in place, many of the objectives of the policy are dependent on the roll-out of the Red Kite system. While some asset management objectives (e.g. recording tests and inspections) are supported by existing paper based systems, the full benefits in terms of improved asset management offered to NFRS by Red Kite will not be achieved until roll-out has been completed. Current plans for roll-out indicate complete implementation with current resources will take at least three years. The plan is also heavily dependent on implementation of Red Kite at Stores to facilitate onward roll-out throughout NFRS.</p> <p>Risk: Benefits from the purchase of the Red Kite system are delayed. Risks associated with continued reliance on the paper based system continue to apply. (Medium Risk)</p>	<p>Consideration should be given to implementing Red Kite in Stores promptly and accelerating roll out to ensure the asset management policy is implemented effectively.</p>	<p><u>Response of the Chief Fire Officer</u> <i>The Red Kite system has now been implemented in the Stores and a project has been approved in principle by SMT to accelerate the roll out programme. A detailed report is to be considered shortly.</i></p> <p><u>Date for implementation</u> <i>Whole implementation by December 2012</i></p> <p><u>Officer responsible for implementation</u> <i>Equipment Manager</i></p>

Internal Audit Report

CONFIDENTIAL

To: The Chief Fire Officer
Subject: Treasury Management
Report reference: FRS1203
Date: December 2011

1 Introduction

1.3 This report sets out the findings and recommendations arising from a recent review of Treasury Management in particular the management of investments and loans.

1.4 As at 31 March 2011 the Authority had made investments of £7,000,000 to external organisations and £54,999 to the newly formed trading company. The Authority has also borrowed £23,658,102 through the PWLB and £4,000,000 as a LOBO through Dexia.

2 ***Objectives and scope of the audit***

2.1 Audit objectives:

- To follow up the previous report FRS 907 issued in 2009 and ensure the previous recommendations relating to Treasury Management have been implemented.
- To provide an assurance to management that sound systems of Internal Control are in place and that procedures in place comply with the Authority's Financial regulations

2.2 Scope:

The following control objectives were examined. The key risks associated with each control objective are explained below.

- Borrowing by the Authority is authorised and in accordance with the Authority's policy. (*Risk: Long-term financial commitments may be entered into without proper authorisation.*)
- Investment methods maximise interest receivable with the minimum of risk, and are in accordance with approved policies. (*Risk: Loans to unauthorised borrowers, potentially resulting in non-repayment.*)

5 **Audit Findings**

The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings together with the associated risk and a recommendation for improvement in the attached Action Plan.

- 3.1 The Fire Authority has a number of policy documents which relate to the management of Investment and Loans. These include the Treasury Management Practices as developed in 2008 which incorporates the 12 CIPFA guidelines for treasury management and the Treasury Management Strategy 2011/12. [see audit finding 1]

It is understood that the Treasury Management Practises policy is due for revision.

- 3.2 The Authority has a number of loans with the PWLB and a loan with Dexia. These are recorded on a loans spreadsheet used to monitor the level of debt. On review of the spreadsheet it showed that this was complete to 31 March 2011, the point to which the latest accounts had been drafted. The spreadsheet has not recorded the repayments during the current financial year.[see audit finding 2]

No new loans have been taken out in the current financial year.

- 3.3 The Fire Authority has created a separate trading company to which it has made a loan. This loan is deemed to be an investment in the new company. A spreadsheet is maintained of all the external investments however this loan has not been recorded on this spreadsheet. [see audit finding 3]
- 3.4 A selection of investments during the year were sample checked to ensure they complied with the advice given by Sector in accordance with the Treasury Management Strategy. Of those sampled one of the sample was invested for longer than the recommended investment period. The maximum recommended investment period was 6 months, however this period was exceeded by 12 days. [see audit finding 4]
- 3.5 Our follow-up of recommendations made in our previous audit report FRS907 dated April 2009 confirmed that the recommendations had been implemented.

6 Audit opinion

- 6.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.
- 6.2 In our opinion, the arrangements for the management of investments and loans are satisfactory.

Audit conducted by:

H Lomas MAAT, Auditor

Audit supervised by:

J M Bailey CPFA, Head of Internal Audit

Audit Finding	Recommendation	Management Response
<p>1. Treasury Management Policy [See Audit Findings para 3.1] The Authority has a policy for Treasury Management Practises as drafted December 2008. We understand that this policy is to be reviewed in the current financial year in accordance with the CIPFA Treasury Management policy guidelines. Risk: Without an up to date policy in place there is a risk that the authority may not have considered all of the points covered in the CIPFA guidelines. (Low Risk)</p>	<p>The Treasury Management Practices Schedule should be revised in accordance with practises of the authority and CIPFA guidelines.</p>	<p><u>Response of the Chief Fire Officer</u> The Treasury management practices schedule will be reviewed and any amendments required arising from the CIPFA TM Code of Practice will be incorporated. <u>Date for implementation</u> By 31 March 2012 <u>Officer responsible for implementation</u> Principal Accountant</p>
<p>2. Loans Register [See Audit Findings para 3.2] The loans register has not been updated with repayments made since 31 March 2011. As a result the loans register does not show the true balance of the loans outstanding. This is not a significant omission as no new loans have been taken out since that date. Risk: An incomplete loans register may result in the financial position being either under or overstated. (Low Risk)</p>	<p>The loans register should be maintained up to date to ensure that it accurately reflects the balances outstanding at all times.</p>	<p><u>Response of the Chief Fire Officer</u> The loans register has now been updated. It should be noted that the loans register is not the only source for determining loans outstanding – the finance system will also report this balance. <u>Date for implementation</u> Already implemented <u>Officer responsible for implementation</u> Principal Accountant</p>

Audit Finding	Recommendation	Management Response
<p>3. Investment Schedule [See Audit Findings para 3.3] A spreadsheet is maintained showing the investments with external bodies however it does not include details of the loan to the Fire Trading Company, Nottinghamshire Fire and Rescue Services (Trading) Ltd.</p> <p>Risk: If the schedule of investments is incomplete there is a risk that the financial reporting from these records may be incomplete. (Medium Risk)</p>	<p>The spreadsheet showing the fire authority investments should be revised to show the investment in the Nottinghamshire Fire and Rescue Service (Trading) Ltd.</p>	<p><u>Response of the Chief Fire Officer</u> The investment spreadsheet now includes the Authority's investment in the subsidiary trading company.</p> <p><u>Date for implementation</u> Already implemented</p> <p><u>Officer responsible for implementation</u> Principal Accountant</p>

Audit Finding	Recommendation	Management Response
<p>4. Investments in accordance with Sector advice. [See Audit Findings para 3.4]</p> <p>The Treasury Management Strategy 2011/12 defines which companies the Authority can make investments with and for how long. Testing of 20 investments during the period identified that one of the investments was for a period which exceeded the six months maximum investment period by 21 days.</p> <p>A review of the policy identified that the Authority aimed to limit investments with any one company to £2m, however this was exceeded during the period under review with investments in Barclays Bank, the authority's bankers.</p> <p>Risk: By not complying with the Treasury Management Policy there is a risk that investments may not be appropriate. (Low Risk)</p>	<p>The guidelines shown in the Treasury Management Policy should be followed to minimise risk and maximise potential investment opportunities.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p><i>The breach of the maximum investment duration limit on one occasion was as a result of human error. This is an unusual occurrence and every effort will be made to ensure it does not happen again.</i></p> <p><i>The Treasury Management Strategy states that the Authority will "aim to" limit investments with any one counterparty to £2m, although it is recognised that this is difficult to achieve in practice. The £2m limit is only breached in respect of our own bank, because by default any failure to place investments in the money market due to market conditions means that surplus funds remain with Barclays. We are in agreement with the auditor that this is a low risk issue.</i></p>

Internal Audit Report

CONFIDENTIAL

To: The Chief Fire Officer

Subject: Trading Activities

Report reference: FRS/1205

Date: November 2011

1 Introduction

- 1.5 This report sets out the findings and recommendations arising from a recent review of the financial arrangements at NFRS (Trading) Ltd.
- 1.6 Estimated turnover for the financial year 2011/12 is £307,000.

2 ***Objectives and scope of the audit***

2.1 Audit objectives:

- To evaluate the controls in operation to ascertain their adequacy and effectiveness in achieving business objectives and their compliance with financial regulations.
- To test a sample of transactions for compliance with documented procedures and controls.

2.2 Scope:

The following control objectives were examined. The key risks associated with each control objective are explained below.

1. Clear approved policies are in place to regulate Trading Activities and the charges made for these services. (*Risk: Unauthorised or inappropriate trading may take place.*)
2. Work is booked with customers and provision recorded. (*Risk: Services may be provided which the customer may dispute.*)
3. Billing for work done is complete, accurate and timely. (*Risk: Services may be provided but not billed.*)
4. Procurement and stock control arrangements are well managed. (*Risk: Inadequate or excessive stocks may be held; stock may be misused.*)
5. Appropriate management/performance information is available. (*Risk: Trading activities may not be managed and controlled effectively.*)
6. Previous audit recommendations have been implemented as agreed (*Risk: known risks are being tolerated.*)

7 **Audit Findings**

The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings together with the associated risk and a recommendation for improvement in the attached recommendation section.

- 3.1 We examined minutes and e-mails of the company, previous and current price lists, service agreements and the company's business plan. Prices were reviewed and approved by directors in February 2011. The previous price list had been in place since 2006 and we found no evidence of annual reviews of these prices (**see Recommendation 1**). Bespoke prices are negotiated but are not approved by directors (**see Recommendation 2**). There has been no costing exercise to ensure prices cover the cost of provision (**see Recommendation 3**). Terms and conditions are specified in the customer service agreement but may require review to ensure they are appropriate to the company's changed legal status (**see Recommendation 4**).
- 3.2 We sampled 10 customers and confirmed worked was booked and provision agreed with customers. A customer service agreement could not be located for four of the customers (**see Recommendation 5**). Minor discrepancies in equipment records were noted for four customers (**see Recommendation 6**).
- 3.3 We examined nine worksheets and invoices and confirmed all invoices were issued promptly. However we noted none of the invoices were paid promptly (**see Recommendation 7**).
- 3.4 We checked a sample of 10 purchase invoices and associated orders and delivery notes. We noted the same suppliers have been employed for several years (**see Recommendation 8**). We confirmed stock records were updated promptly. However, stock records are not maintained for all stock held (**see Recommendation 9**).
- 3.5 We examined the availability of management and performance information and noted inadequate management reports are available and performance measures have not been specified (**see Recommendations 10 & 11**). We noted customer satisfaction surveys had been undertaken but results were not analysed (**see Recommendation 12**).
- 3.6 Our follow-up of recommendations made in our previous audit report FRS/903 dated June 2009 confirmed that some recommendations had been implemented. Those remaining outstanding are again included in the recommendations at 1, 3, 5, 6, 10, 11 and 12.

8 **Audit opinion**

- 8.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.
- 4.2 In our opinion, many of the arrangements for financial management are unsatisfactory, resulting in unacceptable levels of risk. We have made a number of recommendations, which should be implemented promptly, in order to ensure that your financial controls meet the requirements of Financial Regulations.

Audit conducted by:

Lesley Bulman (ACMA), Auditor

Audit supervised by:

J M Bailey CPFA, Head of Internal Audit

Audit Finding	Recommendation	Management Response
<p>1. Price reviews [See Audit Findings para 3.1] Standard prices were reviewed after the limited company was established in 2010. Revised prices were approved by the company directors. There was no evidence that prices had been subject to review for several years previously.</p> <p>Risk: Prices may become uncompetitive (Low Risk)</p>	<p>Prices should be subject to annual review and details of the outcome should be recorded.</p>	<p><u>Response of the Chief Fire Officer</u> Prices were reviewed in April 2011 with approval from the directors, decision recorded and new pricing introduced.</p> <p>Pricing Structure is to be reviewed by the FEM Manager and any future recommendations are to be made by the FEM Manager based on the commercial market conditions. This will be done at least on an annual basis but in practice this is done more frequently in response to the changing market conditions. Any changes to the pricing structure are to be agreed by the Directors.</p> <p><u>Date for implementation</u> Already in place</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>
<p>2. Bespoke prices [See Audit Finding para 3.1] Certain customers, e.g. high volume, have specifically negotiated prices. These are negotiated by the trading activity manager but are not approved by directors.</p> <p>Risk: Prices may not reflect the company's policy. (Medium Risk)</p>	<p>All bespoke prices should be approved by directors.</p>	<p><u>Response of the Chief Fire Officer</u> The discounts given to larger contracts are essentially commercially driven. During the review of the pricing structure in April 2011 the FEM Manager was instructed as part of the review to ensure profitability was retained across the whole of the service provided by the trading company. The FEM Manager was instructed to ensure the company's main objective as the result of any price increase was to be competitive and profitable. This is also to ensure that the company can retain existing customers and gain new business.</p> <p><u>Date for implementation</u> Already in place</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>3. Costing activities. [See Audit Findings para 3.1] There has been no formal costing exercise to ensure prices of activities cover costs.</p> <p>Risk: <i>Services may be provided at a loss.</i> (Medium Risk)</p>	<p>A detailed costing exercise should be carried out to determine the cost of fire extinguisher maintenance. These costs should be reported to the directors who approve the prices.</p>	<p><u>Response of the Chief Fire Officer</u> Finance Dept. staff will assist this process by extracting cost information from Agresso and providing it to the FEM Manager. This is now being reported monthly.</p> <p>The FEM Manager is to monitor the profit / loss against the business plan.</p> <p><u>Date for implementation</u> Already in place</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>
<p>4. Terms and conditions [See Audit Findings para 3.1] Customer service agreement terms and conditions were introduced in 1995 and were approved by Legal Services. The trading company has since changed legal status.</p> <p>Risk: <i>Terms and conditions may not meet the requirements of a limited company.</i> (Medium Risk)</p>	<p>Terms and conditions should be reviewed to ensure they remain relevant for the new limited company.</p>	<p><u>Response of the Chief Fire Officer</u> Terms and Conditions to be amended on supply of new agreement forms to include the wording 'Trading' Ltd</p> <p><u>Date for implementation</u> January 2012</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>5. Service Agreements [See Audit Findings para 3.2] We sampled 10 customers and confirmed correctly completed service agreements were in place for six customers. Agreements for the remaining four customers could not be located at audit.</p> <p>Risk: <i>Customers without agreements may not pay for services delivered.</i> (Medium Risk)</p>	<p>A check for a valid customer service agreement should be undertaken before providing services to a customer.</p>	<p><u>Response of the Chief Fire Officer</u> Opportunities are given to the customer to sign agreement at time of service. Sometimes the form is left with the customer for their return to the Trading Company. It should be noted that the customer doesn't always wish to sign the agreement; however the FEM staff will continue to encourage the customer to do so. It should also be noted that although the customer may decline to sign a formal agreement there will be a contract in place under English Law under offer and acceptance.</p> <p><u>Date for implementation</u> Already in place</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>
<p>6. Customer Equipment Records [See Audit Findings para 3.2] We noted minor discrepancies between the records of customer equipment on Gabriel and on the engineers' worksheets.</p> <p>Risk: <i>Inaccurate work schedules may be produced.</i> (Low Risk)</p>	<p>Worksheet records should be checked to Gabriel and discrepancies investigated.</p>	<p><u>Response of the Chief Fire Officer</u> The phased implementation of the Gabriel system has highlighted this. Further training is to be carried out to eliminate this in future.</p> <p><u>Date for implementation</u> January 2012</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>7. Late payments [See Audit Findings para 3.3] We examined a sample of eight sales invoices. All were issued promptly but delays in uploading details to the finance system combined with issues relating to allocation of customer receipts produced inaccuracies in the aged debtors reports preventing effective debt follow up. None of the sampled invoices was recorded as paid within the contractual timescale and in three instances the payments were up to five months late. We noted some of the delays arose from implementation of the new finance system.</p> <p>Risk: Bad debts could be incurred. (Medium Risk)</p>	<p>Sales invoice details should be uploaded promptly and accurate credit control reports should be produced.</p>	<p><u>Response of the Chief Fire Officer</u> Terms and Conditions i.e. payment terms are now incorporated on the invoices. The Finance Department are to produce regular and up to date reports. The new finance system was introduced in February 2011, and there were a number of problems which resulted in processing delays in the period following implementation. At the time of writing (November 2011) invoices are being uploaded and customer receipts are being allocated in a timely way. Responsibility for debt chasing lies with the Trading Company, although Finance Department staff provide aged debt information to assist with this.</p> <p><u>Date for implementation</u> Already implemented.</p> <p><u>Officer responsible for implementation</u> Principal Accountant / FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>8. Suppliers [See Audit Findings para 3.4] We note that the same suppliers have been used for the most commonly ordered stock items for several years. Although current suppliers are providing a satisfactory level of service there may be opportunities to improve prices/quality of service by considering alternative suppliers.</p> <p>Risk: Best value may not be obtained. (Medium Risk)</p>	<p>A review of potential suppliers should be undertaken to confirm best value is achieved.</p>	<p><u>Response of the Chief Fire Officer</u> This was identified prior to this audit being carried out and the FEM Manager is currently tendering the supply of fire extinguishers and related equipment. It should be noted that if the supplier is changed there will be a requirement by the Trading company to carry additional spare parts (at an additional cost to the company) for the existing extinguishers.</p> <p><u>Date for implementation</u> Implementation subject to completion of tender</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>
<p>9. Stock Records [See Audit Findings para 3.4] Stocks of fire extinguishers are recorded on a stock spreadsheet maintained by the base co-ordinator. This records receipts, issues and stock balances. However, other stock items are not recorded except on the stock-take spreadsheet maintained by Finance as an independent check every six months.</p> <p>Risk: Limited control of non-fire extinguisher stock could lead to losses. (Medium Risk)</p>	<p>Consideration should be given to extending the items covered by the standard stock sheet.</p>	<p><u>Response of the Chief Fire Officer</u> All stock is to be included on Gabriel and not just the finance spread sheet. The FEM Manager is to interrogate Gabriel to provide stock value reports.</p> <p><u>Date for implementation</u> Immediate</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>10. Management Reports [See Audit Findings para 3.5] Although management reports were available on the old financial system, reporting requirements have not been specified on the new system. At the time of audit budgets had not been loaded onto the new system. A financial statement was produced in January 2011 and the company's profit and loss and balance sheet were issued as at year end. However, the trading activity manager has not had monthly income and expenditure or budgetary monitoring reports since the implementation of the new system. Neither finance system has produced trading activity reports.</p> <p>Risk: <i>No effective management control of the company's financial performance.</i> (High Risk)</p>	<p>Reporting requirements should be specified. Monthly management reports should be produced. These should include income & expense, budgetary monitoring, and trading activity reports.</p>	<p><u>Response of the Chief Fire Officer</u> The problems arising immediately after implementation of the new finance and procurement system resulted in financial reports not being available. At the time of writing (November 2011) full financial management reports are provided to the company on a quarterly basis, showing a statement of income and expenditure as well as a statement of financial position. The FEM Manager is able to run budget monitoring reports in the finance system at any time to assess income and expenditure performance against budgets</p> <p><u>Date for implementation</u> Already implemented</p> <p><u>Officer responsible for implementation</u> Principal Accountant</p>
<p>11. Performance Measures [See Audit Findings para 3.5] No performance measures have been specified.</p> <p>Risk: <i>No effective management control of the company's performance.</i> (Low Risk)</p>	<p>Appropriate performance measures should be specified.</p>	<p><u>Response of the Chief Fire Officer</u> The FEM Manager is to confirm if Gabriel can provide reports for individual engineer performance/values. This will show the profitability and performance of the engineers. Once this information has been obtained then performance management can be instigated.</p> <p><u>Date for implementation</u> Immediate</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Audit Finding	Recommendation	Management Response
<p>12. Customer Satisfaction Surveys [See Audit Findings para 3.5] Customer satisfaction surveys have been undertaken, most recently in March 2011. Responses are held on file but there is no record of the customers contacted, the response rate or evidence that results are analysed and reported.</p> <p>Risk: <i>The company does not make best use of information generated.</i> (Low Risk)</p>	<p>Customers surveyed should be recorded and results analysed and reported.</p>	<p><u>Response of the Chief Fire Officer</u> Trading Company Administrator is to carry out telephone surveys and record the results. Engineers are also to carry out surveys when possible at time of service. All surveys will be recorded.</p> <p><u>Date for implementation</u> Immediate</p> <p><u>Officer responsible for implementation</u> FEM Manager</p>

Internal Audit Report

CONFIDENTIAL

To: The Chief Fire Officer
Subject: Agresso Opening Balances
Report reference: FRS/1107
Date: March 2011

1 Introduction

- 1.1 In February 2011, the Fire Authority implemented a new accounting system – Agresso. A key part of implementing the new system was to ensure the complete and accurate transfer of accounting records from the old accounting system (Kypera) to Agresso.
- 1.2 This report sets out the findings arising from a review of the processes used to transfer the accounting records and closing balances from the Kypera accounting system to the new Agresso system.

2 Objectives of the audit

- To review the plans and processes used to transfer the accounting records and balances to Agresso.
- To confirm the checking carried out was sufficient to confirm that accounting balances were transferred and set up completely and accurately.
- To test a sample of balances transferred to ensure they are accurate.
- To confirm all discrepancies were recorded, properly investigated and necessary corrections made.
- To confirm adequate supervision and sign-off of the balances transfer process.

3 Audit Findings

The main findings of the audit are set out below.

- 3.1 We examined the implementation plan and consider it to be sufficiently detailed and comprehensive. The plan was regularly updated and the outcome of testing and remedial actions taken was recorded.
- 3.2 Standing data records underpinning Kypera were reviewed and updated by NFRS staff prior to testing. Detailed mapping of these data records from Kypera to Agresso was undertaken by staff. This was reviewed and updated after testing, prior to live running. As a result there was a very low level of differences when balances and transactions were input into Agresso.

- 3.3 Once the records and balances had been transferred, trial balances were produced from both Kypera and Agresso. Finance staff checked all balances and identified a small number of differences. These were anticipated and arose from a decision to allocate additional account codes and attributes in Agresso. This allows improved financial analysis and corrects minor mis-postings identified in Kypera. All account balances were reconciled satisfactorily.
 - 3.4 We checked a sample of key balances and confirmed they had been transferred accurately.
 - 3.5 We also examined project documentation and confirmed that key balances were signed off by the Principal Accountant.
- 4 Audit opinion**
- 4.1 Based on the work and checking carried out, we are satisfied that the accounting records and balances have been transferred from Kypera to Agresso completely and accurately.

Audit conducted by:
Lesley Bulman ACMA, Auditor

Audit supervised by:
Roger Smith ACMA, Group Audit Manager

J M Bailey CPFA, Head of Internal Audit

Internal Audit Report

CONFIDENTIAL

To: The Chief Fire Officer

Subject: Corporate Governance

Report reference: FRS/1104

Date: November 2011

1 Introduction

- 1.7 This report sets out the findings and recommendations arising from a review of corporate governance at Nottinghamshire Fire and Rescue Service (NFRS).
- 1.8 The standards for corporate governance in public sector organisations are contained in the six core principles outlined in the CIPFA framework for delivering good governance published in 2007.
- 1.9 At the request of management, we focused our review on the effectiveness of the decision-making committees.

2 ***Objectives and scope of the audit***

2.1 Audit objectives:

- To identify the controls in operation and assess their compliance with the CIPFA framework for corporate governance.

2.2 Scope:

The following control objectives were reviewed. The key risks associated with each control objective are explained below.

1. Overall responsibility for corporate governance is clearly assigned. (*Risk: the co-ordination and oversight of corporate governance arrangements may not be effective*)
2. Core principle 1: The purpose of the authority and the outcomes for the community are defined in a clear and concise way. (*Risk: NFRS activities are not focused on agreed outcomes*)
3. Core principle 2: Members and officers work together with clearly defined functions and roles. (*Risk: poor team-working*)
4. Core principle 3: The values of the Fire Service and its commitment to good governance are demonstrated by high standards of conduct. (*Risk: low standards of conduct and poor reputation*)
5. Core principle 4: Informed and transparent decisions are taken and are subject to effective scrutiny and risk management. (*Risk: poor decision making*)
6. Core principle 5: The capacity and capability of members and officers are developed to improve effectiveness. (*Risk: poor service delivery*)

7. Core principle 6: Engagement with local people and other stakeholders ensures robust public accountability. (*Risk: poor accountability*)

9 Audit Findings

The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings together with the associated risk and a recommendation for improvement in the attached recommendations section.

- 3.1 Responsibility for corporate governance within NFRS is clearly assigned in the Local Code on Corporate Governance to the Chief Fire Officer. To support the Chief Fire Officer, Strategic Directors are tasked with ensuring all staff under their control are aware of and embrace the core principles of corporate governance. Corporate Governance arrangements are reviewed and reported annually to Fire Authority members. The Members' Handbook contains standing orders, financial regulations, the scheme of delegation, member/officer protocols and codes of conduct. These provide the framework for corporate governance within NFRS. We were advised that most of these codes and policies are currently under review and proposed amendments will be presented at the Fire Authority AGM in May.
- 3.2 The purpose and aims of NFRS are defined in the Service Plan 2010-2013. Performance indicators have been defined which are reported in the Annual Report which is issued to the public.
- 3.3 The roles and responsibilities of members and officers are clearly defined in the scheme of delegation, as are the remits of each committee. We reviewed the minutes of committee meetings and noted that committee attendance, while usually quorate, generally seems low. We also noted that some meetings lasted less than half an hour. The results of this analysis are given in Appendices A and B. (**See Recommendations 1 and 2**)
- 3.4 Codes of conduct are well established for both members and officers. There is also a Standards Committee which meets at least once per year, but more frequently if required. We noted that the codes of conduct have not been formally reviewed by the Standards Committee for some time however we have been informed a review is currently in progress – see para 3.1.
- 3.5 Delegated authority levels for decision making are specified in the terms of reference for each committee. Decisions are made on the basis of reports which are presented by NFRS officers to the relevant committees. There is clear evidence that financial; human resources; equalities; legal and risk management implications arising from proposed actions have been properly considered. Agendas and minutes of all committee meetings are available for inspection on the City of Nottingham public internet website.
- 3.6 Training and development programmes have been established for all staff and are subject to annual review. We were advised that training for members is provided via seminars and training events designed by NFRS. In addition, members also attend relevant professional conferences. However, we could not confirm that members' training needs have been identified as part of ensuring that comprehensive and appropriately targeted training is provided. It appears that no one is currently responsible for these matters. (**See Recommendation 3**)

- 3.7 There are a number of policies in operation which address communications and engagement with local people, partners, staff and other stakeholders. NFRS objectives are published in the Service Plan and performance is reported in the Annual Report. Press coverage is monitored and reviewed and the service issues magazines and newsletters. Work has been carried out to assess the effectiveness of public communications. There is also a feedback and complaints procedure in place but it is acknowledged that this requires improvement. A project to improve feedback is planned to start in mid 2011.

10 Audit opinion

- 10.1 In our opinion, most of the arrangements for corporate governance are satisfactory although now in need of a comprehensive review and update. Where we have identified control weaknesses, we have made recommendations to improve these arrangements.
- 10.2 This has been our first review of corporate governance within NFRS. It has confirmed the all encompassing nature of governance and we believe that future reviews should be more focused on specific aspects of individual core principles.

Audit conducted by:

Lesley Bulman ACMA, Auditor

Audit supervised by:

Roger Smith ACMA, Group Audit Manager

J M Bailey CPFA, Head of Internal Audit

Audit Finding	Recommendation	Management Response
<p>1. Committee attendances [See Audit Findings para 3.3] The complement for most committees is set at five members (six for policy and strategy) with a quorum of three. We examined the record of attendance for 26 committee meetings and found that one was not quorate and five were just quorate. Decisions taken at 25% of these meetings were taken by only 3 members. See Appendix A Risk: Inadequate representation of democratic interests. (Low Risk)</p>	<p>Consideration should be given to increasing both the complement and the quorum number for each committee to ensure adequate representation</p>	<p><u>Response of the Chief Fire Officer</u> There is no doubt that governance is not aided by inquorate or barely quorate meetings. The problem faced by the Authority is that it is too small to increase its committee memberships without requiring Members to be on more than two committees which is impractical. An annual review of committees and attendances is considered by the Chairman and this will be brought to his attention at the next F&R Committee <u>Date for implementation</u> January 2012 <u>Officer responsible for implementation</u> Director of Finance and Resources</p>

Audit Finding	Recommendation	Management Response
<p>2. Committee meeting duration [See Audit Findings para 3.3] We noted several committee meetings lasted for less than 30 minutes. We believe this may not be a good use of members' time. See Appendix B</p> <p>Risk: <i>Inefficient use of members' time.</i> (Low Risk)</p>	<p>Consideration should be given to using other means and venues for holding committee meetings e.g. holding meetings at City or County Council premises OR using teleconferencing if there is a short agenda.</p>	<p><u>Response of the Chief Fire Officer</u> <i>The point is taken but it must be borne in mind that some of our Members travel further to get to County Hall than they do to Fire HQ.</i> <i>Until recently all meetings were held at the City or County Councils and Members decided this was inappropriate.</i> <i>Nevertheless some meetings are held in other venues from time to time.</i> <i>Consideration will be given to teleconferencing but this will depend upon whether Members feel that this is an appropriate way for business to be conducted.</i></p> <p><u>Date for implementation</u> <i>January F&R Committee to consider</i></p> <p><u>Officer responsible for implementation</u> <i>Director of Finance and Resources</i></p>
<p>3. Members' Training [See Audit Findings para 3.6] Although a members' training needs analysis was undertaken some time ago, this has not been updated to reflect changes in membership and committee responsibilities.</p> <p>Risk: <i>Members may require specific training to facilitate effective performance of their roles.</i> (Low Risk)</p>	<p>A training needs analysis should be undertaken to identify appropriate training requirements. When training is provided, a record should be kept to enable training needs to be reviewed in future.</p>	<p><u>Response of the Chief Fire Officer</u> <i>Until recently an officer was charged with conducting a training needs analysis for elected Members and devising training programmes. The influx of new members makes this important to reintroduce.</i></p> <p><u>Date for implementation</u> <i>Before April 2012</i></p> <p><u>Officer responsible for implementation</u> <i>Chief Fire Officer</i></p>



Internal Audit Service

Internal Audit Report Executive Summary

CONFIDENTIAL

Prepared for: The Chief Fire Officer
Subject: Managed audit of key financial controls – 2010/11
Report reference: FRS 1106
Date: April 2011

1 Introduction

- 1.1 The attached report sets out the findings and recommendations arising from a review of the main controls in four key financial systems. This work is undertaken as part of the managed audit programme for the 2010/11 financial year on behalf of External Audit.
- 1.2 The programme of key controls and tests has been agreed with the External Auditor in order to comply with International Standards on Auditing (ISA's). The systems reviewed are set out in paragraph 2.1 below.
- 1.3 Internal audit working papers and findings are reviewed by External Audit who normally rely on our work to inform their final accounts audit work, thus reducing the time they take to complete this task, and the associated cost to the Notts Fire & Rescue Service.

2 Objectives and scope of the audit

- 2.1 The objective of the audit was to provide an assurance to the External Auditor, and to management, that sound systems of internal control are in place and have operated effectively throughout the 2010/11 financial year. The financial systems reviewed are:
 - 1) Payroll;
 - 2) Creditors;
 - 3) Debtors;
 - 4) Pensions administration.
- 2.2 The expected controls and key risks associated with each of the above systems are detailed in the attached report.

3 Main Findings

- 3.1 The main controls over the financial systems examined were found to be satisfactory and to have been operating effectively during the review period.

- 3.2 Two minor recommendations have been made. One relates to checking payroll exception reports and the completion of monthly existence checks and the other relates to requests for pension transfers-out.

4 Audit opinion

- 4.1 In our opinion the arrangements for financial management of the systems we have examined are satisfactory and have been in operation throughout the 2010/11 financial year. Implementation of the recommendations will further improve the overall system of internal control.

Kate Buckley ACA
Auditor

Chris Willimsky
Auditor

Roger Smith ACMA
Audit Manager

J M Bailey CPFA
Head of Internal Audit

Control objective 1: Payroll key controls Risk: Incorrect or unauthorised payments may be made to staff.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
1.1 Access to standing data processing and programmes restricted to appropriate personnel and amendments properly authorised and this is checked.	<p>A sample of twenty changes to permanent payroll data were checked to CYB 1 forms and all were found to be authorised. One form for a leaver was not signed by the preparer of the CYB 1 form (ZH), but had been correctly authorised.</p> <p>CYB 1 forms were independently processed and checked by payroll staff.</p>	✓	
1.2 Timesheets, overtime claims etc are checked and authorised.	<p>A sample of twenty timesheets and other documents linked to the processing of one-off payments were checked. Nineteen had been independently authorised. The F3 summary timesheet for retained staff (station 24) had been completed and authorised by one Officer in Charge, but the attendance register F2 was independently authorised.</p>	✓	
1.3 Exception reports are generated and reviewed and outputs are checked for overall reasonableness.	<p>There are two main types of exception report which are produced after each payroll run:</p> <ul style="list-style-type: none"> • payroll exception report • audit trail. <p>In addition the net pay listing is checked for large payments. Testing of two months (May and November 2010) confirmed that exception reports were reviewed and items investigated. However the audit trail for the MHRETF payroll for November had not been received. This was requested during the audit and checked by payroll staff.</p> <p>Existence reports are submitted by Payroll to HR for checks for starters and leavers and a sample of CYB 1 forms.</p> <p>There was no confirmation of checks having been performed by HR for November (MEFIRE and MHRETF), September (MEFIRE) and April (MHRETF).</p>	Partly	<p>All exception reports should be checked every month.</p> <p>Validation of 'Starters' and 'Leavers' on existence reports should be carried out by HR every month. (Medium risk)</p> <p>Response of the Chief Fire Officer</p> <p><i>Existence reports will be sent every month by Payroll to HR for checking. If any are not returned, they will be followed up by Payroll until received.</i></p> <p>Date for implementation</p> <p><i>Immediately</i></p> <p>Officer responsible for implementation</p> <p><i>Principal Accountant & HR Manager Operations</i></p>

Control objective 1: Payroll key controls Risk: Incorrect or unauthorised payments may be made to staff.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
1.4 The payroll system is regularly reconciled to the main accounting system	<p>Each payroll is reconciled separately to the Kypera accounting system. MEFIRE and MHRETF (full-time and retained fire-fighters) are reconciled by one finance officer and MUFRAD (non-uniformed/ civilian) is reconciled by a second officer.</p> <p>Sampling of two months (April and October) confirmed that reconciliations were being performed for all three payrolls. However reconciliations had not been carried out for the trading company payroll which was set up as a separate payroll from MUFRAD in September 2010.</p> <p>The Cyborg upload checking form had been completed and authorised and the total net pay for the payrolls had been reconciled to Cyborg ensuring that the Cyborg upload to the Kypera accounting system was complete.</p>	✓	
1.5 Net pay total agreed to cheque and BACS total payments controls in place – reconciliations to payroll, authorisations etc	<p>We confirmed that net pay was reconciled to the bank statements for each payroll for the two months sampled. However there had been a delay in the performance of reconciliations with November being the latest reconciliation completed at the time of audit (January 2011).</p>	✓	

Control objective 2: Creditors key controls Risk: Payments to suppliers might be made incorrectly, or may be incorrectly accounted for.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
2.1 Invoices are subject to appropriate checking and are properly certified and authorised before being passed for payment.	<p>Twenty invoices were sampled for testing from the 2010/11 financial year to date.</p> <p>All twenty invoices had been properly certified and were authorised for payment after being checked.</p> <p>For all invoices tested at least two people were involved in processing and authorising the invoice for payment. All invoices over £10,000 were also additionally authorised by senior officers.</p>	✓	
2.2 Invoices are coded to the correct accounting code.	<p>Twenty invoices were sampled for testing from the 2010/11 financial year to date.</p> <p>Eighteen of the invoices tested were posted to the correct accounting code.</p> <p>The two invoices found to be posted against an incorrect accounting code were a stock item that had been posted to operational equipment rather than a stock purchases code and a stock item that had been posted directly to the stock adjustment code rather than a stock purchases code.</p>	Mostly	
2.3 Payment schedules and other payments are reviewed for reasonableness and approved before payment is made.	<p>Twenty five payment runs (20 BACS runs and 5 cheque runs) were sampled for testing from the 2010/11 financial year to date.</p> <p>All twenty creditor listings for BACS had been checked, dated and signed by two members of the Finance Department before payments were made.</p> <p>The five creditor listings for cheque runs had also been checked, dated and signed by two members of the Finance Department before cheques were prepared.</p>	✓	

Control objective 2: Creditors key controls Risk: Payments to suppliers might be made incorrectly, or may be incorrectly accounted for.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
2.4 Cheque stationery is held securely and the issue of blank cheques is properly controlled.	<p>Cheque stocks are held securely in the finance office safe. Continuous cheque stationery and cheque books are used and all cheques are crossed 'account payee only'. All cheques require two authorised signatories.</p> <p>Records of cheque stocks and cheques used are updated every time cheques are prepared. The stock sheets are completed by the member of the Finance Department who prepares the cheques and are then checked and countersigned by another member of the Finance Department to agree the cheques used and cheques remaining.</p>	✓	
2.5 BACS runs are subject to appropriate authorisation and there is adequate separation of duties to ensure no one person can process BACS payments.	<p>We selected a sample of twenty five payments (20 BACS runs and 5 cheques) for testing from the 2010/11 financial year to date; all had the required separation of duties and agreement of totals.</p> <p>BACS payments are made through the Barclays Business Master online payment system</p> <p>Two creditor payment runs are carried out each week, one for cheque payments and one for BACS payments. Additional creditor payment runs are carried out as required.</p> <p>A printout from Kypera showing all payments to be made by BACS and the total value of these payments is checked for reasonableness by two finance staff. The payment run is then electronically transferred from Kypera to the Business Master System and the payment totals to each supplier and the overall total are checked back to the Kypera printout, the printout is signed and dated by a third member of staff as evidence of this check. If the payment is set up correctly the payment authorisation is sent through the Barclays Business Master System to the bank.</p>	✓	

Control objective 2: Creditors key controls Risk: Payments to suppliers might be made incorrectly, or may be incorrectly accounted for.			
Expected control	Audit findings	Expected control met	Audit recommendation <i>And management response, officer responsible and date for implementation</i>
2.6 Bank statements are agreed to creditor payment runs.	We selected a sample of twenty five payments (20 BACS runs and 5 cheques), all payment records agreed with the amounts presented from the bank account. Bank statements are agreed to creditor payments as part of the monthly reconciliation process.	✓	

Control objective 3: Debtors key controls Risk: The authority could fail to make appropriate charges or recover all income due.			
Expected control	Audit findings	Expected control met	Audit recommendation <i>And management response, officer responsible and date for implementation</i>
3.1 Sales invoices are raised for all income due.	<p>Sales invoices are raised by the Finance Department following the receipt of a Sales Invoice Request Form. These forms are completed by departments that require a sales invoice to be sent out to an existing customer.</p> <p>Sales invoices for Fire Extinguisher Maintenance (FEM) were raised by staff in the FEM team. The responsibility for raising these invoices is no longer delegated to NFRS staff, as FEM became a separate trading company on 1 September 2010.</p>	✓	
3.2 There are clear procedures for debt collection.	<p>Arrears recovery procedures are in place and outstanding debts are monitored on a monthly basis. An aged debtor report is extracted from Kypera and used to identify and chase all outstanding debts.</p> <p>Testing found that the aged debtor reports are a full aged debt analysis, allowing long outstanding invoices to be identified.</p>	✓	
3.3 Overdue debtor reports are produced regularly and followed up promptly.	Testing found that aged debtor reports had been extracted from the system monthly through the 2010/11 financial year to date; and had been used to follow up overdue unpaid invoices.	✓	

Control objective 3: Debtors key controls Risk: The authority could fail to make appropriate charges or recover all income due.			
Expected control	Audit findings	Expected control met	Audit recommendation <i>And management response, officer responsible and date for implementation</i>
3.4 Sales Invoices are coded to the correct accounting code.	<p>It is the responsibility of the person completing and signing the Sales Invoice Request Form to notify the Finance Department of the budget code, cost centre code and accounting code the invoice is to be raised against.</p> <p>We selected a sample of twenty sales invoices for testing from the 2010/11 financial year to date. We found that nineteen of the invoices had been raised on the correct codes. The one invoice we considered had been raised on an incorrect accounting code was a recharge of repairs to a fleet vehicle following an accident and had been raised on the accounting code for scheduled maintenance.</p>	Mostly	

Control objective 4: Pensions administration key controls Risk: Pensioner benefits could be incorrectly assessed and paid over.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
<p>4.1 New pension calculations (including lump-sums and ill health) are recorded on dedicated forms (including coding and effective dates for cut-off). All necessary supporting records are retained on file. Calculations are checked and payments authorised.</p>	<p>We tested nine pension calculations. Data was obtained from the payroll system to confirm earnings and recorded on a 'prcalc checklist' which had been signed as evidence of an independent check for eight new pensioners. The checklist for SW (employee no. 3603390) had been ticked but had not been signed by the person performing the check.</p> <p>We advised all 'prcalc checklists' should be signed by the person performing the check.</p> <p>Calculations were held on the AXISe system for eight of the nine new pensioners tested. The calculation for WC (e'ee no. 3605013) was not on the AXISe system. We confirmed details of the pension and lump sum payment on AXISe agreed with those paid. We were informed by the Administration Team Leader, NCC Pensions that the calculation would have been performed to populate the fields on AXISe but may have been deleted.</p> <p>There was a letter informing the applicant of the details of their pension for all nine new pensioners tested.</p> <p>'Notification of Pensioner Details' forms were used to notify payroll and these were all found to be independently checked and authorised.</p> <p>Payment requests made to Fire HQ were all authorised.</p>	Mostly	

Control objective 4: Pensions administration key controls Risk: Pensioner benefits could be incorrectly assessed and paid over.			
Expected control	Audit findings	Expected control met	Audit recommendation And management response, officer responsible and date for implementation
4.2 Transfer values out (payable to other authorities) calculations are on dedicated forms checked and authorised (may be part of creditors). All necessary supporting information is on file.	<p>One transfer value out was made during the period of our review (1 April to 31 December 2010).</p> <p>The provisional calculations on the AXIS system did not agree with the actual value transferred. This was because the employee left the Fire Service in 2006 but did not formally request his pension be transferred until 2010. We were advised by the Administration Team Leader, NCC Pensions that the calculation would have been performed to populate the necessary fields on the AXIS system which we confirmed agreed with the actual transfer made. The calculation had not been retained on file.</p> <p>The payment request was only signed by the officer who check the details on the form but not by the officer preparing the form. The task comments on AXIS confirmed that the form had been independently checked.</p> <p>We advised payment requests should be signed by the person completing the form.</p>	Mostly	
4.3 Transfer-in values (due from other authorities) are accrued for and monitored for receipt. Dates are clear for cut off purposes. Values received are reviewed for reasonableness against expectations.	<p>We tested all eleven transfers in received in the period of our review.</p> <p>The service credit calculation on AXIS was supported by documentation from the pension scheme the transfer is being made from.</p> <p>Service credit was given on receipt of cash.</p>	✓	

Internal Audit Report

CONFIDENTIAL

To: Chief Fire Officer

Subject: Transport

Report reference: FRS 1204

Date: January 2012

1 Introduction

1.10 The Fire Service has a fleet of 177 vehicles, each of which is in one of the following 3 categories:

- Special appliances – which includes two aerial appliances
- Rescue Pump appliances
- Light vehicles

1.11 This report sets out the findings of a review of the processes used to ensure that the fleet is sufficient to meet the Service's needs, is properly maintained, and that its costs are controlled.

2 Objectives and scope of the audit

2.1 Audit objectives:

- To document the systems and evaluate the controls in operation to ascertain their adequacy and effectiveness.
- To sample test transactions for compliance with documented procedures and controls.

2.2 Scope:

The following control objectives were examined. The key risks associated with each control objective are explained below.

- Vehicle needs are planned and met. (*Risk: A shortage of vehicles preventing the Service from fulfilling its obligations. Overspending on an excessive fleet of vehicles.*)
- Vehicles are maintained so that they meet legal and operational requirements. (*Risk: Unsafe vehicles, and prosecution for non-compliance with legal requirements.*)
- Vehicle maintenance and running costs are monitored and controlled. (*Risk: Overspending on maintenance and running costs.*)

11 Audit Findings

3.1 The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings, together with the associated risk, and a recommendation for improvement in the attached Action Plan.

4. Vehicle needs

4.1 The vehicle replacement programme is separated into the 3 categories of vehicle at 1.1 above. Each of the three replacement programmes is planned for several years in advance, with the first four years planned in greater detail, properly taking account of the available budget and the requirements of the service.

5 Vehicle maintenance

5.1 MOTs

5.1.1 Fire appliances are MOT-exempt. All 10 light vehicles we sampled had MOT certificates where required.

5.1.2 The department uses a fleet management software system called Tranman, produced by Civica. Each time Tranman is entered it shows a 'dashboard' that shows the vehicles with an MOT due this month, and for which the MOT is overdue. This acts as a control to prevent MOTs being missed.

5.2 Servicing

5.2.1 The 'dashboard' outlined at 5.1.2 above is for MOTs. An equivalent 'dashboard' for services is not used as its accuracy is not trusted (**see Action Plan para 1**).

5.2.2 The planned service schedules are tabulated. For a sample of 25 vehicles the planned service schedules were appropriate, although one could arguably have had a more rigorous service category (**see Action Plan para 2**).

5.2.3 There appeared to be a good system to ensure that all vehicles are serviced according to schedule. However, we were unable to properly confirm this. The management information on Tranman to check that the servicing schedules are adhered to is unsatisfactory. We checked the Tranman service histories for 15 vehicles to documentation from the workshops. Only 9 of 15 services were found to be recorded accurately on Tranman (**see Action Plan para 3**).

5.2.4 Tranman indicated that 17 of our sample of 25 vehicles were not serviced according to the planned schedule. The detail of this is available if required but is not included in this report as it is based on inaccurate information, as outlined at 5.2.3 above.

5.3 Tax

5.3.1 There is a good system to ensure that vehicles are taxed. The 'dashboard' outlined at 5.1.2 above also includes vehicles with tax due. A monthly list of vehicles with tax due is printed out, tax discs are bought, and the new expiry dates entered on Tranman. The old tax discs are returned to the department as a check that the new disc has been received and replaced in the correct vehicle.

5.3.2 Tax discs were found on all 23 vehicles we saw, and their expiry dates were correctly recorded on Tranman. Tranman reported that all 176 vehicles were taxed up-to-date, apart from nine that the service is not required to tax.

5.4 Insurance

5.4.1 Insurance is arranged en bloc for the entire fleet. All 25 vehicles sampled were found to be insured.

6 Vehicle maintenance costs

6.1 Fuel

6.1.1 The total cost of fuel is monitored, and compared to previous years. However mileages and fuel costs for each individual vehicle are not monitored, despite reports being available for this purpose (**see action Plan para 4**).

6.2 Other maintenance costs

6.2.1 The department has a system to monitor the different categories of maintenance costs, and compare them to previous years.

6.2.2 However, we were informed that a difficulty in monitoring costs was caused by long delays between maintenance work being done by Nottinghamshire County Council, and the charges being invoiced. A replacement maintenance contract, with Nottingham City Council, commenced on 1 July 2011. As at 17 October 2011, budget monitoring had not included costs from 1 July 2011 because information had not been provided by the City Council in the required format. We understand that the department is working with the City Council to address the promptness and format of invoicing (**see Action plan para 5**).

6.2.3 Tranman could report on the costs of maintenance per vehicle, but this information is not used (**see Action plan para 5**).

6.2.4 A new accounting system called Agresso was introduced from 1 April 2011. The first budget monitoring reports were provided in October 2011, over 6 months into the year (**see Action plan para 5**).

7 **Audit opinion**

7.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.

7.2 In our opinion, although we have confirmed that some aspects of the system are satisfactory, management information from the Tranman system is unsatisfactory and prevents us from confirming whether the overall system is satisfactory. There are also aspects of the timeliness of cost monitoring that need to be addressed. We have made a number of recommendations, which should be implemented promptly, to ensure that your controls meet the required standards.

Audit conducted by:

Andrew Howarth CMIIA, Senior Auditor

Audit supervised by:

J M Bailey CPFA, Head of Internal Audit

Audit Finding	Recommendation	Management Response
<p>1. Services Due 'Dashboard'</p> <p>[See Audit Findings para 5.2.1]</p> <p>Each time Tranman is entered it shows a 'dashboard' that shows the vehicles with an MOT due this month, and for which the MOT is overdue. This acts as a control to prevent MOTs being missed. An equivalent 'dashboard' for services is not used because the accuracy of the Tranman Msched facility which produces the data on it is not trusted.</p> <p>Risk: <i>Vehicles are not maintained properly, resulting in breakdowns and accidents.</i></p> <p>(Medium Risk)</p>	<p>The reason for the inaccuracy of servicing information on Tranman should be identified and corrected, so that Tranman can be used to its full potential.</p> <p>(This problem is expanded on, and the same recommendation is repeated, at 3 below).</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>The staff members who regularly use the Tranman fleet management system were unaware of the functionality of the system permitting MSHED to be updated before costs and archiving of a completed job is done. This is now done weekly and we have also reintroduced the old visual wall planners which are marked off to show the actual position of planned maintenance.</p> <p><u>Date for implementation</u></p> <p>15th November 2011</p> <p><u>Officer responsible for implementation</u></p> <p>Fleet Maintenance Manager</p>
<p>2. Servicing Schedules</p> <p>[See Audit Findings para 5.2.2]</p> <p>We sampled 25 vehicles (5 Special appliances, 10 Rescue appliances, and 10 Light vehicles). Their planned service schedules were appropriate although one could arguably have had a more rigorous service category, as explained below.</p> <p>The frequency of services for fire appliances should comply with the Chief Fire Officers' Association's Fleet Management Best Practice Manual (the 'CFOA Manual').</p> <p>S362ATO, a special appliance in whole-time use, was in service category 2(a). It travelled 14,252 miles in 2010/11 according to a report from the Merridale fuel recording system. This is above a 12,000 mile threshold in the CFOA Manual which indicates that it should be in the</p>	<p>The service category allocated to every vehicle should be reviewed periodically. As a result of our findings, particular attention should be given to checking this for vehicles that might meet the criteria for service category 1.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>As part of the work being undertaken to address Action Plan item 3 service level categories will be reviewed again. This task will be done annually as was previously done by the former Fleet Maintenance Manager. A review of the annual maintenance plan should normally be done prior to the commencement of a new fiscal year and adjusted each time new operational appliances are introduced, appliances are disposed of or vehicles are moved to a different station or role.</p> <p><u>Date for implementation</u></p> <p>January 2012</p> <p><u>Officer responsible for implementation</u></p> <p>Fleet Maintenance Manager</p>

Audit Finding	Recommendation	Management Response
<p>more rigorous service category 1.</p> <p>The fleet maintenance manager acknowledged that S362ATO could arguably be moved to service category 1. We have accepted his decision to leave it in category 2(a) based on the following. The CFOA Manual says that the servicing schedules are an example, and may be adjusted to suit operational requirements. S362ATO does not spend a great proportion of its time with the engine running at high speed, and is soon to be disposed of and replaced.</p> <p>Risk: <i>Vehicles are not maintained properly, resulting in breakdowns and accidents.</i></p> <p>(Medium Risk)</p>		
<p>3. Servicing Histories</p> <p>[See Audit Findings para 5.2.3]</p> <p>There appears to be a good system to ensure that all vehicles are serviced according to schedule. However the management information to check that the servicing schedules are adhered to is unsatisfactory.</p> <p>The system to ensure that vehicles are serviced according to schedule includes:</p> <ul style="list-style-type: none"> • a Tranman 'Services Due' report is obtained before each month and checked for accuracy to a tabulated 'service programme'. • a 'Service Due Memo' is sent to each vehicle's location. • a Tranman 'Services for the Month' report is ticked off as each service is done. <p>However, we were unable to confirm that the vehicles are serviced according to</p>	<p>The reason for the inaccuracy of servicing information on Tranman should be identified and corrected, so that Tranman can be used to its full potential.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>Manual checking of service records was undertaken in November to determine that vehicles had service sheet documentation in place and any anomalies investigated. This work has been done in conjunction with the 'action taken' stated in the response for Action Plan point 1.</p> <p>To assist verifying the process and give the department some independent scrutiny and advice on this particular area external consultants have been engaged to assist the Fleet Maintenance Manager. This will also include cleansing any Tranman data and working with the Tranman software supplier Civica to ensure that the Fleet Management software is delivering accurate information.</p> <p>As there have been teething troubles with the invoicing by the new maintenance provider, Nottingham City Council (NCC), processes to check scheduled service work has been undertaken, service sheet information has been received and can be tied to an individual invoice have been discussed/implemented. Difficulties in providing the invoice information has led to a non performance letter being issued to</p>

Audit Finding	Recommendation	Management Response
<p>schedule, as information for this purpose on Tranman is unsatisfactory. For 15 vehicles, we checked one service recorded on Tranman to documentation from the workshops. Services were recorded accurately on Tranman for the following 9 vehicles:</p> <p><u>Special appliances</u></p> <p>FE02BWM</p> <p>S362ATO</p> <p>NU52TTV</p> <p><u>Rescue pump appliances</u></p> <p>FN03GYY</p> <p>FJ59GZF</p> <p><u>Light Vehicles</u></p> <p>FJ05OKW</p> <p>FJ57CXF</p> <p>FJ07OSM</p> <p>FJ08ZDA</p> <p>Of the other 6 services that we sampled:</p> <p><i>The services for the following 3 vehicles were recorded inaccurately:</i></p> <p><u>Special appliances</u></p> <p>FE02BWC. A service recorded on Tranman as 17 Feb 2011 actually took place on 16 March 2011.</p> <p><u>Rescue pump appliances</u></p> <p>P919FVO. A service recorded on Tranman as 10 June 2010 actually took place on 22 July 2010.</p> <p>The services for the following 2 vehicles should not have been sampled because they have no job number, but were showing on the Tranman report. This could be a complication with the Tranman report rather than an inaccuracy.</p>		<p>the maintenance contractor and an action plan produced by them to remedy non compliance issues.</p> <p>We are confident that the invoice situation will swiftly be addressed to meet the contract standards and KPI's and the information received will permit the input of accurate cost and job data to be done to address the current backlog.</p> <p>Working with Civica, NCC and the fleet maintenance consultants the target is to have all Tranman issues rectified and that accurate fleet maintenance cost reports can be produced for individual fleet assets for the current financial year by next April.</p> <p>Training to produce bespoke Tranman reports will be explored to allow the system to be used to its full potential as per the recommendation.</p> <p><u>Date for implementation</u></p> <p>3rd November 2011 (Immediate action instigated)</p> <p><u>Officer responsible for implementation</u></p> <p>Fleet Maintenance Manager</p>

Audit Finding	Recommendation	Management Response
<p><u>Rescue pump appliances</u></p> <p>V601DRB on 1 March 2011. FJ10OAD on 3 August 2010.</p> <p>Our testing on the services for the following 2 vehicles were inconclusive for the reasons given below:</p> <p><u>Special appliances</u></p> <p>FJ10OAA had no services recorded on Tranman to sample from. It was due its first service on 28 April 2011. This has either not been serviced according to plan, or the service has not been recorded on Tranman.</p> <p><u>Light Vehicles</u></p> <p>FN09ARU. A service was recorded on Tranman as 7 April 2010 but no evidence for this service was found. A service should have taken place around this date and the department is confident that it did. So it appears that the documentation for the service is missing.</p> <p>In conclusion, we do not know if these unsatisfactory results are caused by erroneous information being entered on Tranman, or because Tranman is not reporting properly.</p> <p>We were informed that the Tranman Msched programme which produced the service histories is not trusted, and to produce a reliable report was beyond the capability of the transport department, and would require input from Crystal Training.</p> <p>Risk: <i>Vehicles are not maintained properly, resulting in breakdowns and accidents.</i></p> <p>(Medium Risk)</p>		
<p>4. Review of fuel costs</p> <p>[See Audit Findings para 6.1.1]</p>	<p>The department should centrally review mileage and fuel use per vehicle using reports available from the</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>The Transport Fleet Co-ordinator has contacted Merridale to assist us with</p>

Audit Finding	Recommendation	Management Response
<p>The total cost of fuel is monitored, and compared to previous years. However costs for each individual vehicle are not monitored, despite an 'MPG Summary' report being available for this purpose from the Merridale system.</p> <p>This report shows for every vehicle its mileage, fuel used, fuel cost, and miles per gallon. This would enable a full monitoring of fuel use and cost.</p> <p>We were informed that there are some factors which would have to be taken into account when interpreting the report. For example fire appliances use fuel to operate pumps for long periods when they are stationary, so may show unusually low mileage per gallon. However in our view these factors would not prevent monitoring from being worthwhile, but could provide explanations for any unusual costs or mileages.</p> <p>Risk: Overspending on fuel costs. (Medium Risk)</p>	<p>Merridale system that show for every vehicle its mileage, fuel used, fuel cost, and miles per gallon. Enquiries should be made about anomalies which might indicate inappropriate use of vehicles or fuel.</p>	<p>building reports (including exception reports) that can be produced on a monthly and annual basis which can be retained electronically and used for more detailed analysis as per the recommendation.</p> <p><u>Date for implementation</u> 31st January 2012</p> <p><u>Officer responsible for implementation</u> Fleet Manager</p>
<p>5. Review of other maintenance costs [See Audit Findings paras 6.2.2 to 6.2.4]</p> <p>We were informed that a difficulty in monitoring costs was caused by long delays between maintenance work being done by Nottinghamshire County Council, and the charges being invoiced. A replacement maintenance contract, with Nottingham City Council, commenced on 1 July 2011. As at 17 October 2011, budget monitoring had not included costs from 1 July 2011 because information had not</p>	<p>(a) The department should continue to address the promptness and format of invoicing by Nottingham City Council.</p> <p>(b) The department should monitor maintenance costs per vehicle using reports available from Tranman.</p> <p>(c) The finance department should provide monthly budget monitoring reports from Agresso, and require that departments compare costs to budget each month.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>(a) The action taken is covered in the response to Action Plan point 3 detailed above.</p> <p>(b) As detailed above in the Action Plan point 3 response a target to have accurate Tranman information in the required report formats has been set for April to help monitor fleet maintenance costs in more detail and assist overall budget planning.</p> <p>(c) (i) The delay in providing budget monitoring information in 2011/12 was due to a combination of the introduction of the new finance system in February 2011 closely followed</p>

Audit Finding	Recommendation	Management Response
<p>been provided by the City Council in the required format. We understand that the department is working with the City Council to address the promptness and format of invoicing.</p> <p>Tranman could report on the costs of maintenance per vehicle, but this information is not used.</p> <p>A new accounting system called Agresso was introduced from 1 April 2011. The first budget monitoring reports from Agresso were provided in October 2011, over 6 months into the year.</p> <p>Risk: Overspending on maintenance costs.</p> <p>(Medium Risk)</p>		<p>by a difficult year end closedown process. In other years, budget monitoring information is available early in the financial year and this will continue to be the case in future.</p> <p>(ii) Initial training on the new finance system (Agresso) was provided to all users, and follow up training is planned to take place before the end of March 2012, where a training need has been identified. Invoices are now scanned into Agresso, so the Transport Section staff will be able to drill down on transactions to see a picture of the invoice and check that all relevant transactions are recorded in Tranman.</p> <p><u>Date for implementation</u></p> <p>(a) 31st January 2012</p> <p>(b) 30th April 2012</p> <p>(c) (i) already implemented</p> <p>(ii) 31st March 2012</p> <p><u>Officer responsible for implementation</u></p> <p>(a) & (b) Fleet Maintenance Manager & Fleet Manager</p> <p>(c) Principal Accountant</p>

Internal Audit Report

CONFIDENTIAL

To: Chief Fire Officer
Subject: Business Risk Management
Report reference: FRS 1206
Date: November 2011

1 Introduction

- 1.12** This report sets out the findings and recommendations arising from a recent review of the arrangements for business risk management. The objective of these arrangements is expressed in the policy as follows: ***‘to ensure that the Service considers business risk as an integral part of business and project planning in order to achieve its aims and objectives.’***

2 Objectives and scope of the audit

2.1 The objectives of the audit were to:

- confirm that there is a robust structure and framework for managing business risk; *Risk: risk management not being central to the organisation’s strategic management. Opportunities and threats being missed.*
- confirm there are appropriate processes for managing business risks; *Risk: risk not being systematically identified and assessed, and therefore not being consistently acted upon.*
- there are sufficient links between risk management with other key processes. *Risk: risk management outcomes not being reflected in the organisation’s other decision-making.*
- confirm implementation of the previous audit recommendations agreed in Audit Report FRS 803 (issued in July 2008). *Risk: Known weaknesses are not addressed.*

2.2 Testing was focused on Risk Management standards and the procedures followed by the Fire Authority.

12 Audit Findings

The main findings of the audit for each of these control objectives are set out below. Where we have concluded that controls need to be improved we have reported our detailed findings, together with the associated risk, and a recommendation for improvement in the attached Action Plan.

- 3.1 Robust Structure and Framework for Managing Business Risk:** The Policy for the Management of Business Risk was reviewed in 2009. A number of changes to the organisational structure of the Fire Service have been carried out and as part

of this responsibility for Business Risk Management has been moved to Finance and Resources Committee. A new Risk Management Strategy Statement has been drafted but is yet to be presented to Committee. **(See Action Plan 1)**

3.2 Appropriate Processes are in Place to Manage Business Risks:

There is no Corporate Risk Register for the Fire Service therefore it is not regularly monitored and kept up-to-date. **(see Action Plan 2 and 3)**

Risk Management is taken into consideration for individual projects and partnership working.

An internal review has assessed the effectiveness of Risk Management in the Authority. However, guidance and procedure notes have yet to be formally presented to Committee. It should also be noted that there are no clear reporting lines regarding Corporate Risk Management. **(see Action Plan 4)**

3.3 Sufficient Links Between Risk Management and other Key Processes: Risk Management is currently under development. In view of the lack of an up-to-date Corporate Risk Register there is insufficient influence on other processes. **(See Action Plan 5)**

3.4 Implementation of Previous Recommendations

Of the seven recommendations made at the previous audit, two have been implemented, and one has been partially implemented. The remaining outstanding recommendations have been re-stated in the Action Plan.

13 Audit opinion

13.1 Our opinion is selected from the following – sound, satisfactory, unsatisfactory or unsound.

4.2 In our opinion, most of the arrangements for Business Risk Management are unsatisfactory. Where we have identified control weaknesses, we have made recommendations to bring your controls up to the standards required.

Audit conducted by:

Diane Hyett, Auditor

Audit supervised by:

**J M Bailey CPFA
Head of Internal Audit**

Audit Finding	Recommendation	Management Response
<p>1. Risk Management Strategy A new Strategy for Risk Management has been drafted, but has yet to be agreed. The Strategy includes, amongst other things, the Risk Appetite.</p> <p>Risk: The Authority is unclear on the level of risk it is prepared to accept. (Medium Risk)</p>	<p>A report on the Authority's Risk Management Strategy should be presented promptly to the Finance and Resources Committee.</p>	<p><u>Response of the Chief Fire Officer</u> The report is currently in draft and will be presented to the January F&R meeting</p> <p><u>Date for implementation</u> 13th January 2012</p> <p><u>Officer responsible for implementation</u> Director of Finance and Resources</p>
<p>2. Risk Registers There is not an up-to-date Corporate Risk Register for the Fire Service.</p> <p>Risk: Risk Management does not become embedded into the Authority's ways of working. (High Risk)</p>	<p>A Corporate Risk Register should be produced at the Authority.</p>	<p><u>Response of the Chief Fire Officer</u> A Corporate Risk Register has been produced, but the ownership of these risk and monitoring and reporting mechanisms have yet to be agreed by management team. It is felt appropriate that this should be tied in with the restructure that is taking place</p> <p><u>Date for implementation</u> 1st April 2012</p> <p><u>Officer responsible for implementation</u> Chief Fire Officer</p>
<p>3. Monitoring of Risk Registers Regular reviews of the Corporate Risk Registers are not completed.</p> <p>Risk: Risks are not managed effectively (Medium Risk)</p>	<p>A regular programme of monitoring should be introduced, documented and reported to the Corporate Management Board to manage corporate risk.</p>	<p><u>Response of the Chief Fire Officer</u> There are proposals for the creation of a risk management board, which as part of its remit would be required to monitor the corporate risk register. However, should the board not be created, it is acknowledged that there will still be a requirement to undertake this monitoring activity.</p> <p><u>Date for implementation</u> 1st April 2012</p> <p><u>Officer responsible for implementation</u> Chief Fire Officer</p>

Audit Finding	Recommendation	Management Response
<p>4. Internal Review</p> <p>An internal review has been completed on Risk Management, which has identified a number of weaknesses. The results of the review need to be presented to senior officers and Committee in setting out the vision for Risk Management.</p> <p>Risk: Risk management weaknesses are not addressed.</p> <p>(High Risk)</p>	<p>The current weaknesses in Risk Management are acknowledged and addressed.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>As part of an internal reorganisation, the profile of risk management will both be broadened and heightened. This will address the weaknesses highlighted in the internal review and enable risk management to more appropriately meet the needs of the organisation</p> <p><u>Date for implementation</u></p> <p>1st April 2012</p> <p><u>Officer responsible for implementation</u></p> <p>Chief Fire Officer</p>
<p>5. Links to Other Processes</p> <p>Corporate Risk Management is currently insufficiently developed with the Authority to have a significant impact on internal control and decision making.</p> <p>Risk: Risks are not managed effectively</p> <p>(Medium Risk)</p>	<p>Corporate Risk Management needs to be developed in a manner that integrates it with other decision making at Corporate Management Board, and gives assurance to the Finance and Resources Committee.</p>	<p><u>Response of the Chief Fire Officer</u></p> <p>As part of an internal reorganisation, the profile of risk management will both be broadened and heightened. This will address the weaknesses highlighted in the internal review and enable risk management to more appropriately meet the needs of the organisation</p> <p><u>Date for implementation</u></p> <p>1st April 2012</p> <p><u>Officer responsible for implementation</u></p> <p>Chief Fire Officer</p>