



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

EXTERNAL AUDIT PLAN

2011/2012

Report of the Chief Fire Officer

Agenda Item No:

Date: 13 July 2012

Purpose of Report:

To inform Members of the plan to be implemented by the External Auditors for their audit of the accounts for the 2011/2012 financial year.

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1. BACKGROUND

- 1.1 The Fire Authority is required by statute to be audited by external auditors who, for 2011/2012 as previously, will be the Audit Commission. This report sets out their plans for carrying out this statutory audit and some of the risks that they have identified upon which they will be seeking the reassurance of officers.
- 1.2 John Cornett, the District Auditor will attend the meeting to both introduce this item and answer any questions from Members.

2. REPORT

- 2.1 The report is attached in full as appendix A to this report and therefore no specific details are included here. It is perhaps useful however to set out for members the specific areas of risk that the auditors have identified with the response of NFRS Management to those risks.
- 2.2 The auditors have identified a risk arising from the implementation of the Fire Cover Review such that the anticipated savings are not realised or delayed such that the revenue budget comes under significant pressure. Whilst the full restructure of HQ functions will not be fully implemented until 1st August 2012 many of the changes have already been made ahead of schedule. It is likely therefore that savings will be made over and above those required to achieve a balanced budget.
- 2.3 Members will be aware that the 2010/2011 accounts preparation was a difficult process due to the implementation of International Financial Accounting Standards and the introduction of a new financial system. The auditors identify the upgrade to this system as presenting a risk to the final accounts timetable as well as the maternity leave of a key member of staff. As usual the closedown phase is accomplished by adherence to a published timetable and this is discussed regularly with senior managers. Some temporary staffing changes have been implemented which have brought two experienced and knowledgeable staff into the department to help ensure that this timetable is achieved.
- 2.4 The auditors also expressed some concern at the level of scrutiny over the accounts as the time for the treasurer and the ACO Director of Finance and Resources to check and validate the accounts had been foreshortened. This year specific time has been set aside for these two senior officers to properly scrutinise the accounts before they are submitted to the auditors. Care will also be taken to formally document changes that are suggested to provide an audit trail of this quality assurance process.
- 2.5 There is a risk that the accounting arrangements surrounding the court order in respect of Dunkirk Fire Station will not be appropriate. Discussions have

already been had with the Auditors about this issue and their advice will be taken.

- 2.6 There will almost certainly be a requirement for Group Accounts due to the wholly owned Trading Company. This presents a risk because this has never been done before, however time has been properly planned to ensure that this is dealt with properly
- 2.7 The remainder of the External Auditors plan goes on to explain what will be audited and what testing regimes will be applied.

3. FINANCIAL IMPLICATIONS

The majority of the External Auditors work is directed towards the financial statements and financial stability of the organisation and so in this respect the financial implications are significant. Beyond this the audit fees for 2011/2012 will be £69,000 which is a reduction on the previous years' charge and is included within the revenue budget.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no implications for Human Resources or Learning and Development arising from this report.

5. EQUALITIES IMPLICATIONS

There are no implications for equalities arising from this report.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

The only legal implication relating to this report is the need to comply with various statutes and the requirement to maintain third party motor insurance.

8. RISK MANAGEMENT IMPLICATIONS

Implications for Risk Management are clearly significant as insurance is a method of transferring risk to the insurance sector. The entire process of determining the types of insurance, selecting insurers and levels of indemnity, is driven by risk considerations.

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

Audit plan

Nottinghamshire & City of Nottingham Fire and Rescue Authority

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Fire Authority, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

At this point I have not identified any material specific or significant risks that are appropriate to the current opinion audit. However, I have identified a number of specific risks which I will discuss with officers.

Table 1: **Audit assessment of risks**

Risk	Significant / specific risk	Audit response
<p>Staff capacity</p> <p>In common with many authorities, the timeliness with which the 2010/11 accounts were prepared was affected by changes in reporting requirements. This was compounded at Nottinghamshire and City of Nottingham Fire Authority by the introduction of a new financial ledger in February.</p> <p>Whilst IFRS has now been implemented, there are upgrades planned to the new financial systems in February. There is a risk that this could have an adverse impact on the capacity of your finance team, especially as a key member of staff is now on maternity leave</p>	<p>Specific</p>	<p>I will discuss progress with your finance team. As far as possible, I will ensure that the timing of my interim audit visit is appropriate for your systems upgrade.</p> <p>I will discuss your quality assurance arrangements with your finance team, and where appropriate, provide further guidance and suggestions on how your quality assurance arrangements could be improved further.</p>
<p>Dunkirk Fire station</p> <p>The legal case relating to the sale of the Dunkirk Fire Station has now been settled. The Fire Authority has entered into a collaboration arrangement with Nottingham City Council in relation to the financial aspects of the settlement and the future plans for the Fire Station. There is a risk that the appropriate accounting treatment may not be followed.</p>	<p>Specific</p>	<p>I will discuss your approach to accounting for the financial settlement with your finance officers and make recommendations if required.</p>
<p>Preparation of group accounts</p> <p>The Authority is the sole shareholder in Nottinghamshire Fire & Rescue Service (Trading) Limited. Under the requirements of</p>	<p>Specific</p>	<p>I will review management's approach to assessing the requirement for group accounts in 2011/12.</p> <p>Should group accounts be required I am required to carry out</p>

Risk	Significant / specific risk	Audit response
<p>the Code of Practice on Local Authority Accounting where an authority has a controlling interest in a subsidiary the authority should prepare group accounts in addition to their single entity financial statements unless the interest is not considered material.</p> <p>The Authority's interest in the trading company in 2010/11 was not considered to be material, as such group accounts were not required. Officers will need to assess whether the Authority's interest in the trading company in 2011/12 is material and whether group accounts are required for 2011/12 financial statements.</p>		<p>additional audit work in order to fulfil the requirements of auditing standards.</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Creditors Payroll and pensions deductions	Creditors	None planned for the interim visit	None planned for the interim visit	General ledger Fixed assets Pension contributions
Final visit			Pensions assets and liabilities – auditor to Nottinghamshire County Council Pension Fund	Pensions assets and liabilities – LGPS actuary and Fire pension fund actuary and our own consulting actuary Valuation of property, plant and equipment – reliance placed on your expert.	All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response	Reporting
Securing financial resilience Savings relating to the Fire Cover review are not realised or are delayed thus putting additional pressure on the budget going forward.	Review of plans and progress reports as the implementation of Fire Cover review is progressed.	At year end, summary of work undertaken and conclusions in Annual Governance Report and Annual Audit Letter.

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	March 2012	Ongoing dialogue with officers Interim memo if any significant issues arising.
Opinion: receipt of accounts and supporting working papers	30 June 2012	Auditor's report Annual Governance Report
Opinion: substantive testing	July - September 2012	Auditor's report Annual Governance Report
Value for money conclusion	March 2012	Auditor's report Annual Governance Report
Present Annual Governance Report at the Audit Committee	By 30 September 2012	Annual Governance Report
Issue opinion [and value for money conclusion]	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
John Cornett District Auditor	j-cornett@audit-commission.gov.uk 0844 798 3558	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Fire Officer
Trudy Enticott Audit Manager	t-enticott@audit-commission.gov.uk 0844 798 4063	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance and Resources.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £69,000 as set out in my letter of 6 April 2011

The audit fee

The Audit Commission has set a scale audit fee of £69,000 which represents an 8 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Finance and Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions that the Authority could take and to provide ongoing audit support.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£69,000	£75,000	£6,000
Non-audit work	0	0	0
Total	£69,000	£75,000	£6,000

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - [I secure the co-operation of other auditors];
 - [...]
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by the start of the post statements audit visit;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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

