



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

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

# **INTERNAL AUDIT ANNUAL REPORT 2011/12**

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 13 July 2012

**Purpose of Report:**

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

## **CONTACT OFFICER**

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## **1. BACKGROUND**

- 1.1 Nottinghamshire County Council have provided an Internal Audit service to the Fire and Rescue Authority since its formation in 1998. It has been agreed that in the interests of good governance, the Internal Auditors annual report should be presented directly to the Finance and Resources Committee.
- 1.2 The annual report for 2011/12 is attached in full as Appendix A to this report.
- 1.3 Under the provisions of the Statement of Recommended Practice, the Authority is required to annually review its arrangements for the provision of Internal Audit and comment on that review. This report sets out the basis of that review and a draft statement on Internal Audit is attached.

## **2. REPORT**

### **AUDITORS REPORT**

- 2.1 The Auditors report is divided up into four sections:
  - A A narrative summary for the year.
  - B A detailed analysis of progress against the plan 2011/12.
  - C Summary of reports issued to date.
  - D Annual Audit Plan for 2012/13
- 2.2 The Auditors again comment in their narrative summary that the audit reports issued during the year confirmed that satisfactory procedures are in operation.
- 2.3 The narrative section also shows the amount of audit time spent during 2011/12 and the level at which this was provided – ie: over 60% provided by senior or qualified staff.
- 2.4 The Auditors have also provided a view on the internal control environment and conclude that:

“From the work carried out during the 2011/12 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management.”
- 2.5 Section B of the audit report shows the Auditors actual performance against planned activity for the year 2011/12. This shows that they completed 100.5 audit days from the planned delivery of 113 days in 2011/12. Any remaining audit days will be carried forward and used in 2012/2013.
- 2.6 Section C of the report deals with the Internal Audit Reports which have been issued during 2011/12 which have all been previously reported to the Finance and Resources Committee and summarises the opinions of the Auditors on the particular areas which have been examined. In all cases management actions have been agreed.

## **REVIEW OF INTERNAL AUDIT**

- 2.7 The requirement for an Authority to maintain an Internal Audit function is derived from the local government legislation, including Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 amended in 2006, in that a relevant body must:
- “maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.
- 2.8 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.
- 2.9 The Authority views Internal Audit as an integral part of the corporate governance framework, particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility, it is considered that Internal Audit can provide managers with independent assurance that the system is working effectively and draw to the attention of managers deficiencies in the system.
- 2.10 These assurances, however, can only be relied upon providing the internal audit service is adequate to meet the needs of the organisation and is provided professionally.
- 2.11 The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and under a set of conditions which require them to operate within the guidelines set down by the Chartered Institute of Public Finance and Accountancy (CIPFA) for the Internal Audit of Local Government. This is known as the CIPFA Code of Practice.
- 2.12 Operating within this Code and to the standards set out therein ensures that the Authority meets its obligations under statute.
- 2.13 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.
- 2.14 The External Auditors, in their general review of controls and as part of their specific annual audit, are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

## **INTERNAL AUDIT PLAN 2012/2013**

- 2.15 Section D of the auditors' report covers the agreed plan for 1012/2013. Members will note that this is a risk assessed plan.

### **3. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

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

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

### **5. EQUALITIES IMPLICATIONS**

There are no implications for equalities arising from this report.

### **6. CRIME AND DISORDER IMPLICATIONS**

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

### **7. LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

### **8. RISK MANAGEMENT IMPLICATIONS**

Internal Audit form part of the wider system of internal control which deals entirely with the Authority's exposure to financial, and to some extent non-financial risk. Presenting the annual report to the Authority enables Members to see the work of internal audit and the contribution that they make to the overall system of internal control.

### **9. RECOMMENDATIONS**

That Members note the contents of this report.

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

None.

Frank Swann  
**CHIEF FIRE OFFICER**

**INTERNAL AUDIT ANNUAL REPORT 2011/12**  
**TO THE CHIEF FIRE OFFICER**

<b><u>SECTION</u></b>	<b><u>CONTENTS</u></b>
<b>A</b>	<b>Narrative Summary for the Year</b>
<b>B</b>	<b>Detailed Analysis of Progress against Plan for 2011/12</b>
<b>C</b>	<b>Summary of Reports Issued to Date</b>
<b>D</b>	<b>Annual Audit Plan for 2012/13</b>

**INTERNAL AUDIT ANNUAL REPORT 2010/11****SUMMARY****1 Audit Coverage 2011/12**

- 1.1 Six audits were planned for 2011/12 plus one follow-up audit and a managed audit (to be scoped by External Audit). In addition, two audits were carried forward from 2010/11, together with a request for advice on Financial Regulations. The Corporate Governance audit from 2010/11, although complete, was awaiting issue of the final report. In all, ten audits and one advisory role were planned.
- 1.2 Nine audit reports were issued in 2011/12. One related to completion of a 2010/11 audit and one related to the (unplanned) certification of a capital grant. Three audits are to be completed in 2012/13, with the Payroll audit report in draft, the audit of the new finance system (Agresso) being substantially completed and the follow-up of the IT Service Desk pending.
- 1.3 Over 60% of the audit work carried out in the year was undertaken by senior and/or qualified staff.
- 1.4 A summary of reports issued in the 2011/12 financial year, together with main findings, is attached (Section C). As in previous years, the managed audit work carried out on behalf of External Audit has been presented in one report detailing all areas covered.
- 1.5 The audit reports issued during the year generally confirmed that satisfactory procedures are in operation.

**2 Audit Strategy**

- 2.1 This is the second year of the risk based Internal Audit strategy for 2010/11 to 2012/13 approved at the Finance and Resources Committee meeting on 9 April 2010.

**3 Annual Governance Statement**

- 3.1 The Accounts and Audit Regulations 2011 require the Authority to review the effectiveness of its system of internal control and publish an Annual Governance Statement to cover the effectiveness of the Authority's systems for governance and internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) issue guidance to Local Authorities from time to time to assist with compliance.

- 3.2 In order to satisfy the principles of effective risk management and internal control, the Authority needs to have in place effective risk management systems, including sound systems of internal control and an internal audit function. These arrangements need to ensure compliance with all applicable statutes and regulations and other relevant statements of best practice, and need to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively.
- 3.3 Internal Audit is appointed by the Chief Fire Officer and Treasurer (who is the Section 151 officer for the Fire Authority), and provides management with an independent appraisal of these matters.
- 3.4 The scope and cyclical frequency of work carried out by Internal Audit during each financial year is mainly based on an assessment of (predominately) financial risk on all activities that form the responsibility of the Combined Fire Authority. Annual reviews of key control areas for the main financial systems are also conducted on behalf of external audit, under the managed audit programme.
- 3.5 The objective of the audits is to form an opinion on the adequacy of the systems of internal control put in place by management; to review efficiency, effectiveness and best value issues and to ensure that the assets of the authority are properly safeguarded. Formal audit reporting procedures are in place to provide assurance to management where effective controls are being operated, and to make recommendations for change and improvement where control weaknesses are identified.
- 3.6 From the work carried out during the 2011/12 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management.
- 3.7 The Chief Fire Officer and his managers have responded positively to all recommendations made in the reports that have been finalised. Also, it is understood that the internal monitoring function is to be reinstated, to follow up audit recommendations and obtain an assurance of implementation from responsible officers.

#### **4 Conclusion**

- 4.1 Based on the Internal Audit work completed during the year, we have concluded that the overall level of internal control is satisfactory.

Richard Bold  
Asst Team Leader (Audit)  
25 May 2012

**NOTTINGHAMSHIRE & CITY OF NOTTINGHAM COMBINED FIRE AUTHORITY**

**B**

**INTERNAL AUDIT ANNUAL PLAN AND ACTUAL DAYS 2011/2012**

Area of Service Activity	Audits b/fwd from 2010/11	Planned Audit Days	Managed Audit Days	Annual Plan	Actual Days	Report Ref:	Comments
Corporate Governance				0	2.0	FRS 1104	Completion of 2010/11 audit.
Financial Management - Agresso		12		12	10.5	-	Review of controls over new system. To be completed in 2012/13.
IT Audit		2		2	1.0	-	Follow-up of ICT Service Desk audit.
Capital				0	2.0	FRS 1202	Certification of Capital Grant.
Partnerships				0	0.0	-	
Payroll		11	5	16	13.0	FRS 1209	Managed audit - combined report.
Pensions			5	5	0.0	N/A	External Audit to cover.
Premises				0	0.0	-	
Purchasing / Creditors			5	5	2.0	FRS 1209	Managed audit - combined report.
Risk Management		11		11	13.0	FRS 1206	Follow-up audit required in 2012/13.
Trading Activities	10			10	10.0	FRS 1205	Review of Trading (Fire Extinguisher Maintenance) - c/fwd from 2010/11. Follow-up audit required in 2012/13.
Treasury Management		11		11	6.0	FRS 1203	
Assets (Red Kite)	5			5	5.0	FRS 1201	Review of new asset management system - c/fwd from 2010/11.
Income / Debtors			5	5	0.0	N/A	External Audit to cover.
Transport		11		11	15.5	FRS 1204	Follow-up audit required in 2012/13.



Area of Service Activity	Audits b/fwd from 2010/11	Planned Audit Days	Managed Audit Days	Annual Plan	Actual Days	Report Ref:	Comments
Cardiff Checks		10		10	7.0	FRS 1207	Review of invoices selected by members.
Fin Regs advice	3			3	2.5	N/A	c/fwd from 2010/11.
Client Management		7		7	11.0	N/A	
<b>Total Audit Days for the Year</b>	18	75	20	113	100.5		

**SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE**  
**FOR THE FINANCIAL YEAR 2011/2012**

**1. FRS 1201 – Asset Management System (Redkite)**

This audit reviewed the implementation and roll-out of the Red Kite asset management system. Plans were considered to be satisfactory and full implementation was agreed by the end of December 2012.

**2. FRS 1202 – Capital Grant 2010 / 2011**

This satisfied DCLG grant requirements by confirming that the 2010/11 Capital Funding Grant (No.31/1727) of £946,008, received in April 2011, was properly accounted for and applied in compliance with regulations made under section 11 of the Local Government Act 2003.

**3. FRS 1203 – Treasury Management**

The management of investments of surplus funds and capital expenditure borrowing was found to be satisfactory, with only minor procedural issues reported on.

**4. FRS 1204 – Transport**

This reviewed the processes used, mainly via the Tranman fleet management system, to ensure that the vehicle fleet is sufficient to meet service needs, is properly maintained, and that its costs are controlled. An unsatisfactory opinion was given in relation to management information failings and a lack of timeliness in cost monitoring. A follow-up review will be carried out shortly.

**5. FRS 1205 – Trading Activities**

A review of the trading company procedures and controls for Fire Extinguisher Maintenance resulted in an unsatisfactory opinion, with issues identified re customer terms and conditions, service agreements, procurement, stocks, management information and performance measurement, although none of the weaknesses were considered to be high risk. A follow-up audit is in process.

**6. FRS 1206 – Business Risk Management**

The structures and processes for the effective management of business risk were not found to be sufficiently developed or embedded in the organisation. A follow-up audit is in process.

**7. FRS 1207 – Cardiff checks**

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

- Care needs to be taken with effective dates when changes have been made to creditor payee details on the new finance system, to ensure payments are correctly directed;
- official orders and requisitions should be raised in all circumstances, including one-off purchases;
- contractual arrangements for photocopier security devices are to be regularised.

**8. FRS 1209 – Managed Audit (Creditors & Payroll)**

Key financial controls over Payroll and Creditor payments were found to be satisfactory, with only the need for greater compliance with procurement procedures being reported.

# D

## COMBINED FIRE AUTHORITY - INTERNAL AUDIT PLAN FOR 2012/2013

SERVICE AREA	Assessed Risk	Audit Frequency (Years)	Year Last Audited	2012 - 2013	
				Planned	Managed Total
Payroll	Medium	3	2012	5	5
Pensions	Medium	3	2009	10	10
Assets	Low	4	2011		
Premises	Medium	3	2009	10	10
Purchasing & Creditor Payments	Medium	3	2009	10	10
Transport	Low	4	2011	5	5
Financial Management	High	2	2011		
Treasury Management	Medium	3	2012		
Income & Debtors	Medium	3	2011	5	5
Notts FRS Trading Ltd	Medium	3	2011	5	5
ICT	High	Annual	2012	10	10
Capital	Medium	3	2010		
Cardiff Checks		Annual	2012	10	10
Corp Governance	High	2	2011		
Risk Management	Medium	3	2011	5	5
Partnerships	Medium	3	2009	10	10
Fin Regs Advice			2011		
Client Management				7	7
<b>Total planned days for the year</b>				<b>82</b>	<b>92</b>

The audits of Transport, Notts Trading and Risk Management are following up on 2011 audits with "unsatisfactory" audit opinions to confirm that agreed recommendations have been implemented.