



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNAL AUDIT ANNUAL REPORT 2012/13

Report of the Chief Fire Officer

Agenda Item No:

Date: 5 April 2013

Purpose of Report:

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

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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 2012/13 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 five sections:
 - A A narrative summary for the year.
 - B Summary of reports issued to date
 - C Comparison of Planned against Actual days 2012/2013.
 - D Annual Audit Plan for 2013/14
 - E Strategic plan 2013/2014 to 2015/2016
- 2.2 The Auditors again comment in their narrative summary that overall the audit reports issued during the year confirmed that satisfactory control procedures are in operation. Some elements of the audit work however did reveal unsatisfactory levels of control but appropriate management action has been taken. See item elsewhere on this agenda.
- 2.3 The narrative section also shows the amount of audit time spent during 2012/13 and the level at which this was provided – ie: over 60% provided by senior and/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 2012/13 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 gives a summary of the reports issued up to 31st March 2013 and gives a brief description of each. Those reports which have not yet been brought to Members are included in full elsewhere on this agenda.
- 2.6 Section C shows the Auditors actual performance against planned activity for the year 2012/13. This shows that they completed 92 audit days from the planned delivery of 92 days in 2012/13.

- 2.7 Section D shows the internal audit plan for 2013/2014 and Section E sets out the strategic plan for 2013/2014 to 2015/2016.

REVIEW OF INTERNAL AUDIT

- 2.8 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”.
- 2.9 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.
- 2.10 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 any deficiencies in the system to the attention of managers.
- 2.11 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.
- 2.12 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.
- 2.13 Operating within this Code and to the standards set out therein will ensure that the Authority meets its obligations under statute.
- 2.14 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.
- 2.15 The External Auditors, in their general review of controls and as part of their specific annual audit, are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4. HUMAN RESOURCES AND LERANING AND DEVELOPMENT IMPLICATIONS

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

5. 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 forms 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

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

INTERNAL AUDIT ANNUAL REPORT 2012/13

TO THE CHIEF FIRE OFFICER

<u>SECTION</u>	<u>CONTENTS</u>
A	Narrative Summary to 31st March 2013
B	Summary of Reports Issued to Date
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D	Internal Audit Plan for 2013/14

INTERNAL AUDIT ANNUAL REPORT 2012/13**SUMMARY****1 Audit coverage for the twelve months to the end of March 2013**

- 1.1 Seven audits were planned for 2012/13, together with three audits to follow-up the implementation of recommendations contained in unsatisfactory audits completed in 2011/12. Also, two audits from the 2011/12 plan were completed in 2012/13.
- 1.2 Eight final reports have been issued in 2012/13. The two audits from 2011/12 were completed, together with the three follow-up audits and three of the seven audits planned for 2012/13. The Capital Grant for 2011/12 has also been audited and signed off.
- 1.3 Draft reports have been issued in respect of two audits (Cardiff Checks and Income & Debtors) and these should be finalised in April 2013. The Purchasing and Creditor Payments audit is in progress and a draft report will be issued for discussion in April, while the allocation for IT audit has not been utilised.
- 1.4 Particular concerns were identified in the Trading Activities and Risk Management areas, which both received an unsatisfactory opinion on their follow-up audits. Implementation of the recommendations in these audit reports should now be considered by the audit committee.
- 1.5 An unsatisfactory opinion was also given in respect of the Partnerships audit, while the Cardiff Checks audit once again identified a number of failures by employees to comply with approved system control procedures.
- 1.6 Overall, the audit reports issued during the year confirmed that satisfactory control procedures are in operation.
- 1.7 A summary of reports issued in the 2012/13 financial year, together with main findings, is attached (Section B).
- 1.8 Over 60% of the audit work carried out in the year was undertaken by senior and/or qualified staff.

2 Audit Strategy

- 2.1 This is the final 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. A revised risk analysis and strategy will be presented to the Committee for consideration in early 2013/14.

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 following discussions with external audit.
- 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 2012/13 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.

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)
31 March 2013

SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE
FOR THE FINANCIAL YEAR 2012/2013 AS AT 31st MARCH 2013

1. FRS 1208 – Payroll

Most of the arrangements for management of the payroll were found to be satisfactory, although a small number of low risk recommendations were put forward for implementation.

2. FRS 1301 – Notts Trading (follow-up)

The follow-up audit remained unsatisfactory due to a failure to provide detailed trading costs in support of business decisions, a lack of clarity over credit control responsibilities and unsatisfactory stock control procedures.

3. FRS 1302 – Risk Management (follow-up)

The arrangements for risk management remain unsatisfactory as the planned actions have been delayed until later in 2013/14.

4. FRS 1303 – Transport Management (follow-up)

The arrangements for the management of transport were found to be satisfactory at the follow-up audit.

5. FRS 1305 – Financial Management - Agresso

Controls over the new financial management system were generally found to be satisfactory

6. FRS 1307 – Capital Grant

The capital grant claim form for 2011/12 was signed off satisfactorily.

7. FRS 1308 - Partnerships

This audit opinion was 'partly unsatisfactory', with recent improvements in risk focus, performance and budgetary control lifting the opinion from 'unsatisfactory'. Actions regarding working policy, service level agreements and partnership evaluations were recommended.

8. FRS 1309 - Pensions

The audit opinion was 'Sound' and no recommendations were made.

2012/13 AUDITS STILL IN PROGRESS

9. ICT (Service Desk (Follow up) – Draft issued 11/7/12
10. Income and Debtors – Discussion draft issued 8/3/13.
11. Cardiff checks - Discussion draft issued 8/3/13.
12. Purchasing & Creditor payments – In progress, to be completed in 2013/14.
13. Payroll – Carried forward to 2013/14 due to current migration of payroll from Cyborg to BMS.

INTERNAL AUDIT ANNUAL PLAN AND ACTUAL DAYS 2012/2013

Area of Service Activity	Planned Audit Days	Actual Days	Report Ref:	Comments
Payroll	5	0.0	FRS 1208	Completion of 2011/12 audit.
Pensions	10	10.0	FRS1309	
Assets				
Premises	10	13.0	FRS 1306	
Purchasing & Creditor Payments	10	5.0	—	In progress - to be completed in 2013/14.
Transport (Follow-up)	5	7.0	FRS 1303	
Financial Management (Agresso re 2011/12)	0	2.0	FRS1305	Completion of 2011/12 audit.
Treasury Management				
Income & Debtors	5	6.0		Draft report (FRS1310) issued 8/3/13. Awaiting response.
Notts FRS Trading (Follow-up)	5	6.0	FRS 1301	Further unsatisfactory opinion - refer to Audit Committee.
ICT Service Desk follow up	10	2.0		Draft report (FRS1304) re follow-up issued 11/7/12 Awaiting response.
Capital				
Cardiff Checks	10	15.0		Draft report (FRS1311) issued 8/3/13. Awaiting response.
Corporate Governance				
Risk Management (Follow-up)	5	5.0	FRS 1302	Further unsatisfactory opinion - refer to Audit Committee.
Partnerships	10	13.0	FRS 1308	
Capital Grant Certification (2011/12)		1.0	FRS1307	Annual certification of Capital Grant Claim.
Client Management	7	7.0	N/A	
Total Audit Days for the Year	92.0	92.0		

FIRE AUTHORITY - INTERNAL AUDIT PLAN FOR 2013 / 2014

SERVICE AREA	Assessed Risk	Audit Frequency (Years)	Year Last Audited	2013 - 2014	
				Planned	
Contingency	To be agreed			10	
Payroll	Medium	3	2011/12	14	
Pensions	Medium	3	2012/13		
Assets	Low	4	2010/11		
Premises	Medium	3	2012/13		
Purchasing & Creditor Payments	Medium	3	2012/13		
Transport	Low	4	2011/12		
Financial Management	High	2	2011/12	10	
Treasury Management	Medium	3	2011/12		
Income & Debtors	Medium	3	2012/13		
Notts FRS Trading Ltd	Medium	3	2010/11	5	
ICT	High	Annual	2012/13	10	
Capital	Medium	3	2010/11	10	
Cardiff Checks		Annual	2012/13	10	
Corp Governance	High	2	2011/12	10	
Risk Management	Medium	3	2010/11	5	
Partnerships	Medium	3	2012/13		
Capital Grant Claim Certification			2012/13	1	
Client Management				7	
Total planned days for the year				92	

The audits of Notts Trading and Risk Management are following up on 2011/12 audits with "unsatisfactory"

audit opinions to confirm that agreed recommendations have been implemented.

FIRE AUTHORITY - INTERNAL AUDIT STRATEGIC PLAN FOR 2013/14 to 2015/16

SERVICE AREA		Assessed Risk	Audit Freq Yrs	2013 - 2014 Planned	2014 - 2015 Planned	2015 - 2016 Planned
Contingency		To be agreed		10		4
Payroll		M	3	14		10
Pensions		M	3		10	
Assets		L	4		5	
Premises		M	3			10
Purchasing & Cr Payments		M	3		10	
Transport		L	4			10
Financial Management		H	2	10		10
Treasury Management		M	3		5	
Income & Debtors		M	3			5
Notts FRS Trading Ltd		M	3	5	10	
ICT		H	Annual	10	10	10
Capital		M	3	10		
Cardiff Checks			Annual	10	10	10
Corp Governance		H	2	10		10
Risk Management		M	3	5	10	
Partnerships		M	3		9	
Follow-up audits					5	5
Capital Grant Claim Certification			Annual	1	1	1
Client Management				7	7	7
Total planned days for the year				92	92	92