



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

INTERNAL AUDIT REPORT – CARDIFF CHECKS

Report of the Chief Fire Officer

Date: 4 April 2014

Purpose of Report:

To provide Members of the Finance and Resources Committee with the results of the internal audit work undertaken in relation to Cardiff Checks.

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1. BACKGROUND

- 1.1 Nottinghamshire County Council has provided an Internal Audit service to the Fire and Rescue Authority since its formation in 1998. The audits specified in the Annual Audit Plan for 2013/14 are now complete, with responses to the recommendations from the Chief Fire Officer being finalised. The Head of Internal Audit will provide an annual report covering the outcomes of all audits undertaken in 2013/14 to the July 2014 Finance and Resources Committee.
- 1.2 The Cardiff Checks audit is carried out every year and is effectively a “cradle to grave” audit of all aspects of procurement and finance relating to a small number of invoices selected as a random sample by members of the Finance and Resources Committee. As Members are directly involved in this audit, it is felt that they will have a particular interest in the audit findings, so the draft audit report is attached as Appendix A.
- 1.3 The full annual report from Internal Audit, which will be presented to Members at the next Committee, will include the final version of the Cardiff Checks report. This is not expected to be different from the draft report shown at Appendix A.

2. REPORT

- 2.1 On 11 October 2013, the Finance and Resources Committee was presented with a live view of the Authority’s finance and procurement system (Agresso). A report was run in Agresso in real time, which enabled Members to see the transaction numbers of the hundreds of invoices and expenses claims paid over the year to date. Members selected ten transaction numbers and were then provided with a report showing the ten transactions either side of the original numbers selected – a total of 200 payments. Further detail of each payment was provided e.g. the payee name, the amount and a description of the goods or services paid for. From this detail Members selected five invoices of interest to them.
- 2.2 The five invoices selected were passed to Internal Audit, who selected three of these for detailed scrutiny. The audit work included a check that all relevant financial and procurement policies, processes and checks were carried out in respect of each of the selected transactions.
- 2.3 The report attached at Appendix A gives the findings of the auditor and makes a number of recommendations. The Authority’s responses to the recommendations are also shown and have recently been returned to Internal Audit. Although the report is marked as “draft”, the final report including responses will be issued in due course.
- 2.4 Invoice number 1 was an employee’s travel expense claim and Members will see that all relevant procedures were followed correctly and no recommendations were made by Internal Audit.

- 2.5 Invoice number 2 was for fire hydrant maintenance. In this case, all relevant procedures were followed except that a purchase order was raised after the service had been received rather than in advance. The reason for this is that it is not known in advance which orders will be chargeable to the Authority and which will be the responsibility of the water authority, however the result is that financial commitments relating to work requested are not shown in the finance system, which makes it more difficult to monitor the budget (the annual budget is £60k). A review of processes will be undertaken by the Finance Department and the budget manager within the next few months to see if this issue can be resolved.
- 2.6 Invoice number 3 was for a monthly Airwave / Firelink service recharge from the Department for Communities and Local Government (DCLG). There were two audit recommendations for this invoice: the first was that accruals should be made for services received in one financial year but paid for in the following year; the second was that consideration should be given as to how charges can be checked.
- 2.7 Members will see from the response given to the first recommendation that the Authority's accounting policy for accruals was followed in respect of this invoice and therefore no management action is required. The second recommendation is more problematic, as the only check which can be carried out is that the Service's monthly radio usage is within the monthly allowance and this already happens. The contract is between Airwave and DCLG so the Authority is relying on DCLG to check that charges are in line with the contract and correctly allocated to the Authority. There is, however, an element of assurance to be gained from the following:

DCLG funds approximately 60% of the Airwave / Firelink annual cost by way of a specific grant to the Authority;

DCLG officers do communicate about financial issues relating to the contract;

there is strategic oversight of the Airwave contract by the Chief Fire Officers' Association (CFOA).

Members may be aware that there is a national Government project currently underway to procure a replacement for Firelink.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report, other than those around financial processes.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no direct 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 consider matters of policy. Equality Impact Assessments will be prepared as initiatives are developed.

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 with the Authority's exposure to financial and, to some extent, non-financial risk. The recommendations made by Internal Audit are aimed at ensuring that effective risk controls are in place.

9. RECOMMENDATIONS

It is recommended that Members note the contents of this report.

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

None.

John Buckley
Chief Fire Officer

FIRE & RESCUE SERVICE - CARDIFF CHECKS 2013/14

Invoice 1 **Travel and expenses claim for a non-uniformed employee.**

1. Invoice Information

- 1.1 This payment was in respect of travel expenses for the month of May 2012, claimed by a training manager.
- 1.2 The claim consisted of 420 miles (reimbursed at 65p per mile = £273).
- 1.3 The claim had been signed by the claimant and countersigned by the head of department.
- 1.4 The claim was paid on 17th July 2012 and each element of cost was coded to a relevant account code.

2. Summary of Findings

- 2.1 The claim was completed correctly and recorded details of journeys undertaken including destinations and business purpose.
- 2.2 The mileage rate claimed was correct and agreed with the effective NJC car allowances.
- 2.3 The calculation of NIC and taxable benefits for this employee was correct (20p per mile is taxable as it exceeds HMRC's 45p per mile limit).
- 2.4 Online authorisation of the claim in the NFRS Agresso Finance system was undertaken by the claimant who is also the budget holder. Reliance is placed upon the prior authorisation of the claim by the head of department.

3. Recommendations

- 3.1 None.

4. Response of the Chief Fire Officer

- 4.1 No response required.
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FIRE & RESCUE SERVICE - CARDIFF CHECKS 2013/14

Invoice 2 **Maintenance of Fire Hydrant.**

1. Invoice Information

- 1.1 This payment was in respect of maintenance work on a fire hydrant undertaken by the local water authority and was for £275.60 including VAT.
- 1.2 Confirmation of goods received was registered on 10th July 2012 by the budget holder.
- 1.3 The invoice was paid on 10th July 2012 and was coded to the correct account code.

2. Summary of Findings

- 2.1 The Fire Services Act 1947 and the Water Act 1991 govern the provision of water to the fire authority. Terms and conditions are contained in the model agreement which the authority has with the local water authority, in this case Severn Trent.
- 2.2 Hydrants remain the property of the water authority and the fire service adopts those it requires on the basis of risk, size of water main and distance from nearest adopted hydrants in the area. The fire service monitors and undertakes basic maintenance of the adopted hydrants but if the work required on a hydrant at the time of inspection is outside their remit it is passed to the water authority for action.
- 2.3 Details of all hydrants in the area and all work undertaken internally and ordered from the water authority are recorded on the Fire Hydrant Management system (FHM). Monitoring of progress and confirmation of satisfactory completion of work is recorded within FHM. Details are not entered on the NFRS financial system (Agresso) until an invoice for those works confirmed as completed is received from the supplier. At this point an order is raised on Agresso, the invoice is approved for payment by the budget holder and forwarded to Finance for entry onto Agresso. The budget holder then GRNs the invoice and the payment is processed on the next BACS run.
- 2.4 We were advised a decision not to raise orders on Agresso at the time the order was raised on FHM is based on the fact that some orders will not be chargeable to NFRS. Details of which will be non-chargeable are not known at the point of ordering the work e.g. if the work is not completed promptly the water authority may bear the cost.
- 2.5 Because details of the works ordered (on Form N1 recorded on FHM) are not entered on Agresso until after work has been completed, NFRS financial commitments will be under reported at the end of any accounting period.

3. Recommendations

- 3.1 An analysis of the volume and value of non-chargeable works should be undertaken to decide whether the current process has a material impact on the accounts. If it does, consideration should be given to raising orders on Agresso when the work is commissioned and then deleting those orders which become non-chargeable.

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4. Response of the Chief Fire Officer

- 4.1 An analysis will be undertaken, as recommended, to determine the most appropriate process to use in the future. This will be completed by 31 July 2014.
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FIRE & RESCUE SERVICE - CARDIFF CHECKS 2013/14

Invoice 3 **Airwave/Firelink Service recharge**

1. Invoice Information

- 1.1 This payment was for the Airwave project which provides the Firelink radio service to fire vehicles and was for £36,125.39 including VAT.
- 1.2 The invoice was approved by the budget holder on 24th May 2013.
- 1.3 The invoice was paid on 4th June 2013 and posted to the correct account code.

2. Summary of Findings

- 2.1 The Firelink service is provided by the Airwave Company via a contract negotiated and managed by the Department for Communities and Local Government. The DCLG pay the Airwave invoice on behalf of all English Fire & Rescue authorities then recharge each authority on a pre-agreed basis for the cost incurred.
- 2.2 The invoice is dated 10th May 2013 for services provided in March 2013.
- 2.3 As the invoice refers to a recurring service it is a non-order invoice and is directed to the Budget Holder for authorisation rather than using the Goods Received Process within the Agresso finance system.
- 2.4 The invoice was entered on Agresso on 17th May 2013 and was approved by the Budget Holder on 24th May 2013. Because the invoice exceeded £10,000 it was forwarded for further approval to Finance. Financial approval was recorded on 25th May 2013.
- 2.5 As the invoice related to service provided in financial year 2012/13 but was paid in 2013/14 an accrual should have been made to ensure the accounts accurately reflected NFRS commitments. No accrual was raised.
- 2.6 Although monitoring of the service is undertaken in terms of operational performance, this information is not routinely reported to the approver of the invoice. There is no check that the charges raised are in line with the contract between Airwave and the DCLG as the fire service does not have access to all the data required to recalculate the charges. Reliance is placed upon the DCLG to undertake this check and then calculate the recharges accurately.

3. Recommendations

- 3.1 An accrual should be made for goods and services received in one financial year but not paid until the next financial year.
- 3.2 Consideration should be given to how the charge made can be checked and confirmed to be correct.

Draft

4. Response of the Chief Fire Officer

- 4.1 Although this invoice was not accrued for in 2012/13, there were 12 months' of charges in both 2012/13 and in the previous year. This complies with the Service's accounting policy for accruals, which allows for certain recurring items to be accounted for in the year that they are paid. The year-end closedown process includes procedures for invoice processing which ensure that "cut-off" is checked for all invoices valued over £5k which are received after the 1st April but relate to the year ended 31st March.
- 4.2 As indicated in paragraph 2.6 above, there are difficulties in checking certain aspects of DCLG / Airwave invoices. Currently, the Station Manager, Control checks radio usage monthly to ensure that the Service is keeping within its usage allowance. Provided that the allowance is not exceeded (it has not been exceeded thus far) then the monthly charge is a consistent amount. The Head of ICT, who is the budget holder, and the Station Manager, Control have agreed to meet regularly going forward to review radio usage and the charges relating to usage.
- 4.3 The Department for Communities and Local Government holds contractual information and so reliance is placed on their checking of the charges. When there are changes, DCLG do notify the Service in advance. As an example of this the Service has been notified by DCLG that they are in dispute with Airwave over indexation of the costs, and that pending resolution of the dispute Authorities should accrue for the indexation increase, which will be reflected in an increase to grant funding in due course (approximately 60% of the annual Airwave cost is funded by a specific Government Grant). Although this is not an ideal situation, this is the best that can be done with a Government managed contract, but there is some assurance arising from strategic oversight of the Airwave contract by the Chief Fire Officers' Association (CFOA).
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