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

INTERNAL AUDIT REPORT 2018/19 UPDATE

Report of the Chief Fire Officer

Date: 29 March 2019

Purpose of Report:

To bring to the attention of Members the outcome of reports commissioned by Nottinghamshire Fire and Rescue Service, prepared by the Authority's Internal Auditors

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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 service is provided under a Service Level Agreement with Nottinghamshire County Council and requires the Auditors to operate within the Public Sector Internal Audit Standards set down by the Chartered Institute of Public Finance and Accountancy (CIPFA). Operating to these standards will ensure that the Authority meets its obligations under statute.

1.2 The Finance and Resources Committee has in the past received an annual Internal Auditor's report, including reports on all the completed audits during the year in accordance with its role as an Audit Committee. At its meeting on 29 June 2018 Finance and Resource Committee requested that completed audit reports be brought before the Committee on a rolling basis rather than in a single report at the end of the year.

1.3 This report includes the four reports that have been completed to date during 2018/19.

2. REPORT

2.1 The responsibility for ensuring effective internal audit functions rests with the Authority Treasurer as part of their Section 112 obligations.

2.2 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 and elected members.

2.3 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.

AUDIT COVERAGE TO THE END OF FEBRUARY 2019

2.4 Eight audits were planned for completion in 2018/19 with two brought forward from 2017/18. In addition, the Cardiff Check from the selection process in 2017/18 has been finalised in 2018/19.

2.5 Four final reports were issued up to February 2019:

- Cardiff Checks from the selection process in 2017/18 – Appendix A;
- Members' and Officers' Allowances – Appendix B;
- Project Management Audit relating to 2017/18 – Appendix C; and
- Purchasing and Creditor Payment – Appendix D.

CARDIFF CHECKS

2.6   Members will be aware that as part of their audit programme the Internal Auditors carry out a "Cardiff Checks" audit each year.

2.7   The audit 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. There are no major areas of concern.

AUDIT ASSURANCE

2.8   The three completed audits provided a judgement Reasonable Assurance, meaning that risk levels are acceptable. The audit reports include several recommendations which have been agreed with officers. All audit reports are reviewed by the Executive Delivery Team who also receive a follow up report on progress against High and Medium priority recommendations. Follow up reviews are also undertaken by Internal Audit to ensure that recommendations have been progressed.

UPDATE ON AUDIT PROGRAMME

2.9   Draft reports have been issued in respect of the RedKite audit. The audits of Prince's Trust and Pensions are substantially complete, with the draft reports due to be issued by the end of the year.

2.10   The remaining audits – Financial Management and Corporate Governance now in progress with the engagement letter agreed.

2.11   The Contract Management audit is due to start in March 2019.

2.12   The human resources policies audit is been slipped to 2019/20 and the 2018/19 Cardiff Checks audit has not yet been undertaken.

2.13   The audit programme will be reviewed at the next meeting of the Finance and Resources Committee.

3.	FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report, although the internal audit process does form part of the Authority's assurance that value for money and assurance that effective accounting arrangements are in place.

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

There are no equalities implications 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 reports 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. COLLABORATION IMPLICATIONS

The Internal Audit service is provided by Nottinghamshire County Council. There may be opportunities for further collaborative procurement of Internal Audit services in the future.

10. RECOMMENDATIONS

That Members note the contents of this report.

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

None.

John Buckley
CHIEF FIRE OFFICER

FIRE & RESCUE SERVICE - CARDIFF CHECKS - 2017/18 SELECTION

Invoice 1   **Nottinghamshire County Council – Pest Control**

1.   Invoice Information

1.1   A payment was made to Nottinghamshire County Council - Invoice No 92002059. This payment was in respect of pest control provision throughout the Service's estate for the months of April and May 2017 and was for £1,012.32 (£843.60 plus VAT).

1.2   The invoice matched the amount of the goods received note on the finance system and was automatically approved for payment.

1.3   The invoice was paid in May 2017 and each element of cost was coded to a relevant account code.

2.   Summary of Findings

2.1   An order was raised on the system at the start of the financial year covering the service provision per establishment for the whole year. The order had a total value of £5,062 plus VAT.   Invoices were normally received from Nottinghamshire County Council on a monthly basis, however in this instance, the invoice was for two months.

2.2   The provision of the pest control service is part of a larger cleaning and ground maintenance contact, this was awarded to the supplier following an OJEU tender process in 2016, with a start date of April 2017. The contract is for 3 years + 2.

2.3   There is evidence within the workflow documents of appropriate authorisation of requisitions and invoices.

3.   Recommendations

3.1   None.

4.   Response of the Chief Fire Officer

4.1   No response required.

FIRE & RESCUE SERVICE - CARDIFF CHECKS - 2017/18

Invoice 2   Nottingham City Council – Fleet Maintenance

1.   Invoice Information

1.1   Invoice number 851587956 from Nottingham City Council, was for scheduled vehicle maintenance agreed during the weekly Maintenance Meeting on 19th October 2016 for £10,062.69 plus VAT, totalling £12,075.23.   The annual contract for 2016-17 for planned maintenance was £350,000.

1.2   The invoice matched the amount of the goods received note on the finance system and was automatically approved for payment.

1.3   The invoice was paid in November 2016 and each element of cost was coded to a relevant account code.

2.   Summary of Findings

2.1   Planned and unplanned maintenance of the brigade's vehicles and associated equipment is provided by Nottingham City Council. The contract was tendered in 2012 using the former Office of Government Commerce Competitive Dialogue Procedure. The contract was initially let for 4 years, with an option to extend a further 3 years. However, we were unable to confirm that a value for money review was carried out prior to extending the contract. We are advised by the Fleet Manager that new competitors have entered the market and the contract is currently being re-tendered for 2019.

2.2   Fleet maintenance invoices are received weekly and based on completed scheduled work agreed at the weekly Maintenance Meeting. The prices are per the agreed schedule. The invoice was dated 21th October 2016 and related to scheduled works agreed at the weekly Maintenance Meeting on 19th October 2016.

2.3   An annual order for the service provision during the year was issued in April 2016 and approved by the Senior Accountant.

2.4   Maintenance worksheets are checked against work schedules and signed off by the Fleet Maintenance Manager. Detail entered onto the Tranman system is verified to the work schedules. When invoices are received they are compared to this data and entered onto Agresso. If the invoice matches the goods received the invoice is automatically paid.

2.5   During the latter years of operation, new providers have entered the market, however, provision has remained with Nottingham City Council. Value for money may be in doubt if the Service ties itself to a contract for too long a period while there is a competitive market to take advantage of.

3.   Recommendation

3.1   For future contracts, consideration should be given to the length of the contract term. To ensure best value can be maintained we would recommend consideration of an initial term of 3 years, followed by two extension options of 2 years each at which points the contract terms should be reviewed and confirmed as still providing best value.

4.   Response of the Chief Fire Officer

4.1   The tender process commenced July 2018 and the invitation to tender along with the prequalifying questionnaire has already been issued through in-Tend. The information provided indicates a contract of ten years broken down into 5 Years, 3 years and 2 years. This was considered at the time to be the most viable option as the prices will be fixed for the first 5 years, this will be linked to the same formula as the previous contract. In addition, there is an option to retender after 5 years should the market dictate.

FIRE & RESCUE SERVICE - CARDIFF CHECKS - 2017/18

Invoice 3   Airwaves Solutions Ltd

1.   Invoice Information

1.1   Invoice number 0940000034-073 from Airwaves Solutions Ltd for £1,728.27 plus VAT, totalling £2,073.92 can be split into two areas.

1.2   The first part relates to recurring service charges totalling £1,203.21 plus VAT, totalling £1,443.85, for additional units installed.

1.3   The second part, £526.06 plus VAT, totalling £630.07, relates to one-off charges for two radio removals.

1.4   The invoice was paid in October 2016 and each element of cost was coded to a relevant account code.

2.   Summary of Findings

2.1   The Government has a contract with Airwave Solutions to supply a radio network and managed service.   The service receives funding from the Government for this contract.   There is no option for the Fire and Rescue Service to use an alternative provider as Airwave Solutions is the sole provider of the current radio solution across the Fire network. The service is managed through the Government's Firelink contract.

2.2   The Service had a set number of radios at the start of the Firelink contract and any additional requirements such as a growing fleet or replacements attract additional charges.

2.3   The removal of radios from vehicles also incurs a cost. Airwaves are also the sole provider for removal and have their own contractors to carry out this work.

2.4   The annual budget for the Firelink contract (recurring charges) is in the region of £537,000 and removal costs are met by the fleet maintenance budget.

2.4   There is evidence within the workflow documents of appropriate authorisation of requisitions and invoices.

3.   Recommendation

3.1   None.

4.   Response of the Chief Fire Officer

4.1   No response required.

Nottinghamshire County Council

| Internal Audit Report | Report ref: 2019-01 |

OFFICIAL SENSITIVE

To: **Chief Fire Officer**

Subject: **NFRS Members' and Officers' Allowances**

Date: **January 2019**

1   Introduction

1.1   This report sets out the findings and recommendations arising from a recent review of NFRS members' and officers' allowances and the effective authorisation and payment of allowances and expenses to members, uniformed officers and staff.

1.2   The objectives of the system are to make appropriate payments, in accordance with an approved scheme, to elected members for the performance of their legitimate duties, and to pay travel and other expenses to uniformed officers and staff. This audit was concerned with the mechanisms involved in administering these payments and ascertaining whether the system for claiming expenses was robust.

2   Audit opinion

2.1   In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.

2.2   In our opinion the level of assurance we can provide is: -

REASONABLE ASSURANCE   **Risk levels are acceptable**

3   Risk areas examined

3.1   During this audit we looked for controls to address the following key risks: -

Risk title	Description
Rules and Guidance	A lack of clear and compliant rules /guidance may result in inappropriate claims or payments being made.

Risk title	Description
Payment Authorisation	Payments may be made to Members and Officers without appropriate authorisation.
Transparency	Payments made to members may not be transparent.
Insurance, MOT and Driving Licence Checks	Officers using their vehicle for business use may not have business use insurance or a valid MOT. The Fire Authority may be held liable for staff who are banned from driving or do not have adequate insurance.

3.2 The scale of the area reviewed is: -

Metric	2017/18 Budget £	2017/18 Actual £
Casual Mileage Expenses	246,681	118,868
Essential User Mileage	0	104,922
Detachment Mileage	15,853	45,830
Essential Car Allowance	46,720	45,484
Travel – Home to Base	40,175	33,905
Member's Allowances	120,293	126,036

4   Audit findings

4.1   Following our work and with reference to the other sources of independent assurance that were available[12], we consider the controls to be effective in the following risk areas: -

- **Rules and Guidance:** The Fire Service has recognised that there is a need for change and there are issues regarding the ongoing administration and taxable status of some expenses and allowances for uniformed officers and staff. The Head of Finance is currently working to create a new expenses policy.

- **Payment Authorisation**: There are adequate separation of duties regarding the scrutiny and inputting of claims in the Payroll Department. Claim forms are stored in a secure area. The vast majority of claims are submitted in a timely manner.

- **Transparency:** Members' allowance payments are published annually on the Fire Service's website.

- **Driver Licence Endorsements / Business Insurance Checks:** The Fire Service uses a third party agency to verify driver licences and whether there are any endorsements. The Fire Service aims to validate the licence of each service vehicle driver up-to four times per annum.

- **Flexi-Duty Officers and Essential Car Users** who may be required to respond to incidents under blue-lights using their own private vehicle, are required to provide business class insurance and their insurer's written confirmation that they have agreed to that vehicle/individual being potentially

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[1] Third Party Taxation Advisory Review issued to NFRS, April 2018
[2] Report of the Independent Remuneration Panel, June 2017

used for that circumstance.

4.2 There were some control weaknesses and some failures to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

4.3 A summary of the recommendations made, together with a brief summary of the priority 1 and 2 areas, is set out below: -

Priority level	Number of Recommendations	Recommended action timescales
Priority 1	2	Immediate
Priority 2	3	Within two months

Priority 1 areas:

- **Expenses Policy - Staff and Uniformed Personnel:** The Fire Authority does not currently have a policy for mileage and allowances, resulting in many rules on expenses, particularly around travel policy, being derived from many years of historical custom and practice. (Action Plan 1).

- **Expenses Form - Format(s) and Claims Scrutiny:** The current format of expense claim forms is out of date and provides insufficient information describing the exact journey (postcode to postcode), which creates difficulty for both the approver and staff in the Payroll Department to fully scrutinise the expense claim. (Action Plan 2).

Priority 2 areas:

- **Members' Allowances Scheme**: The Members' Allowances Scheme (2007) is out of date and does not reflect suggested changes to the scheme by the Independent Remuneration Panel in 2017. (Action Plan 3).

- **VAT in Fuel**: The VAT element in petrol/diesel is not reclaimed resulting in a loss of income to the Fire Authority. (Action Plan 4).

- **Budget Monitoring - Virement**: Budgets for mileage related expenses are incorrectly apportioned following the implementation of the new pay module, resulting in some large variance in budget against actual expenditure. (Action Plan 5).

Audit conducted by: Tom Pearson
Senior Auditor
Audit supervised by: Angela Wendels
Senior Auditor

Rob Disney, Head of Internal Audit

Audit Finding	Recommendation	Management Response
Priority 1 areas (Essential for effective internal control, must implement recommendations to improve existing control arrangements)		
1. Expenses Policy - Staff and Uniformed Personnel The Fire Service has guidance dated 2015-16 in the form of a Statement of Pay Policy, which, at section 3.7 outlines the types of allowances and expenses that may be claimed or reimbursed to staff. This was updated during the audit and a 2018-19 Statement of Pay Policy published. There are however no detailed policies for uniformed officers or non-uniformed officers (staff) supporting this over-arching guidance. Many rules on expenses policy, particularly around travel policy, have derived from many years of historical custom and practice and are not consistently applied. We recognise the Fire Service is now attempting to address this through their own scrutiny and the development of a new policy. Development of a new series processes/techniques in support of this change may be required. **Risk:** *Without change, custom and practice will continue and inconsistencies will remain.*	**A change management process should be considered to re-align custom and practice around the revised guidance.**	**Response** A new travel and expenses guidance document is in the process of being written. It will require 28 days consultation and should be operational by the start of the new financial year. **Date for implementation** April 2019 **Officer responsible for implementation** Head of Finance

Audit Finding	Recommendation	Management Response
2. Expenses Form – Format and Claims Scrutiny The Fire Service uses paper based forms for all staff on its payroll to submit their expenses claims. The format of these forms has been in use, and has remained largely unchanged, for many years. Several formats are currently in use across the service. All claims must be authorised by an appropriate approver (typically the claimant's line manager) whose authorisation indicates that the expenses have been correctly and necessarily incurred on legitimate Fire Service activities. Staff in the Payroll Department are responsible for ensuring that claims have been appropriately certified for payment and calculated at the correct rates. The current format of these forms is less than desirable in that there is often insufficient information describing the exact journey (postcode to postcode), which creates difficulty for the both the approver and staff in the Payroll Department to fully scrutinise the expense claim. One such example is Home to Office claims. **Risk:** *Transparency is lacking in claims submitted which hinders in depth scrutiny checks.*	**The format of the Fire Service expense forms should be re-developed, or should align with system based processes if paper based forms are to become redundant.** **Forms or templates should be designed to provide the information required to verify the claim and to comply with the requirements of the Inland Revenue in respect of taxation of expenses and other allowances.** **The use of FAQ guidance should be issued to help with the transition and help act as a rule-book going forward.**	**Response** Revised forms are being developed as part of the travel policy (see response to audit finding 1). **Date for implementation** April 2019 **Officer responsible for implementation** Payroll Manager

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
3. Members' Allowances Scheme Under the Local Authorities (Members' Allowances) (England) Regulations 2003, a Members' Allowances Scheme (MAS) is required to take account of recommendations from the Independent Remuneration Panel (IRP) covering a number of specified items. The MAS was last updated in 2007. At the July 2017 Policy and Strategy Committee of the Nottinghamshire and City of Nottingham Fire and Rescue Authority, it was resolved to adopt the findings of a Report by an IRP for Members' allowances and annual uplift arrangements and this was approved at the Fire Authority Committee in September 2017. The IRP made a recommendation that the level of allowances should be index-linked each year, however, indexation is not mentioned in the MAS. It is also noted that the IRP report made reference to the fact that Members of the Fire Authority are not entitled to any payment in respect of pensions, although this is not expressed within the MAS. Members' Allowances for the three Years 2015-16 to 2017-18 have been published on the Transparency section of NFRS' website, with the 2017-18 document reflecting these uplifts. The MAS Policy Document is however not available on NFRS's website. **Risk:** *Policy regarding Members' Allowances is not unambiguously transparent.*	**To take account of the IRP recommendations the MAS Policy document should be updated to set out the basis of remuneration uplift on an annual basis.** **This, and any other changes to bring the policy up-to date from the last review in 2007, should be ratified by the NFRS Finance and Resources Committee. This document should then be made available on the Fire Service's website.**	**Response** The revised Members Allowances will be approved at February Fire Authority and the Policy document will be uploaded on the website after this meeting. **Date for implementation** 28 February 2019 **Officer responsible for implementation** Head of Finance

Audit Finding	Recommendation	Management Response
4. VAT in Fuel The MAS requires that proper VAT receipts are provided for expenses including parking fees in order for the Authority to validate claims and to reclaim VAT. Members should keep these, wherever possible, and attach them to claim forms. In accordance with HMRC guidance the VAT element of petrol/diesel (fuel) may be reimbursed if VAT receipts are obtained for the fuel element of business mileage. However, fuel receipts are not requested for Members or Officers so the VAT element is not reclaimed. According to HMRC guidance and based upon the 2017-18 mileage expenses totalling £304k, (average payment of 45 pence per mile), the amount of VAT claimable would have been in the region of £13,500. **Risk:** *Where the VAT in fuel is not reclaimed, income may be forgone.*	**The Fire Service should carry out accurate calculations based upon HMRC guidance and consider the cost benefit of reclaiming the VAT element in fuel.** **This would also require fuel receipts to be scanned and uploaded to the expenses module in iTrent by claimants once the expenses module goes live. Meanwhile, hard copies of receipts could be submitted with mileage claims to allow the VAT to be reclaimed promptly.**	**Response** This recommendation will be given consideration. However, a technical solution in ITrent will need to be procured as at present it does not have the facility to administer this function. The technical solution will also need to consider downloading information into Agresso from which the VAT return is completed. The amount being reclaimed will also be dependent on staff submitting fuel receipts, so the full £13k is unlikely to be achievable. For these reasons it may not be cost effective to implement this recommendation. **Date for implementation** A review will be undertaken by April 2019 **Officer responsible for implementation** Head of Finance

Audit Finding	Recommendation	Management Response
5. Budget Monitoring - Virement A breakdown of the relevant 2017-18 account codes for vehicle related mileage showed limited variance on an aggregated basis with an actual spend of £349k versus budgeted expectation of £349.6k. However a further breakdown of three elements showed: • **Casual Mileage Variance** – c. £127.8k Positive (actual less than budget) • **Essential Mileage Variance** - c. £109.9k Negative (actual more than budget) • **Detachments Mileage Variance** – c. £30k Negative (actual more than budget) We were advised this was due to the coding of travel expenses changing when the Fire Service moved from the SAP payroll system to iTrent. The apportionment of the 2017/18 budget may have been based on the old coding system without a virement completed to transfer the budget elements to the correct codes **Risk:** *Monitoring of the component elements of the budget for travel expenses becomes more complicated than it needs to be.*	**Virements should be completed to re-apportion the travel budget more realistically between its constituent elements.**	**Response** Reporting travel would always be at the higher level and as a consequence this would have little impact. However, the budgets have already been realigned as part of the 2018/19 budget process. **Date for implementation** Completed **Officer responsible for implementation** Head of Accountancy

Nottinghamshire County Council

Internal Audit Report   Report ref: 2017-05

OFFICIAL SENSITIVE

To: **Chief Fire Officer**

Subject: **NFRS Project Management**

Date: **October 2018**

5   Introduction

1.1   This report sets out the findings and recommendations arising from a recent review of the arrangements for NFRS project management. The objective of the audit was to ensure there is an effective framework in place and procedures are followed.

1.2   We assessed the adequacy and effectiveness of control measures in relation to project management activities. In 2016 the Fire Service introduced new project management policies based on Prince 2 philosophies. SharePoint is used to host the suite of project management guidance and templates and record key documentation for each project. Testing was focused on these project management standards and the procedures followed by the Fire Service.

6   Audit opinion

6.1   In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.

6.2   In our opinion the level of assurance we can provide is:

REASONABLE ASSURANCE   Risk levels are acceptable

7   Risk areas examined

7.1   During this audit we looked for controls to address the following key risks: -

Risk title	Description
Project Management Documentation Guidance	A lack of understanding or adherence to NFRS project management guidance at the outset may lead to risks not being identified.
Application of Project Management	NFRS project management guidance not effectively applied may lead to projects not being effectively

Risk title	Description
Guidance	scoped with consequent impact on project costs/benefits, resourcing, funding and time-scales.
Project Management Reporting	Ineffective project management reporting procedures may lead to performance issues, time-scale drift and lack of control over service delivery.
Forward and/or Contingency Planning Arrangements	Ineffective forward or contingency planning may encounter risks around income streams, funding and compliance with insurance requirements.
Issues Resolution and Performance Evaluation	Ineffective issues resolution may lead to issues logs not being closed off and delays in performance evaluation / lessons learned.

7.2   In FY17/18, 13 projects were brought forward as still in progress at 1 April 2017 and a further 19 projects begun throughout the year. Of these, 21 projects had closed by 31 March 2018. The combined budgeted cost of all these projects was £465,538[3].

8   Audit findings

8.1   Following our work we consider the controls to be effective in the following risk areas: -

- Project Management Guidance - The guidance was comprehensively revised in 2016 following Prince 2 project management principles, which outlines the various phases of a project and best practice approach which is aimed to guide staff through a logical, systematic and rigorous process. The guidance works alongside other written procedures for commencement, delivery and closure of a project.

- Application of Project Management Guidance - Well developed processes are in place with the Executive Delivery Team (EDT) and Senior Leadership Team (SLT) to support agile decision making and project direction, including the provision of monthly highlight reports from the dedicated programme / project office.

- Project Management Reporting - Reporting procedures have been established and are operating effectively. The monthly highlight reports provided to EDT provide details of project status and a red, amber, green (RAG) status to highlight any potential issues that may need to be addressed.

    The Fire Service have a formal policy for collaboration projects and arrangements, enabling it to share or reduce project costs.

- Forward and/or Contingency Planning Arrangements – There are procedures established for Project Boards to review performance of the project at each stage, together with a procedure for escalating problems to them through the use of exception logs.

- Issues Resolution and Performance Evaluation - there is evidence of project closure reports being submitted to EDT prior to formal closure and to consider success factors and lessons learned.

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[3] Figures provided by NFRS

8.2   There were some control weaknesses and some failures to comply with the standard controls resulting in the remaining risks. The attached Action Plan sets out these weaknesses and our recommendations to address them.

8.3   A summary of the recommendations made, together with a brief summary of the Priority 1 and Priority 2 areas is set out below: -

Priority level	Number of Recommendations	Recommended action timescales
Priority 1	2	Immediate
Priority 2	5	Within two months

Priority 1 areas

- Documentation regarding submission of business cases and project initiation documents (PIDs) to EDT was found to be inadequate, as was documentation around core decisions capture. (Action Plan 1).

- Evidence of cost tracking and clear audit trails around project costs is inadequate making it difficult to monitor project spend accurately. Opportunity costs could be evaluated further and related to greater incisiveness when assessing and documenting Benefits Statements and Closure Reports (Action Plan 2).

Priority 2 areas:

- Project management guidance, whilst comprehensive, could be supplemented with a more concise aide mémoire summary of key points. (Action Plan 3).

- EDT and SLT Terms of Reference are still in draft format. (Action Plan 4)

- Staff may deliver projects outside of their core responsibilities without the requisite knowledge and skills needed for effective and compliant execution. (Action Plan 5).

- The requirement for Risk, Quality, Configuration and Communication management statements, and use of standardised templates were not being used in the manner envisaged by Guidance Document 2120 (Project Initiation Process) or being captured fully in the PID. (Action Plan 6).

- Difficulties were identified in capturing core work-flow decisions and Project Board minutes were also not always in evidence. A key-person dependency was identified. (Action Plan 7).

Audit conducted by: Tom Pearson
Senior Auditor
Audit supervised by: Angela Wendels
Senior Auditor

Rob Disney, Head of Internal Audit

Audit Finding	Recommendation	Management Response
Priority 1 areas (Essential for effective internal control, must implement recommendations to improve existing control arrangements)		

1. Business Cases and PIDs We examined a sample of four recent projects across a variety of areas. Two projects, SkyPe and Cohort, had started under the preceding policy, which required them to be submitted to the Corporate Management Board (CMB) for approval. For Cohort, no signed work proposal could be evidenced but for SkyPe, the decision to proceed derived from the ICT Strategy and pre-dated the requirement for a business case. Its work proposal, but not Cohort's, had been 'risk-rated'. For Cohort, a non-compliance shortcoming with NFRS policies and procedures was identified at the September 2016 EDT, with its PID later recording that a business case was submitted on 23/02/17 and approved by EDT. Further development of its business case, PID or use of the Risks, Assumptions, Issues, Dependencies ('RAID') document however did not appear to take place. We are advised this was partly because Nottinghamshire did not lead on this collaboration. For SkyPe's subsequent work-flow, a PID was completed and a RAID was in use. Two further projects were examined, Surface laptop rollout and Tranman fleet system which were started under the current policy. For Surface, no business case was evident as being submitted to EDT. For Tranman, a retrospective business case report was submitted to EDT as no business case was in place prior to the project commencing. The report later submitted was comprehensive and the case well-made but did not follow the standard NFRS template. This out-of-sequence documentation flow created confusion over deliverables and cost overruns, but was cleared up soon thereafter. **Risk:** *Effective action to mitigate risks or redirect projects / project scope is not taken. Projects may be carried out without prior consideration.*	**Unless an exception is granted, and in terms of current policy, all business cases and PIDs should be submitted to EDT and this, together with any core decisions taken, should be evidenced as part of work-flow and key decision capture.**	**Response** A solution to capture this information is currently in development using our SharePoint environment to ensure that from project mandate to project closure (logging lessons learned) actions are recorded and auditable. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

2. Project Costs Tracking and Project Costing Effective cost control is a self-evident feature of good project management. From our testing of four projects, two projects had either a significant or small overspend above contingency, one project came in within budget and one project was yet to report. In the latter case, successful cost advantage had been achieved from cost sharing via a collaborative venture and EDT challenge. More generally in discussion with the Project Management Officer, we found that cost tracking and clear audit trails around project costs was poor and difficult to establish. This has been rectified during 2018 with the introduction of a Purchase Order Cost Tracker as part of the RAID documentation. We also observed, and further discussed, that internal NFRS labour time (a fixed cost) on projects is not project costed. The rationale for this is that this would: • Be difficult to implement • Have negative resource implications and • Not yield the project benefit envisaged, and would most likely result in a project cost of itself. There was thus no appetite to cost internal labour time but there were opportunities to consider opportunity costs when making a decision to invest, or continuing to invest, in a project. There was some evidence these were being considered in scenario planning in business cases but that this could be explored further in work that could be done around Benefits Realisation Statements and Closure Reports. **Risk:** *Project costs are not tracked or validated at an early stage or are incurred before corrective action can be taken and full costing decisions are not laid out.*	**a. The recently instituted Purchase Order Tracker in the RAID documentation should be utilised.** **a. The Fire Service may also wish to consider the aggregated financial impact of opportunity costs not avoided, i.e. as part of an annual assessment of its project/programme activity, those additional costs outside of financial ledgers. This would also, for example, provide an option to look at success factors other than on a project-by project basis** **Via such a periodic assessment, this would substantiate any opportunity cost savings, that the correct projects are being selected and good resource allocation is being achieved as well as allow enhancement and greater incisiveness around assessing and documenting Benefits Statements and Closure Reports.**	**Response** a. NFRS had recognised this area of concern prior to the audit and had included an invoice tracking function into the RAID so that purchase orders could be associated with the projects and monitored against the invoices. b. We will look to incorporate Opportunity Cost evaluation in our Benefits Assessment work which will typically be contained in the project closure report. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

Priority 2 areas		
(Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
3. Guidance Documentation The current project management guidance documentation, encompassing five PDF documents is very lengthy and detailed at exactly 100 pages. Whilst comprehensive, it is potentially overwhelming to users, many of whom are untrained in project management. **Risk:** *Those running projects lack focus and incur time that is otherwise not necessary.*	**The Fire Service should consider producing a more concise handy guide to act as an aide mémoire for those involved in project management work, This may include tailoring the requirements dependent upon the size of and complexity of the project or providing different level guidance for different project size/complexity and the promotion of a possible 'Lite' version.**	**Response** The guidance document will be updated in line with the introduction of the new Project / Programme Management Site. It had already been recognised that there needs to be a methodology for small and large project types. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

4. Finalisation of EDT and SLT Terms of Reference (Version Control) The EDT is the authorising and monitoring body of all Fire Service corporate projects with the next level SLT acting in the capacity of strategic oversight for all corporate decisions. Both bodies have additional duties beyond project oversight. The established terms of reference for both EDT and SLT are currently draft at Version 5 and Version 1 respectively. **Risk:** *Actions are taken outside confirmed Terms of Reference.*	**The terms of reference for EDT and SLT should be finalised as soon as practicable to confirm their remit in terms of project management processes.**	**Response** Yes this should be formalised, which will be altered in line with the new Project / Programme Management Site. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

5. Staff Training Previous project management guidance indicated that to support NFRS in its planning and control of projects, a rolling integrated programme of training and development was in place. This was to help ensure that Project Managers possessed the expertise to manage their projects and training would be provided by the organisation. No such similar indications are in place in terms of the current guidance where there is no reference to training but we were however informed a decision has recently been made to roll project management training out to middle management during FY18/19. This is timely, as many NFRS staff carrying out projects do not have project management competency nor is it part of their core roles and responsibilities. **Risk:** *Project staff are expected to deliver projects outside of their core responsibilities with consequent weakened project control and execution.*	**The anticipated project management training planned for FY 18/19 should be carried out for all staff involved or expected to be involved in managing current and future projects.**	**Response** This training is currently underway within the service. The procurement team have been the lead on this. The project team will act as guidance for assistance and the guidance document will be amended as part of the new Project / Programme Management Site. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

6	Where alterative project documentation is deemed suitable, this should be used instead of mandated standard templates that appear unwieldy. This would help to provide a closer fit to project controls around communication, risk, quality and configuration risks. This documentation, in terms of policy, would still need to form part of PID submissions to EDT.	**Response**
. Project Initiation - Process Diagram		
Guidance document 2120 (Project Initiation Process) at page 3 sets out a helpful process flow linking the Business Case and PID with a project plan / project controls, benefits review plan and suggests four further strategy documents:		The new Project / Programme Management Site will ensure that the documents required for a project are automatically created. The tailoring for the different types of project will be captured in the PID as a point of reference.
• communications management • risk management • quality management and • configuration management.		
In each case, there are separate NFRS templates for these areas, but these were not used in any of the four projects reviewed. Communications management statements were often brief and used email as the default communication channel without more comprehensively defining who, when and what should form part of any communication plan implementation and help ensure project aims were being met Whilst it is recognised in all cases that project reliance may be gained from other documentation or process, e.g.	**The use of generic, or unaltered standard text, whilst remaining as suggested guidance, should not form part of individual project documentation.**	
• feasibility studies • regular supplier interaction • throughout the daily planning and execution of the project		**Date for implementation** January 2019
these particular Prince2 templates appear unused and/or are perceived as a difficult 'fit' to NFRS project documentation.		**Officer responsible for implementation** Service Project Manager
Other than in the Surface laptop project, clearly defined risk, quality and configuration management statements envisaged by the guidance were not in evidence and on more than one occasion retained 'standard reference text' from the main body of the document (i.e. unmodified text copied from the guidance not changed to make project specific).		
Risk:		
Those running projects will view this Prince2 documentation as mandatory (via the PIDs) but where goal objectives are, or can be, effectively achieved through other process or other documentation.		

7		
. Recording WorkFlow Decisions and Project Board Minutes The Project Management Office has three full-time members of staff, but where one of them leads heavily day to day and has created a key-person dependency. The team are responsible for many NFRS projects running simultaneously, together with new projects starting and current projects closing on a continuous basis. This is coupled with the need to advise and help manage projects over four stages and provide regular performance reporting. The tasks are wide. This audit identified some difficulties evidencing key decisions made across the work-flow process which, if in place, would serve as an improved control around effective records management. Examples noted included no confirmatory evidence of appointments of senior users, suppliers and project teams, PID or business case version control and confirmation of whether such documentation is, or had, in all cases been submitted to EDT together with decisions that were made at that or project board meetings. Developments to enhance workflow processing and decision capture have recently been introduced with commencement of a MS Project Planner Board in place. Separately, we also observed that whilst there was some evidence of project minutes, these were not always in the format of Project Board minutes and sometimes doubled up as RAID Action Plans. **Risk:** *Key decisions are not always adequately captured in the workflow process.*	**A separate tab, most likely in the RAID documentation, should be created to capture better work-flow and key decision recording. If the Fire Service wishes to move away from an 'official' or hard copy signature to evidence approval on documentation such as a business case or PID, there should be alternative mechanisms to capture this approval. Project Board minutes should be documented more routinely.**	**Response** There is already a decisions tab in the RAID and minutes for the Project Board meetings should capture this. Again there will be the ability to create these within the new Project / Programme Management Site. **Date for implementation** January 2019 **Officer responsible for implementation** Service Project Manager

Nottinghamshire County Council

| Internal Audit Report | Report ref: 2017-07 |

OFFICIAL SENSITIVE

To: **Chief Fire Officer**

Subject: **NFRS Purchasing and Creditor Payments**

Date: **February 2019**

9 Introduction

1.1 This report sets out the findings and recommendations arising from a recent review of the purchases and creditor payments transacted through the NFRS Finance Function.

Our audit review was based upon an analytical approach, focussing on higher risk or high value or high volume data populations. These were selected according to either process or business area, account balance or financial size.

The objective of the system is to ensure that purchases are made in accordance with financial procedures, only by authorised employees, within budget to approved suppliers on agreed contractual terms.

1.2 We examined transactions with payment dates between 6 April 2017 and 17 January 2018 in order to highlight those meriting further scrutiny. A population size of 11,329 transactions with a value of £27.623m (excluding credit notes) was first analysed. Options for areas to examine were discussed and agreed with the Head and Deputy Head of Finance in line with the approach set out at 1.1 above.

10 Audit opinion

10.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.

10.2 In our opinion the level of assurance we can provide is: -

REASONABLE ASSURANCE **Risk levels are acceptable**

11 Risk areas examined

11.1 During this audit we looked for controls to address the following key risks: -

Risk title	Description
Purchase Orders	Official orders may not be placed or inappropriate goods and services may be purchased.
Fraud Prevention	Fraudulent payments may be made, monies lost or

Risk title	Description
	additional costs incurred.
Goods and Services	Inappropriate goods and services may be ordered or accepted.
Invoice Payment	Inaccurate or invalid invoices may be paid without challenge or payment terms may not be complied with.

11.2 Testing focused on eight financial areas individually selected following discussion with the Fire Service. We considered four areas to be effectively managed, with Action Plans for the remaining four.

12 Audit findings

12.1 We examined process around the key risk areas. Following our work we considered the controls to be effective in the following four areas selected: -

- **Amptron Electrical Services contract:** For this c. £0.6m annual contract, which is for planned, preventative and reactive maintenance work across Fire Service sites, workflow is governed by the Concerto Facilities Management software.

  Recent improvements have been made to the systems and processes supporting the Amptron control environment, and, in the main, we consider these to be now operating satisfactorily. Agresso is extensively used for requisitioning and purchase ordering processes. The Amptron contract is now subject to additional controls and improved relationship management with the supplier. The Fire Service now expects to renew this contract to 31 March 2021.

- **Utilities Monitoring**: Testing identified individual spreadsheets monitoring gas, electric and water usage (non-order based service transactions) together with an overall cost monitoring spreadsheet in place for each station and site.

  A specialist forensic utility firm has also reviewed the Fire Service's gas and electric cost and usage. Limited forensic validation around water usage has been possible due to the water market only becoming deregulated from April 2017.

- **London Road and Newark Fire Station Builds:** Interim invoicing (payments on account) for London Road and Newark Fire Station builds are supported by valuation certificates and monthly cost reports from the appointed Project Managers. The valuation certificates certified the cost of works completed by the appointed contractor. These support the goods received and services completed on these works, in line with agreed purchase orders.

- **Pay-overs:** Evidence supporting employee deductions, required to be paid over to third parties, is in place.

  We also identified as follows:

- **Changed Bank Details**: The procedures carried out for the verification of supplier details provide adequate controls.

- **Public Sector Payment Policy:** For 2017-18, the Fire Service is able to report a monthly average compliance rate of 97.53% for payment within terms for suppliers' undisputed invoices. This is well in excess of the 30 day, 90% target under the Public Sector Payment Policy.

12.2 There were some control weaknesses and some failures to comply with the standard controls resulting in remaining risks. The attached Action Plan sets out these weaknesses and our recommendations to address them.

12.3 A summary of the recommendations made, together with a brief summary of the priority 1 and 2 areas, is set out below: -

Priority level	Number of Recommendations	Recommended action timescales
Priority 1	2	Immediate
Priority 2	2	Within two months

Priority 1 areas:

- **Fire Link (Home Office) Invoices:** Fire Service personnel who may have an understanding of the contractual components around the Fire Link contract are not consulted as to the validity of Fire Link charges. Whilst this service is considered fundamental to Fire Service operations, invoices are approved for payment without any prior validation. (Action Plan 1).

- **Agresso System - System Override:** The Agresso system allows users to override standard ("master-file") prices when submitting orders without system detection or "flags". Mitigating internal controls, in the main, rely on the budget holder to notice this or the supplier to draw attention to it. (Action Plan 2).

Priority 2 areas:

- **Transactions without Purchase Orders (POs)**: A small number of transactions should have followed work-flow PO processes. A similar small number of transaction types should be added to the PO Exempt List maintained (Action Plan 4)

- **Agency and Temporary Staff Recruitment**: The Fire Service is not always able to demonstrate compliance with its Recruitment Authorisation Form (RAF) procedure. There is also an opportunity to rationalise the number of agency and temporary staff suppliers as well as agree preferred pricing terms. (Action Plan 3).

12.4 In addition to the findings presented in the Action Plan, other observations were discussed with management relating to segregation of duties in the Facilities Division and closed Purchase Orders.

Audit conducted by: Tom Pearson
Senior Auditor

Audit supervised by: Angela Wendels
Senior Auditor

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response
Priority 1 areas (Essential for effective internal control, must implement recommendations to improve existing control arrangements)		
1. FireLink (Home Office) Invoices The 'Fire-Link' wide-area radio system is used by the Fire Service to support its voice and data communication. This is an essential system, interoperable with other Fire and Rescue Services (FRS). Fees and recharges for this service, which have multiple components, are determined by a Home Office Grant Determination Award. The 2017-18 Grant Award to the Fire Service was approximately £375k against actual invoices paid of c. £537k. Ear-marked reserves were used to cover this shortfall. Home Office invoices are however paid without any prior validation. Current personnel within NFRS who may have an understanding of the overall contract are not consulted. The last internal analysis of these costs was in 2014. Ownership of this account is therefore lacking. A clearer understanding of this contract will provide an up to date position of costs paid/payable and additional charges, or refunds, if any, that are due. This will shed further light on whether the Fire Service was correct to account for an unfunded expense. **Risk:** *Errors are not detected and incorrect payments are made.*	**An updated understanding of this contract's fees and recharges should be obtained. The appointed budget holder should be aware of this analysis when making payments to the Home Office.**	**Response** The Authority has little control over these costs as they are recharged out from the HO, who also make a grant payment to offset the costs. The ESN deputy project manager now receives payment schedules from the HO which the invoices are checked against. **Date for implementation** Implemented **Officer responsible for implementation** ESN Deputy Project Manager

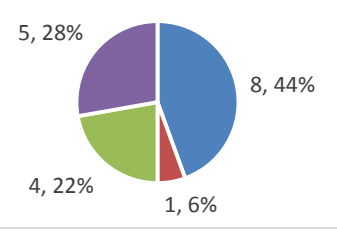| Audit Finding	Recommendation	Management Response
2. Irongate Pricing / Ability to Override Agresso Agresso workflow processes are in place for approving additions or amendments to the 'stores-catalogue'. There are approximately 350 products within the overall catalogue for Irongate in terms of a four year tender award, effective 1 May 2015. Irongate provide a large range of office supplies and workwear. The Fire Service's actual spend with Irongate for 2016-17 was approximately £61.5k. Approximately 1,400 invoices were paid within the 21 month analysis period of which c. 1,000 were for less than £100 and c. 430 for £20 or less. Only 10 transactions (totalling £327) did not have Purchase Orders. Our discussions with Fire Service personnel however identified staff can override standard ("master-file") prices when submitting orders on Agresso without system detection or "flags". This override ability is system wide across the whole stores catalogue, that is, not just limited to Irongate. We were informed this cannot be corrected as it would impact other system functionality. Vendor master file override is a significant risk faced in the procure-to-pay cycle that can involve an over-reliance on manual controls. Internal controls to mitigate this risk, in the main, rely on the budget holders to notice any override or the supplier to draw attention to it. The options for rectifying this would need to take account of the costs of changing the system against the potential benefits of automating the controls. At the conclusion of the audit we were unable to determine if master-file prices accorded with tender prices for the Irongate stores catalogue. **Risk:** *A circumvention of intended automated controls occur and orders are placed overriding agreed pricing without detection.*	**We recommend the Fire Service considers whether a configurable and customised control can be easily implemented so that incidents of non-compliance can be identified and addressed quickly.** **We also recommend the Fire Service completes an exercise to determine the extent to which its stores catalogue's master-file prices for Irongate are consistent with agreed tender prices.**	**Response** The systems accountant has reviewed the configuration of the system, and concluded that individual products cannot be locked. The alternative would be to lock the system. This option, however, is not is not viable as the facility is required for generalised products which are subject to variable pricing and the value needs to be input at the time of requisitioning. The systems accountant has completed the exercise and reviewed the findings. The procurement department will continue to update the system with the contract prices at the start of the new contract year. **Date for implementation** Implemented **Officer responsible for implementation** Procurement Manager

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
3. No Purchase Orders – Sample Review Within the data population examined, we segmented c. 300 transactions over £100, (total £165.27k) and each without a Purchase Order (PO). We examined a 10% sample of transactions to ascertain the reason for not using a PO. When examined there was a valid reason for many of these transactions having no PO. In many cases, an originating PO was in place but an exception or Agresso conflict created an additional series of workflow processes that had to be followed to close the transaction. Exceptions remaining thus fell into the following categories: **Transactions viewed as requiring a PO** • IT Licence Fees / Recharges • Age UK Home Safety work • East Midlands Ambulance – hand portable loaned terminals **Transactions suggested to add to PO Exempt List** • Nottingham Bid Levy Company **Miscellaneous** A Ford Kuga vehicle (£16.45k) was purchased via a vehicle sourcing company, however, the vehicle sourcing company were paid in error when the Ford Motor Company invoice was matched to the Fire Service PO against the vehicle sourcing company. This, meant that the wrong company was paid in error. The amount was later refunded and Ford Motor Company Limited were then paid. **Risk:** *Without appropriate POs, funds may be committed without authorisation or agreed contract terms.*	**The requirement to use POs, rather than arrange payment on invoice presentation is reinforced.** **The PO Exempt List should be reviewed and amended.** **Protocols should be reinforced that where the supplier named on the PO does not match the supplier on the invoice, payment should not be made before any additional checks take place.**	**Response** The procurement Manager and Assistant Head of Finance will issue a staff briefing in conjunction with the procurement policy. This will be displayed on the intranet. The Assistant Head of Finance has updated and reviewed the exception list. This has now been set as an annual task by the Assistant Head of Finance. The Finance team take every precaution to ensure the invoices are matched to the order. **Date for implementation** February 2019 **Officer responsible for implementation** Procurement Manager Assistant Head of Finance

Audit Finding	Recommendation	Management Response
4. Agency and Temporary Staff Recruitment The Fire Service used approximately 30 suppliers for recruitment of agency and temporary staff over the 21 month sample period with approximately 500 paid transactions (£507.3k). Many of these transactions represented weekly recurring invoicing of agency staff and sometimes several agency staff on the same invoice. A Recruitment Authorisation Form (RAF) is required for agency/temporary staff appointments. EDT members' approval is required to agree this recruitment, which is given once the RAF has been circulated by email between EDT members for comment. A recently revised RAF now includes questions on IR35 Regulation status, if the post could be suited to an apprentice or collaboration opportunity and that Finance has confirmed the post holder's funding status. We selected 10 invoice payments which included 18 different agency personnel across 11 budget holders and found the following : **Analysis of RAF Compliance for Agency Workers** - Completed a RAF Form 8, 44% - No RAF form but EDT Approval 1, 6% - No RAF form or no evidence available 4, 22% - No response received 5, 28% For the five placements where no response was received, or where no RAF or EDT approval could be supplied, we were unable to determine if RAF processes had been substantively followed. We requested details relating to the competitiveness of rates paid and received 9/18 responses. Where information was provided we only found evidence of one case where the rate had been negotiated. In the other eight cases we were informed that rates paid were in line with Fire Service rates (for that role) of which one stated the Fire Service paid higher than agency rates. **Risk:** *Temporary staff recruitment is not in line with Fire Service procedures and preferential rates may not always be procured.*	**The requirement to use the RAF should be reinforced and the new form should be used. As they are often unsighted, a monthly procedure should be implemented to ensure the HR and Finance Departments are aware of EDT approvals of agency / temporary staff appointments.** **Where the post is extended outside of the original RAF approval period, updated approval should be given in terms of the EDT pre-circulation procedure.** **The opportunity to rationalise the number of agency/temporary staff suppliers and preferential rates should be explored.** Page 17 of 38	**Response** The new RAF is now fully utilised and all departments are now using the approved form. The procedure notes have been circulated and no RAF can be approved by EDT until the Head of Finance and HR have agreed the funding and the establishment details. This form is then approved by EDT and a hard/email copy is received in HR and Finance. In the case of extensions, EDT approval will be in the minutes and the original RAF will still be in place. The HR and Finance EDT member will also communicate this with their wider team. The section heads recruit from the agency that is relevant to the work required for their specialised area. The chosen supplier will be selected by the head of department based on the availability and the skills needed for the post. Consideration will be taken at the point of recruitment for the negotiation of the price. **Date for implementation** Implemented **Officer responsible for implementation** Head of HR and Head of Finance.