

S.R. 99/4

**THE 1996/97 AND 1997/98 AUDITS OF
GRAMPIAN FIRE BOARD**

**A REPORT BY THE CONTROLLER OF AUDIT
TO THE ACCOUNTS COMMISSION IN TERMS OF
SECTION 102(2) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

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1. INTRODUCTION

1.1 This report relates to Grampian Fire Board which came into operation on 1 April 1996 to administer the fire service provision for the new local government areas of Aberdeenshire, Aberdeen City and Moray. Until then fire services were provided by the former Grampian Regional Council. The Board is funded primarily by requisitions from the constituent councils.

1.2 The auditors' reports on the 1996/97 and 1997/98 audits indicated that the Board experienced significant accounting problems in its first two years of operation. In addition, their report on the 1997/98 audit referred to an overpayment arising from a contract for the supply of firefighters' uniforms. Having considered the auditors' reports I decided that I should make a report in the public interest. My report has been compiled substantially from information contained in the auditors' reports but I have also carried out further enquiries.

1.3 The report presents a useful opportunity to confirm certain important financial management principles which, in my view, should be taken into account in establishing new organisations, including those which involve joint working arrangements.

2. FINANCIAL MANAGEMENT ARRANGEMENTS AT THE BOARD

2.1 Responsibility for the overall financial management of the Board rests with the Treasurer who is the 'proper officer' for the financial administration in terms of section 95 of the Local Government (Scotland) Act 1973. In addition to advising the

Board on financial matters, the Treasurer has overall responsibility for maintaining proper accounting records and preparing the Board's annual accounts. Since its inception, the Director of Finance of Aberdeenshire Council has been the Board's Treasurer.

- 2.2 The Board has agreed to delegate the duty to maintain adequate financial arrangements to the Firemaster, who is the Board's Chief Executive Officer. Day to day accounting is the responsibility of the Finance Officer. The Firemaster and the Finance Officer are Board employees. The officials holding these posts in the 1996/97 and 1997/98 financial years retired in February 1998 and April 1998 respectively.
- 2.3 The auditors reported that there was a lack of close management control over the accounting function in 1996/97. Their report on the 1997/98 audit indicated that these problems continued into that year. The main issues raised by the auditors are summarised in the following sections of this report.
- 2.4 Current management at the Board has reviewed the position and has taken action to strengthen the financial management controls. However, it was not until December 1998 that the Board approved detailed Financial Standing Orders which formalised the arrangements for the conduct of Board financial matters, including the respective responsibilities of the Treasurer and the Firemaster.

3. THE 1996/97 AUDIT

- 3.1 Prior to local government reorganisation the fire service was one of the functions provided by and accounted for by Grampian Regional Council. When the Fire Board was established on 1 April 1996 a decision was taken that the main accounting function would be carried out 'in-house' by a newly established Finance Department supported, in certain key areas, by accounting systems operated by Aberdeenshire Council.
- 3.2 The first set of draft accounts for 1996/97 was prepared by the statutory deadline of 31 August 1997 but the supporting schedules and other documentation required for audit were incomplete. The auditors' initial work on these accounts identified

substantial differences on key accounts such PAYE, VAT and stock. There were also significant balances held on suspense accounts without supporting documentation or explanations. At this stage, the auditors were concerned that the Fire Brigade may have failed to maintain proper accounting records.

3.3 It was only in May 1998, after senior management at the Brigade had provided considerable additional resources for the accounts preparation process, that a revised set of 1996/97 accounts was produced for audit. Differences remained on key control accounts but the auditors were able eventually to issue an unqualified opinion on the 1996/97 accounts in June 1998.

3.4 The auditors' report identified a number of problems experienced by the Brigade which affected the fundamental accounting processes necessary to provide accurate financial information. These include:

- The processes for selection, testing and implementation of accounting software. The software supplier acknowledged that there were problems in the programmes but these had not been resolved at the point at which the Brigade formally accepted the package.
- Staff computer training. The computerised accounting system was not operated correctly resulting in significant accounting errors which were not identified by management control procedures.
- Interaction with Aberdeenshire Council's accounting systems. Because of the problems with the Brigade's accounting system, some of the interfaces did not operate effectively. Manual intervention, which was time consuming and open to processing errors, was required.
- Fundamental accounting controls. The magnitude of the differences on key control accounts and the Brigade's inability to explain other material balances indicated that adequate control had not been maintained over the financial accounting function on an ongoing basis.

3.5 These problems exposed the Board to the risk of financial loss or material accounting error and led to significant accounting adjustments. Two examples can be given.

- The late submission of VAT returns. Due to the nature of the operations, the Brigade is regularly in a position of recovering VAT. VAT returns for the

quarters ending 31 December 1996, 31 March 1997 and 30 June 1997 (which represented a total VAT recovery of about £736,000) were not submitted until October 1997. This adversely affected the Brigade's cash flow position and working capital requirements.

- Overpayment of creditors. During the year the accounting system for approval of creditor invoices was manually overridden by a member of staff. This resulted in creditor invoices with a total value of £40,000 being paid twice. Following an exercise by Aberdeenshire Council's internal audit department to quantify the effect, the payments were either recovered or other action was taken to ensure that the Brigade suffered no financial loss.

4. THE 1997/98 AUDIT

- 4.1 The auditors' report on the 1997/98 audit confirmed that the problems identified in 1996/97 continued into 1997/98. However, the adjustments required between the accounts presented for audit and the final version were not as substantial as those in 1996/97. The auditors issued an unqualified certificate on the accounts on 2 February 1999.
- 4.2 The auditors' report was submitted to the Board in February 1999. It is clear from the report that action had been taken by current management in the latter part of 1997/98 to address the financial control problems but that the full benefit of this would only be apparent in the 1998/99 financial year.
- 4.3 The auditors highlighted that in 1997/98, due to deficiencies in the computer systems and inadequate management control over routine accounting procedures, officers were unable to provide Members of the Board with sufficiently robust information on which to base informed decisions. The Budget Monitoring Sub Committee was regularly informed that the projected out-turn for the 1997/98 financial year was a surplus of £32,000. In the event, the audited accounts for 1997/98 showed a deficit of £692,000.
- 4.4 The auditors also highlighted the following points.

- The former Finance Manager had raised a number of concerns about the adequacy of the financial controls and the quality of financial information in a report to the (former) Firemaster in September 1997. There was no evidence that these concerns had been brought to the attention of the Board.
- The auditors wrote to the (former) Firemaster following a meeting in December 1997 expressing serious concerns about the accounting and financial management arrangements and requesting the Firemaster to advise the Board of their concerns. It would appear that the Members were not informed of the auditors' concerns and, as a result, were not given the opportunity to question more fully the quality of information being provided on the budgetary position for 1997/98.
- It was clear that the information presented to Members on an ongoing basis was materially inaccurate. However, as key individuals have since retired, the auditors were unable to determine the reasons why Members had not been advised that underlying accounting problems affected the quality of the financial monitoring information.

4.5 When the scale of the deficit became apparent (mid way through 1998), investigations were carried out by the Brigade's current management. The auditors reviewed the resulting reports and concluded that the work undertaken had been carried out in a thorough and objective manner.

5. CONTRACT FOR THE PURCHASE OF FIREFIGHTERS' UNIFORMS

5.1 In addition to comments about the Brigade's accounting and budgetary monitoring systems, the auditors' 1997/98 report referred to an overpayment arising from a contract for the supply of firefighters' uniforms.

5.2 As it had experienced delivery problems with its existing supplier, the Brigade sought to purchase uniforms from another manufacturer. An invitation to tender was placed and after a thorough check against specification, quality and delivery, the Brigade accepted the lowest tender. The contract was let in March 1997 on a 'call-off' basis for a 12 month period and had an estimated annual value of about £127,000.

- 5.3 It soon became apparent that the manufacturer had cash flow problems and was unable to meet its suppliers' demands for prepayments for the materials required for the manufacture of the uniforms. Having investigated the manufacturer's credit rating (which showed that, while the overall evaluation was poor, there were no decrees or judgements lodged), the Brigade decided to make 'one-off' purchases of materials on behalf of the manufacturer to enable the contract to proceed. The materials were purchased by the Brigade (cost £37,000) and delivered to the manufacturer in August 1997.
- 5.4 My enquiries have established that the Board's original purchase order for uniforms was not cancelled and replaced by a new purchase order at prices which reflected the cost of the materials supplied by the Brigade. Overall, it appears that no procedure was established to ensure that the full cost of the materials was deducted from payments to the manufacturer.
- 5.5 Batches of uniforms were delivered to the Brigade and recorded in the accounting system. Invoices were received from the manufacturer but, despite queries by the Stores Officer on the necessity to pay the full invoice price, these were passed for payment. Because invoice details were automatically matched to the original purchase order and subsequent delivery note the Brigade paid the full price to the manufacturer, in effect paying for the materials twice.
- 5.6 In December 1997 the manufacturer went into liquidation and the contract for the supply of uniforms was completed by a successor company. An investigation of the matter by finance staff in July 1998 established that the Brigade had not received full credit for the materials which it had supplied. The current position is that the Brigade has effectively overpaid by about £22,000 and, as an unsecured creditor, it is unlikely to be able to recover this sum.

6. CONCLUSIONS

- 6.1 It is clear from the auditors' reports that Grampian Fire Board had significant financial problems in its first two years of operation. As a result, the Board was exposed to the risk of financial loss or material accounting error. I have included

examples in my report of specific matters arising which highlight the impact that weaknesses in financial management control can have on an organisation's finances.

- 6.2 The auditors reported in 1996/97 that the accounting function was under the joint control of the Treasurer and the Firemaster. However, it is of major concern that it was not until December 1998 that the Board approved detailed Financial Standing Orders which formalised these arrangements, including the respective responsibilities of those individuals who are in overall control of financial management.
- 6.3 In my view, the Treasurer (as the 'proper officer' for the financial affairs) and the former Firemaster (as the Chief Executive Officer) had overall responsibility for ensuring that sound financial management arrangements were in place from April 1996, when the Board assumed responsibility for the provision of fire services in the Grampian area. In particular, they should have ensured that the accounting systems were fit for their purpose and that the finance department was adequately resourced with staff who had suitable financial expertise. Steps should also have been taken to ensure that the computerised financial accounting system was fully tested and that staff received adequate training in its use. Accounting for organisations such as the Fire Brigade should be relatively straightforward and had adequate arrangements been put in place from the start, the problems experienced in 1996/97 and 1997/98 may have been avoided.
- 6.4 Members of the Board were not provided with sufficiently robust financial information on which to make informed decisions and the concerns about financial control raised by members of staff and the external auditors were not brought to their attention. However, while I have not examined the role of the Board in detail, in my view Members have at all times a fundamental duty for the sound stewardship of public funds. Consequently, in my opinion, Board Members should have taken steps to satisfy themselves that appropriate financial arrangements were in place.
- 6.5 It is clear from the auditors' reports that action has been taken by current management to address the financial control problems identified in my report. The auditors have indicated that key financial accounts are being reconciled on a regular basis and that finance department resources are being increased. Alternative accounting arrangements are being considered, including the possibility of participation in Aberdeenshire Council's new computerised financial system. The auditors will be

reviewing progress in these areas as part of their continuing audit responsibilities and will report any continuing concerns in due course.

6.6 My report confirms the importance of sound financial management and that effective financial arrangements need to be in place for new organisations, including those involving joint working arrangements, from the start. In particular, the report highlights the importance of:

- detailed financial standing orders which formalise the financial management arrangements and set out the respective responsibilities of the ‘proper officer’ and other managers
- effective accounting and budgetary control systems
- regular reconciliation of key accounts. Any differences which emerge must be followed up and rectified quickly.
- testing computerised financial systems and providing adequate training to staff who are to operate these systems.



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Controller of Audit

15 July 1999