

Highland and Islands Fire Board

Report to Members and the Controller of Audit
on the 2009/10 Audit

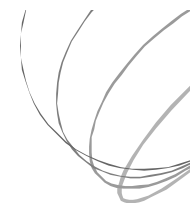
October 2010



 AUDIT SCOTLAND

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Key Messages

Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by the board. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2009/10 audit and the outlook for the period ahead.

Key outcomes from 2009/10 audit

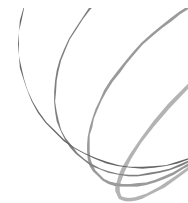
Overall, we found the financial stewardship of the board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- We have given an **unqualified** opinion on the financial statements of Highland and Islands Fire Board.
- Final accounts preparation procedures and working papers were generally good.
- As at 31 March 2010 the board remained within the revenue carry forward limits.
- Many aspects of a sound corporate governance framework are in place. Standing orders, scheme of delegation and contract standing orders are reviewed annually while Financial Regulations and Local Code of Corporate Governance are reviewed as appropriate.
- Internal Audit concluded that “reasonable assurance can be placed upon the adequacy and effectiveness of the Fire Service’s internal control systems for the year to 31 March 2010”.
- The process of collating and reporting statutory performance indicators is satisfactory.

Key issues for the board in the future include:

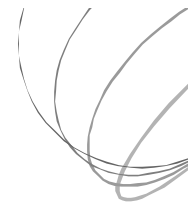
- Delivering services in the face of reducing funding in the years 2011 to 2014 including looking for opportunities to share services.
- Strengthening scrutiny by providing appropriate training for members.
- Succession planning and implementing equal pay
- Performance reporting including reporting on outcomes of the Single Outcome Agreements (SOAs).

Key issues for the attention of members are outlined in the Action Plan included in this report.



We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the board during the course of the audit.

Audit Scotland
October 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of Highland and Islands Fire Board. Findings are set out in four sections: financial statements, financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the board going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the board in February 2010. The AAP summarises the specific governance and other risks that could affect the board's financial statements. It describes the work we planned to carry out in response to these risks.
3. Overall conclusions about the board's management of key risks are discussed throughout this report. Appendix B sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.
4. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses highlighted by auditors in this and other reports are only those that have come to our attention during our normal audit work in accordance with the Code of Practice approved by the Accounts Commission, and may not be all of the weaknesses that exist. Communication by auditors of the matters arising from the audit does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
5. We thank the members and officers of the board for their assistance and cooperation in the conduct of our 2009/10 audit.

Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the board's financial statements for 2009/10. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
7. We audit the financial statements and give an opinion on:
 - whether they present a true and fair view of the financial position of the board and its expenditure and income for the year;
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of Highland and Islands Fire Board for 2009/10.
9. The board's balance sheet has an excess of liabilities over assets of £78.791 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
10. In his Explanatory Foreword to the accounts, the Treasurer outlined that the board had adopted a going concern basis for the preparation of the financial statements as future actuarial valuations of the Local Government Pension Scheme will consider the appropriate employer's rate to meet the commitments of the fund and constituent authorities are liable to fund the liabilities of the board as they fall due. Future pension liabilities will be met, as they fall due, by government funding and contributions from constituent authorities in the normal way. We are satisfied that the process the board has undertaken to consider going concern is reasonable.
11. The board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers available for audit were good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2010 and are now available for presentation to the board and publication. The financial statements are an essential means by which the board accounts for its

stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

12. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes impacting on the board's accounts were introduced by the 2009 SORP and overall, we were satisfied that the board had prepared the accounts in accordance with the 2009 SORP.
13. The board adjusted the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Treasurer and members via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues which arose during the course of our audit and for which adjustments were made are summarised below.
14. Injury benefits are now shown separately as they no longer form part of the statutory fire pension scheme arrangements. The in-year movements of injury benefits included in the unaudited accounts were based on estimates as the actuary did not provide the required figures. Actual figures were later requested and received from the actuary and revised calculations were made. This required an adjustment to increase pension interest costs by £69,000 and reduce the net cost of services by the same amount. This adjustment had no impact on the general fund balance.
15. An accrual of £95,000 was included in the creditors balance of the unaudited accounts for funding received but not used in the year relating to commutation of pensions. Audit testing found that the unused element of the actual funding received was only £16,000 and therefore the accrual had been overstated by £79,000. This balance related to funding already received by the board and which was to be transferred to the new pension account in 2010/11. It therefore should have been shown as a ring-fenced balance in the general fund and not as a creditor. The accounts were amended to reflect the correct figure and treatment for pension commutations. This adjustment had no impact on the general fund balance.
16. The accumulated depreciation of some pre-fabricated units amounting to £334,000 included under *Operational land and building* was inadvertently reversed as part of the adjustments made to effect the impact of the revaluation exercise on 1 April 2009. These units were not part of the revalued assets. The accumulated depreciation of £334,000 was reinstated thereby reducing the net book value of *Other land and building*. An adjustment was also made to reduce the balance on the *Revaluation reserve* by the same amount. There was no impact on the General Fund

17. The board's accounting policy states that assets under construction are "valued at historic cost until transferred to operational assets at which time they are valued by the Director of Housing & Property Services, Highland Council". Two new fire stations were revalued during the year resulting in a downward valuation of £166,145. Following discussions with The Highland Council's Property Manager we found that the valuation had been based on incomplete information. Revised valuations resulted in the impairment of these assets being overstated by £132,000. The accounts were amended to increase land and building and reduce the amount of impairment charged to the Income and Expenditure Account by £132,000 thereby reducing the deficit for the year. This however did not have any impact on the general fund and on the funding of assets.

Legality

18. Through our planned audit work we consider the legality of the board's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the board's management team, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control (SSIFC)

19. Scottish authorities are required by the local authority SORP to include a statement on the system of internal financial control with their statement of accounts. The 2009/10 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that "the board has in place a sound system of internal control."
20. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
21. The SORP states that authorities *may choose* to include a wider statement of internal control in place of a statement of internal financial control. The CIPFA framework document *Delivering good governance in local government* recommends that the review of the effectiveness of the system of internal control should be reported in an annual governance statement. LAAP bulletin 71 *The Annual Governance Statement* clarifies that authorities are encouraged (but not required) to include an annual governance statement with their accounts. The board may wish to consider moving to an Annual Governance Statement in future years.

Financial reporting outlook

IFRS adoption

22. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. A comparative balance sheet as at 1 April 2009 will be required as well as at 31 March 2010 and 2011.

23. The board's financial statements are prepared by officers of The Highland Council and the council signed a contract with a CIPFA/PricewaterhouseCoopers partnership to assist in the early identification of issues and the smooth transition to fully IFRS compliant financial statements within the agreed IFRS timetable. We have been advised that preparatory work on the IFRS balances has started and that restated opening balances are now available and we will be reviewing the restated balance sheet figures as a priority in our 2010/11 audit.

Financial position

Introduction

24. In this section we summarise key aspects of the board's reported financial position and performance to 31 March 2010, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the board in managing ongoing financial pressures in funding existing service delivery and future improvement.

General fund

Operating performance 2009/10

25. The board's net operating expenditure in 2009/10 was £28.493 million. This was met by constituent authorities' contributions of £24.429 million, resulting in an income and expenditure account deficit of £4.064 million. This represents 14.26% of the net expenditure for the year and largely reflects the unfunded nature of the Firefighters Pension Scheme.

26. The Board's net budgeted expenditure in 2009/10 was £24.634 million and this assumed that reserves of £0.3 million would be utilised in the year. The actual expenditure incurred was £24.640 million which resulted in a very small overspend of £0.006 million and the actual amount utilised from reserves was £0.211 million.

27. The difference of £3.853m between the net operating expenditure in paragraph 26 and actual expenditure in paragraph 27 is due to technical adjustments to the general fund required by statute and non-statutory proper practices. The movement on the general fund balance is an important aspect of the board's stewardship as the main budget reference point. After making the following technical adjustments a general fund deficit of £0.211 million was achieved in the year:

- capital investment being accounted for as it is financed, rather than when fixed assets are consumed;
- retirement benefits being charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

Reserves and balances

28. Under the Police and Fire Services (Finance) (Scotland) Act 2001, the Board is entitled to carry forward any unused in-year amounts to the value of 3% of the contributions paid into the Board's

general fund in the year. The Board is also entitled to carry forward cumulative unused amounts to the value of 5% of the contributions paid into the Board's general fund in the year. The Board can only exceed these percentages with the approval of the Scottish Ministers.

29. The board holds a general fund balance which is used as a contingency for unexpected events or emergencies. The board's policy "to maintain a sum equivalent to 3% of constituent authorities' contributions for contingent purpose and further 2% retained in order to allow the Service to act upon any unexpected opportunities, e.g. purchase of land or buildings via CFCR" is in line with the requirements of the Act.
30. The Board incurred a deficit in 2009/10 and therefore the in year 3% carry forward limit was not exceeded. The cumulative carry forward balance of £0.916 million equates to 3.7% and is therefore within the 5% limit.

Spending on assets and long-term borrowing

Capital performance 2009/10

31. Capital expenditure in 2009/10 totalled £2.771 million, decreasing from £3.052 million in 2008/09. Capital investment in 2009/10 was funded from government grants (£2.342 million), current revenue of £0.028 million, proceeds from sale of assets received in year of £0.056 million and a transfer from the capital receipts reserve of £0.345 million. The £2.342million capital grant included a £0.500 million top slice funding for new retained duty fire stations.
32. There was an underspend of £0.044 million against the budgeted expenditure of £2.815 million contained in the capital expenditure programme in 2009/10. This underspend mainly arose due to savings in relation to the build costs of Helmsdale and Lochboisdale stations.

Financial outlook

Spending review

33. The most significant challenge the board faces is a reduction in funding in the years 2011 to 2014. Although the exact size of the reduction will not be known until the last quarter of the year, the board is taking steps both nationally (through the Fire Conveners' Forum and Chief Fire Officers' Association Scotland (CFOAS)) and locally to meet the difficult economic challenges. CFOAS and the Fire Conveners are working to ensure that all eight Scottish Fire and Rescue Services align their planning assumptions and processes, and that these in turn align with those of local authorities. The Fire Conveners have recently agreed to support a National Strategy Programme which involve the following timescales:

- *“Year 1 (2011/12) – Address reductions in revenue budget through local efficiencies supported by, where agreed, National Policy Reviews • National Pay Negotiations• Interoperability/Collaboration*
- *Year 2 (2012/13) – Secure reductions in revenue budget via ongoing efficiencies programme (Local and National) and the establishment of enhanced collaborative working arrangements. In addition, consider implementing alternative delivery options.*
- *Year 3 (2013/14) – It is likely that Scottish Government will have declared its position on fundamental reform of the public sector and/or Fire. Further efficiencies or savings are likely to be generated by alternative delivery options being progressed.*
- *Year 4 and beyond – It is likely that overall spend reductions will be secured through Service integration, either Fire/Fire or Fire/Other Service(s).”*

34. Following latest guidance the board's assumptions for budget cuts have been revised accordingly and are now based on a 5% real term reductions in each of the next two years. This equates to identifying savings of £1.118 million in 2011/12 and £1.090 million in 2012/13. The board has identified £0.575 million efficiency savings to date and is exploring the potential to save additional £0.130 million leaving a gap of £1.4 million in order to achieve the next two years' target. The Service continues to work with the CFOAS in a collective approach to explore options for adoption on a national level in order to meet the challenges ahead. One of the proposals being made is to remove the 5% cap on reserves that Fire Boards can hold to enable them to build up more reserves that can be utilised in future years.

Capital spending

35. The Service has identified significant capital requirements. The Capital Survey produced in August 2006 identified 45 retained stations as failing to provide basic accommodation facilities such as water, toilets, showers and the minimum standards required for equality and diversity. The board was able to secure top slice funding of £0.500million to invest in new RDS programme and regular grant of £1.842 million to deliver some of the identified capital investment needs. Capital funding is also anticipated to be cut by up to 12% in each of the next three years. The board already faced significant challenges in addressing its capital needs and will need to look for innovative ways of meeting its capital programme in the current economic circumstances.

Key risk area 1

Pensions funding

36. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of numerous assumptions. In accounting for pensions,

FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the financial statements.

37. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. The board had a net pension liability of £93.953 million at 31 March 2010 (£59.297 million at 31 March 2009). As the scheme is unfunded, the pension liability will fall to be met by serving firefighters' contributions and by taxpayers in the future (through constituent authorities' contributions).
38. From April 2010, the board is required to set up and maintain a new pension account into which defined income will be made and out of which pensions in payment will be made. Income comprises employee contributions and a new actuarially-based employer's contribution calculated as a percentage of pensionable pay. The employer contribution rate from April 2010 is 21.8% for the old scheme and 11.5% for the new scheme. Any shortfall in pensions will be met through a 'top-up' payment by the Scottish Government.
39. The board's estimated pension liabilities for support staff at 31 March 2010 exceeded its share of assets in the Highland Council Pension Fund by £3.922 million (£1.830 million at 31 March 2009).
40. The contribution paid by the board into The Highland Council Pension Fund in 2009/10 was 275% of employees' contributions (290% in 2008/09) which was in line with the recommendation made by the actuary in their last full actuarial valuation at 31 March 2008.
41. In 2006/07 changes to the pension regulations allowed individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. An assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension was made. This is one of a number of assumptions made by the actuary in calculating pension costs. However, we are not aware of the board, or the administering authority undertaking any confirmation that the assumptions applied are appropriate to local circumstances. We would highlight that actuarial reports are only advisory and the board should confirm it is satisfied with the assumptions/rates used in these reports.

Key risk area 2

Governance

Introduction

42. In this section we comment on key aspects of the board's governance arrangements during 2009/10. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2009/10

43. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. During the year we reviewed the governance arrangements in Highland and Islands Fire Board and have concluded that, overall, the board had systems in place that operated well within a sound control environment.

Scrutiny

44. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. In September 2009, specific role descriptions for the Convener, Vice Convener and a generic Member role similar to those ones adopted by Northern Joint Police Board were approved by the Fire Board.
45. Following on from the approval of the role description of members, a training needs analysis was conducted jointly with the Northern Joint Police Board. In total 18 responses were received (from both boards), a response of 45%. The top development requirements identified by members were: scrutinising performance, complaints handling, staff appeals, finance & audit and personal /role development. In addition to the above subjects, the development programme will include further training on equalities & diversity, sustainability and risk management.
46. In April 2010 the Policy and Finance Working Group and Audit Working Group were brought together to form a Best Value and Audit Working Group. It is chaired by the Convener and comprises the Members who used to sit on the Policy & Finance and Audit Working Groups. This Working Group has the following remit:
- scrutiny of policy and resources;
 - consideration of audit and inspection reports (internal and external);
 - consideration of service performance against stated plans, targets and objectives.

47. In April 2010, the board agreed to receive a report and supporting presentation on each of its five strategic areas: financial resources, service delivery, workforce, asset management and planning and performance, to ensure effective leadership and scrutiny. The first report on workforce planning was taken to the April meeting of the board while reports on financial resources and service delivery were presented to the September board meeting. A timetable is in place to report on the five areas by January 2011. Each presentation/report covers 3 key objectives:
- define the duties, responsibilities and roles of the board in the context of the strategic framework;
 - confirm the key policies and resources that are in place to ensure the board is discharging its duties;
 - identify areas, policies and issues that it would want to scrutinise in more detail to reflect efficiency and/or effectiveness of objectives, and strengthen the challenge role of the board.

Internal Audit

48. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The board's internal audit service is provided by The Highland Council's Internal Audit function.
49. We carry out an annual review of the board's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We are pleased to conclude that internal audit work within the board is of a sufficient standard which allows us to place reliance on internal audit work in order to reduce our own input.
50. The internal audit plan for 2009/10 assumed audits would be undertaken in three areas: payroll, training and asset management. The audit of training was subsequently decided not to be pursued in agreement with the Chief Fire Officer. The audit of payroll was finalised after the preparation of the accounts and during our audit of the said accounts. This enabled us to review and rely on this audit to provide assurance on the financial statements. The audit of asset management on the other hand was not completed on time to enable us to rely on it as planned and we therefore extended our own testing accordingly. This was largely due to resourcing issues during the year which have subsequently been resolved and we do not anticipate similar difficulties in completing the internal audit plan in 2010/11.

Risk management

51. The board has a risk management strategy and review of the risk registers is a standard agenda in the service management and communication forums meetings. Operational risks are monitored as part of the Integrated Risk Management Plan process. Members have included risk management in their training needs analysis and we will continue to monitor progress in the board's development of its risk management framework.

Systems of internal control

52. In his August 2010 report to the Best Value & Audit Working Group, the Head of Internal Audit and Risk Management, Highland Council concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Fire Service's internal control systems for the year to 31 March 2010.
53. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the board's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
- Payroll
 - Budgetary control
 - Main accounting system

Prevention and detection of fraud and irregularities

54. The board has an approved Prevention and Detection of Fraud and Corruption Policy and a recently refreshed Public Interest Disclosure (Whistle-blowing) Policy which contribute to sound arrangements to prevent and detect fraud and corruption.

NFI in Scotland

55. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
56. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11.
57. The board's arrangements for following up matches is satisfactory and high risk matches are addressed promptly. Similar arrangements are anticipated for the new round of NFI in 2010/11.

58. This table summarises the status of the investigations made.

Category	Processed	In-progress	Fraud identified	Error identified	Overpayments and Savings (£)
Payroll	139	4	0	2	0
Creditors	53	2	0	17	1,000
Procurement	6	0	0	0	0
Total	198	6	0	19	1,000

59. There has been a relatively high number of payroll matches (143) however this is mainly due to the fact that most firefighters are retained fire fighters. As such they have other jobs, often in the public sector and as a result have shown up in these matches.

Governance outlook

Succession planning

60. In our AAP for 2009/10 we highlighted that the Board has yet to implement a formal workforce plan. Never has it been more relevant and important to have a robust workforce management strategy against the backdrop of increasing budgetary pressure. In April 2010, the chief fire officer (CFO) presented to the members a framework for workforce development incorporating the various aims and activities which underpin human resources, training & development, equality and diversity and health and safety. The Service is aware of the need to review its workforce activities in order to be responsive to the financial pressure imposed on public sectors.
61. The CFO resigned with effect from January 2010 and the board had agreed in November 2009 that the CFO of Dumfries and Galloway Fire Authority be seconded into the position. The period of this secondment was recently extended to May 2011 and the board has also agreed to commence the recruitment of a permanent CFO to ensure a smooth transition in Spring 2011.

Single status and equal pay

62. It was reported to the board in January 2010 that there has been no further progress in the review of single status and equal pay. This was due to the long term sickness and subsequent retirement of the Chair of the Steering Group, and the retirement of two further members of that group coupled with a significant number of key staff changes. It was proposed that the review will resume in October 2010 and be completed in October 2011 with any pay increases backdated to October 2010. Until the board has conducted this formal exercise there is no assurance that it is compliant with equal pay legislation and there is risk it may be exposed to potential financial claims.

Key risk area 3

Performance

63. In this section we summarise the board's performance management arrangements. We also provide an outlook on future performance management issues, including our views on the current status of identified risks.

Public performance reporting

64. Local Authorities have a clear statutory duty to make arrangements for reporting to the public on the outcome of the performance of their functions (Local Government in Scotland Act 2003). Statutory guidance on Best Value requires local authorities to manage performance effectively with a view to continuous improvement. This should reflect the local context in which they operate and their own particular priorities.

65. In December 2008 the Accounts Commission issued its Statutory Performance Indicators (SPI) Direction for the financial year 2009/10. The Commission's 2008 Direction represents a significant change in approach. It is designed to place increased emphasis on self determination by local authorities of the performance material, both qualitative and quantitative, that they choose to report to the public, in accordance with the principles and guidance underlying Best Value. The local authority must also ensure that, so far as is practicable, the information published is accurate and complete.

66. The Service has a dedicated Performance and BV Manager and Performance Coordinator who see to the arrangements to collect, analyse and report on performance information and both are familiar with the SPI Direction. The board receives regular reports on performance which incorporates both statutory performance information (fire casualties and accidental dwelling fires) and local indicators such as malicious fires. In April 2010 the board received a new style performance report which was work in progress at that time and is expected to be fully developed by September 2010. The report aims to provide a comprehensive set of quarterly and annual performance reports to the board by constituent authority covering:

- Progress against the shared Improvement Plan activities as set out in the board's Service Plan.
- Service performance on a series of Key Performance Indicators (KPI's).
- Where appropriate, links to constituent authority Single Outcome Agreement priorities and targets.
- Key delivery activity updates including: operational incidents, community safety activities, awards, achievements and complaints.

67. The KPIs which are presently being reported are:

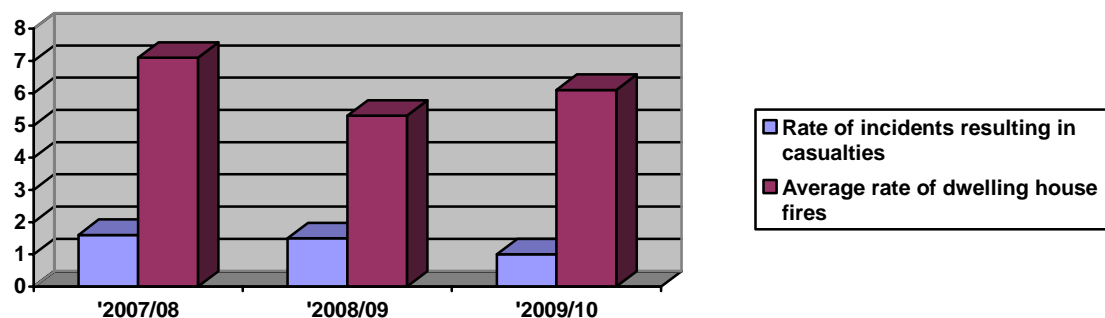
- KPI-01: Response to life-critical incidents - the number of accidental dwelling fires per 1000 dwellings (which is also an SPI reported annually)
 - KPI-02: Response to life-critical incidents - the number of fatal and non-fatal casualties arising from accidental dwelling fires (also an SPI)
 - KPI-03: Cause of potentially life-critical incidents - the number of maliciously-started fires
 - KPI-04: Fire prevention activities - the number of home fire safety checks undertaken per 1000 dwellings
 - KPI-05: Unwanted fire calls - the proportion of false alarms to the total number of incidents attended
 - KPI-06: Response times - the proportion of station hours of availability
 - KPI-07: Budgetary management - total of efficiency savings made
68. The Service should ensure that the performance measures developed cover the range of service performance required to demonstrate Best Value, comply with the SPI Direction and take account of the needs of its stakeholders including the general public. The Service may wish to expand its performance report to include the SPI on sickness absence and also indicators that measure not only operational but also support services' key performance and customers' satisfaction.

Key risk area 4

69. The Public Performance Report for 2009/10 has still to be published and we expect this to follow the same format as the 2008/09 report which incorporated both SPI and local performance indicators and provided for a balanced reporting of outcomes by highlighting both favourable and unfavourable results. It also provided the yearly trend and comparison with other fire authorities in some indicators.
70. Overall, we believe that the board has taken a strategic approach in its performance reporting arrangements and has put measures in place to ensure the complete and accurate collating and reporting of performance information which is relevant and up to date. As 2009/10 is the first year of reporting on the local key indicators (fire safety checks, number of malicious fires, number of alcohol related primary fires) there is no prior year information on which to draw comparisons. Results of the statutory performance indicators are outlined in the following paragraphs.

Community Fire Safety

71. The rate of incidents per 10,000 of the population resulting in casualties continues to decline and this year saw a significant improvement at 1.0 in 2009/10 from 1.5 in 2008/09 and 1.6 in 2007/08. The rate of accidental dwelling fires per 10,000 of the population on the other hand had gone up to 6.1 from 5.3 in 2008/09 and 7.1 in 2007/08.



Sickness absence

72. The days lost due to sickness and light duties during the year per fire officer was 5.7 (7.3 in 2008/09). While the number of rider shift days lost due to sickness increased from 264 in 2008/09 to 421 in 2009/10 as a result of fire officers on long-term sick leave, lost days due to light duties had gone down from 258 in 2008/09 to 24 in 2009/10 as a result of a number of employees who returned to duty after long periods of light duty cover. The working days lost due to sickness for all other staff was 8.9 (5.7 in 2008/09) also as a result of staff on long-term sick leave.

Single Outcome Agreement

73. The concordat between the Scottish Government and COSLA set out the terms of a new relationship between the Scottish Government and local government. It underpinned the funding to be provided to local government over the period 2009/10 to 2010/11. Central to the concordat is the single outcome agreement (SOA).
74. The board has a formally approved arrangement for supporting its Community Planning and SOA activities to ensure the appropriate level of engagement and support are given. It has appointed a lead principal officer and a principal officer for each of its constituent authorities to co-ordinate SOA planning. It recognises that dedicated elected member representation from the board is not currently in place on all CPPs although there are normally board members present in their capacity as a local councillor.

75. Parties to the concordat and the SOAs need to report on the quality, accessibility and value for money of all their services as part of their Best Value duties. As mentioned in par 66, the board is currently developing a performance reporting framework which will cover reporting on the SOA outcomes. We plan to continue to review the board's progress in this area on an ongoing basis.

Key risk area 5

Performance outlook

76. The new performance management framework is still work in progress and will take time to bed in. It is too early for us to assess its effectiveness in bringing about service improvements and efficiencies. This area will also be reviewed in more detail when the board receives its Best Value 2 audit.
77. Shared services have the potential to contribute to more efficient and effective public services. The Accounts Commission commented on the lack of progress in developing shared services in its Overview of the local authority audits 2008 and recommended that this be given high priority in the light of financial pressures and the drive for efficiency. We note that as part of the National Strategy Programme (see paragraph 33 above) that the Fire Service is looking for opportunities to share services with the Fire Service and with other bodies to achieve efficiencies. We will monitor progress in this area as part of our 2010/11 audit.

Final Remarks

78. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
79. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2010/11 audit.
80. The co-operation and assistance given to us by Highland and Islands Fire Board members and staff is gratefully acknowledged.

Appendix A: Reports and Opinions

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Best Value and Audit Working Group
Annual Audit Plan	15/02/10	26/03/10
Report on financial statements to those charged with governance	20/08/10	20/08/10
Audit opinion on the 2009/10 financial statements	15/09/10	N/A (to be presented to the Board)
Audit opinion on Whole of Government Accounts	23/09/10	N/A

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	35	<p>The board already faced significant challenges in addressing its capital needs and capital funding is also anticipated to be cut by up to 12% in each of the next three years.</p> <p>Risk: The board is unable to deliver its capital plan and this could impact on health and safety requirements.</p>	<p>The Service will continue to work with CFOA(S) to stress the need for capital investment within the Fire Service and the need to upgrade fire stations within the Highlands & Islands area.</p> <p>In addition the Service will continue to explore options for addressing its capital challenge including – conversion of industrial buildings, value reengineering etc.</p>	Head of Corporate Services	March 2011
2	41	<p>The board does not confirm the assumptions made by the actuary in calculating pension costs reflect local circumstances and experience.</p> <p>Risk: Actuarial assumptions may not be relevant to or reflect the experience of the board resulting in a misstatement of the financial statements.</p>	<p>Actuaries request and are provided fund specific information on which to base their FRS 17 estimates.</p> <p>The Pensions team in the Highland Council will in future conduct a high level check of the FRS 17 reports for assurance where possible that the reports are broadly consistent with the fund specific data provided.</p> <p>However it will not be possible to conduct a detailed review all of the actuarial assumptions and consequent outcomes.</p>	Treasurer	31 May 2011

