

# Grampian Joint Fire and Rescue Board

Report to Members and the Controller of Audit on the 2006/07  
Audit



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# Introduction

1. This report summarises the findings from our 2006/07 audit of Grampian Joint Fire and Rescue Board. The scope of the audit was set out in our Audit Planning Memorandum and Financial Statements Strategy issued in April 2007.
2. The financial statements of the joint board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the joint board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the joint board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
  - the joint board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
  - the joint board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
  - the joint board has proper arrangements for securing best value in its use of resources
  - arrangements have been made to collect, record and publish statutory performance indicators.



# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the joint board's financial statements for 2006/07. We also summarise key aspects of the joint board's reported financial position and performance to 31 March 2007.
5. We audit the financial statements and give an opinion on:
  - whether they present fairly the financial position of the joint 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.
6. We also review the Statement on the System of Internal Control by considering the adequacy of the process put in place by the joint board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the joint board.

## Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Grampian Joint Fire and Rescue Board for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The joint board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006 (the 'SORP'). Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.



## Financial position

### Going concern

9. The joint board's balance sheet at 31 March 2007 shows net liabilities of £98.7 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 the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
10. The joint board's Accounting Policies state that it has been considered appropriate to adopt a going concern basis for the preparation of the accounts as the accounting requirements for pensions do not impact on the underlying basis for meeting the joint board's current and ongoing liabilities. Future pension liabilities will be met, as they fall due, by contributions from constituent authorities in the normal way. We are satisfied that the process the joint board has undertaken to consider going concern is reasonable.

### Operating performance 2006/07

11. The presentation of the 2006/07 financial statements has changed significantly from the previous year, as a result of changes to the 2006 SORP. In place of the previous revenue account, the financial statements now include an income and expenditure account and a statement on the movement of the general fund balance which reflects items that need to be included/excluded when determining a local authority's budget requirement and requisitions from constituent authorities.
12. The joint board's net operating expenditure in 2006/07 was £32.508 million. This was met by requisitions from constituent authorities of £25.884 million, resulting in an income and expenditure deficit of £6.624 million. The statement of movement on the general fund balance shows that, after allowing for the items referred to above, a general fund deficit of £0.311 million was achieved in the year.
13. This deficit relates to the draw down of amounts set aside in previous years to fund payments of pension commutations (lump sums). In his Overview of the Joint Board's Finances, the Treasurer reconciles performance against budget with the Income and Expenditure deficit and the amount to be returned to constituent authorities.
14. Capital expenditure totalled £2.3 million in 2006/07, all of which was funded by government grant.



## Revenue reserve

15. The joint board holds a revenue reserve which consists of both an earmarked amount set aside to support future years' expenditure and a contingency for unexpected events or emergencies. At 31 March 2007, the reserve totalled £1.556 million, of which £0.261 million has been set aside to fund future payment of fire pension commuted sums. Joint fire and rescue boards are permitted to hold a cumulative balance equal to 5% of annual requisitions. The joint board has retained the maximum permitted as a working balance to provide a cushion in the event of a major incident.

## Accounting practice

16. The joint board adjusted the financial statements to reflect the majority of our audit findings. As is normal practice, a number of minor errors remain unadjusted and these have been reported to the Treasurer in our ISA 260 *Communication of audit matters to those charged with governance* report.
17. A number of presentational adjustments were made to the figures included in the un-audited accounts provided for public inspection. These did not impact on the deficit for the year or the net worth of the joint board. The main changes were:
  - amended disclosures for pension liabilities to meet the requirements of the 2006 SORP
  - inclusion of a more detailed commentary on the revenue outturn for the financial year, and the impact of the changed presentation of the financial statements
  - correction of differences in inter-related balances.

**Action point 1**

## Legality

18. Each year we request written confirmation from the Treasurer that the joint board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the joint board were in accordance with the relevant legislation and regulations governing its activities.
19. There are no additional legality issues arising from our audit which require to be brought to members' attention.



## Financial outlook

### Pension liabilities

20. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. An Audit Scotland report on public sector pension schemes published in June 2006 highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion.
21. 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 annual accounts.
22. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. At 31 March 2007, the present value of the scheme liabilities was £128.7 million, reducing from £129.8 million in the previous year. This liability will fall to be met by serving firefighters' contributions and by tax payers in the future (through constituent authorities' contributions).
23. The joint board's estimated pension liabilities for civilian staff at 31 March 2007 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £2.2 million, reducing from £2.9 million in the previous year. The decrease in liability is largely as a result of changes to pension regulations which allow individuals to elect to receive a larger lump sum payment in return for a reduced annual pension.

### Financial reporting

24. A number of changes have been made to the 2007 SORP, including changes to capital accounting requirements to introduce a revaluation reserve and capital adjustment account. The joint board should review its compliance with the 2007 SORP as part of its procedures for preparing the 2007/08 financial statements.

**Action point 1**



# Governance

## Introduction

25. In this section we comment on key aspects of the joint board's governance arrangements during 2006/07.

## Overview of arrangements in 2006/07

26. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The joint board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The joint board has many aspects of a sound corporate governance framework in place.
27. Prior to the elections, our assessment of the joint board's Finance, Audit and General Purposes Committee was that it complied with the majority of the good practice principles set out in CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland*. The committee meets regularly and takes reports from both internal and external audit.
28. The success of an audit committee as part of the joint board's scrutiny arrangements is dependent on its members. The new Finance, Audit and General Purposes Committee was established following the May 2007 elections. The membership has changed considerably and a new chair has been appointed. Induction training has been provided for new members and included their role in performance management and scrutiny. We plan to review the new committee's compliance with CIPFA's guidance note during 2007/08.

## Internal audit

29. Internal audit plays a key role in the joint board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The joint board's internal audit service is provided by Aberdeenshire Council under a service level agreement.
30. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the joint board's internal audit arrangements and found that, during 2006/07, the internal audit service continued to operate in accordance with the code.



31. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that we were able to place reliance on the following specific pieces of work in 2006/07:

- whole-time firefighters' payroll
- purchasing and creditors

## Statement on the system of internal financial control

32. A Statement on the System of Financial Internal Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the joint board's internal control system. No areas have been highlighted as requiring improvement.

33. In accordance with good practice, the statement is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by internal audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Systems of internal control

34. 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 joint board's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- payroll
- creditor payments
- main accounting system
- debtors and income

35. We also placed reliance on the Chief Internal Auditor's conclusion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2007.'

## Prevention and detection of fraud and irregularities

36. At the corporate level, the joint board has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, an anti-fraud policy including a strategy for prevention and detection of fraud and corruption and a whistle blowing policy.



## **NFI in Scotland**

37. In 2006/07 the joint board again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and 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.
38. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
39. The NFI 2006/07 results (data matches) were made available on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the joint board's involvement in NFI 2006/07 during the course of our audit.
40. The Service has responded positively to NFI and adopted a structured approach to the analysis of the 31 matches arising from the 2006/07 exercise. Investigation of the matches, which all related to payroll, has been completed and no overpayments, frauds or savings were identified.

## **Future outlook**

41. The joint board continues to face significant challenges including the efficient government agenda and the impact of increased pension costs. In addition, the development of a joint emergency services headquarters on the North Anderson Drive site provides opportunities for joint working with partners. In these circumstances, there are risks that partners are unable or unwilling to work effectively in a joined-up manner and do not maximise the opportunities presented. We will continue to review the controls put in place by management to address these challenges as part of the 2007/08 audit.



# Performance

## A performance audit of the Scottish fire and rescue services

42. As part of the Fire Service National Joint Council agreement on pay and conditions in 2003, the Accounts Commission agreed to undertake a verification exercise to examine whether the intended benefits of the various national changes under modernisation were being delivered locally. This was undertaken in two phases during 2004. The second national verification report concluded that modernisation was a long process and that there was still a significant amount of work to be done before real change would be delivered on the ground.
43. The Accounts Commission asked Audit Scotland to undertake a performance audit of all of the fire and rescue authorities in Scotland during 2006. The study focused on the extent to which fire and rescue services were achieving the objectives of modernisation and, in particular, whether the integrated risk management plans (IRMP) were effectively supporting the change in emphasis from intervention to prevention, and to what extent progress to modernisation is reflected in the culture of the organisation.
44. Six areas of performance were reviewed:
- strategic management
  - fire prevention and risk management
  - financial management
  - workforce management
  - management of operational business
  - communication
45. The report on the Grampian Fire and Rescue Service was published in December 2006 and concluded that:
- ‘Overall, the Service has made reasonable progress since the phase 2 verification audit. The senior management team has been in place for 18 months and has made progress in developing a clear strategic direction. It now has to move quickly to implement the range of plans and actions to achieve its strategic objectives. In particular, fully integrating IRMP into the strategic planning cycle, developing a more strategic approach to workforce management, and completing the planned operational reviews.’*
46. The report identified twenty-nine areas for improvement. The joint board has built these into its strategic plan for 2007-2010 and annual action plan for 2007/08.



47. The joint board has already made progress in addressing some of the issues raised in the performance report:
- as noted above, a three year strategic plan and an annual action plan were approved in June 2007. The strategic plan translates the joint board's 10 year strategic vision into 3 year statements of intent for each of the Service's five strategic themes and underwent extensive public and staff consultation. The action plan includes an assessment of achievements against the previous year's plan but does not include SMART (specific, measurable, achievable, realistic and time-based) targets against which to measure future performance
  - the initiatives included within the three year strategic plan have been costed at £3.7 million. This is mostly made up of additional staff and capital costs. The joint board is working towards linking these costings with the budget setting process in order to demonstrate that plans are affordable and sustainable. Expenditure on these initiatives will be monitored quarterly
  - a reserve strategy has been developed which sets out the purpose and intended use of reserves
  - the asset management system has been populated with all of the joint board's assets, and is currently being used to record maintenance, tests and repairs. Three stations are using the web interface software to record maintenance or tests carried out, report faults and update their inventory of equipment held. All stations are scheduled to be using this software by 2009/10
  - a draft asset management plan has been developed but more work is required to ensure that it captures all of the information included in the asset management system and links to the joint board's strategic, service and capital plans.

#### **Action point 2**

48. Audit Scotland intends to review progress against the improvement agendas agreed in each of the local audit reports and the recommendations in the national report in the next few months. Findings will be published in a short summary report to the Accounts Commission in February. Local follow up reports will not be prepared as key messages will be included in the summary report.

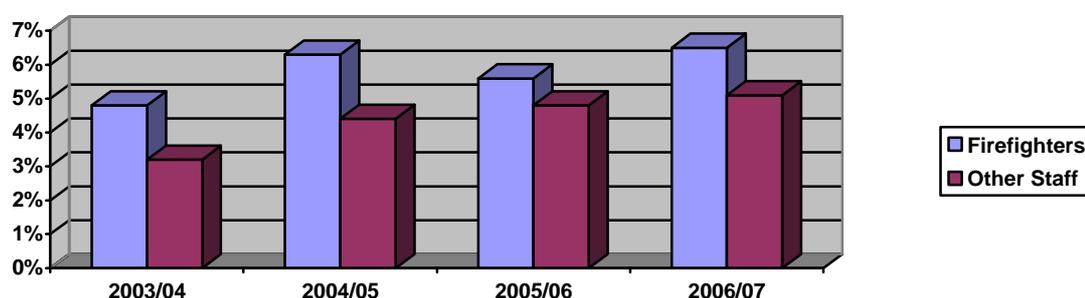
## **Statutory performance indicators**

49. The joint board has a statutory duty to collect, record and publish specified performance indicators, and so far as is practicable, ensure that they are accurate and complete. The Accounts Commission issues a Direction each year detailing the indicators that require to be published and external auditors review the joint boards' arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of reports on performance.



50. In 2006/07, all indicators were assessed as reliable and were supported by satisfactory working papers. Overall, the joint board's year on year performance has deteriorated, with all but one indicator showing a decline in performance from 2005/06. In particular, the percentage of calls handled within one minute fell from 73.1% in 2005/06 to 60.4% in 2006/07, and sickness absence levels rose for both firefighters and civilian staff.

### **Sickness absence levels**



## **Future outlook**

51. The joint board needs to build on the progress that it has made to date in implementing its improvement agenda, including further development of:

- an integrated planning framework and performance management system
- the asset management planning process, linked to capital expenditure strategies and plans, to ensure best value in the use of the joint board's assets and that spending plans are affordable, prudent and sustainable
- public performance reporting to ensure that it meets fully the requirements and expectations of the Best Value and Local Government (Scotland) Act.

### **Action point 2**

52. Performance as measured by the SPIs has deteriorated this year. The joint board needs to consider how it can improve performance in these areas, including increasing the percentage of calls it handles within one minute.



# Final Remarks

53. The members of Grampian Joint Fire and Rescue Board are invited to note this report. We would be pleased to provide any additional information that members may require.
54. The co-operation and assistance given to us by officers of the joint board is gratefully acknowledged.

**Audit Scotland**  
**October 2007**



# Appendix: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	17 & 24	<p><b>Financial reporting</b></p> <p>A number of adjustments were made to the 2006/07 financial statements to improve their presentation and compliance with the 2006 SORP.</p> <p>A number of changes have been made to the 2007 SORP. The joint board should review its compliance with the 2007 SORP as part of its procedures for preparing the 2007/08 financial statements.</p> <p><b><i>Risk: the financial statements will not present fairly the joint board's financial position. If material amounts are involved, the accounts may be qualified.</i></b></p>	<p>The changes required by the 2007 SORP are currently being progressed.</p>	<p>Head of Finance</p>	<p>31 March 2008</p>

