

# Grampian Joint Fire and Rescue Board

Report to Members and the Controller of Audit on the 2007/08 Audit



31 October 2008



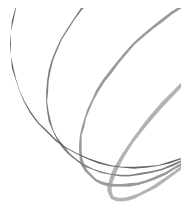


# Grampian Joint Fire and Rescue Board

**Report to Members and the Controller of Audit on the 2007/08  
Audit**

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# Introduction

1. This report summarises the findings from our 2007/08 audit of Grampian Joint Fire and Rescue Board. The scope of the audit was set out in our Annual Audit Plan issued in February 2008.
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 2007/08 and summarise key aspects of the joint board's reported financial position and performance to 31 March 2008. We also provide an outlook on future financial prospects, including our views on potential financial risks and pressures.
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 review the Statement on the System of Internal Financial 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 2007/08. The un-audited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly. Audited accounts were finalised by the end of August, a month ahead of the target date of 30 September and are now available for presentation to the joint board and publication.

## Issues identified during the financial statements audit

8. The joint board is required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. Changes included accounting for financial instruments based on financial reporting standards 25, 26 and 29 and replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.



9. Overall, we were satisfied that the joint board prepared its accounts in accordance with the revised SORP although a number of presentational adjustments were required to the un-audited accounts provided for public inspection.
10. The joint board adjusted the financial statements to reflect the majority of our audit findings. As is normal practice, immaterial unadjusted errors were reported to the Treasurer in our ISA 260 *Communication of audit matters to those charged with governance* report. As noted above, a number of presentational changes 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. There are no significant accounting issues arising in the course of our audit that require to be brought to the attention of members.

## Financial position

### Going concern

11. The joint board's balance sheet at 31 March 2008 shows net liabilities of £106.2 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.
12. The joint board's Statement of 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 employees and constituent authorities in the normal way. We are satisfied that the process the joint board has undertaken to consider going concern is reasonable.

### Financial performance 2007/08

13. The joint board's net operating expenditure in 2007/08 was £34.016 million. This was met by requisitions from constituent authorities of £26.483 million, resulting in an income and expenditure deficit of £7.533 million. After taking into account statutory and non-statutory adjustments, a general fund surplus of £0.451 million (1.7% of budget) was achieved. The majority of this (£0.330 million) will be refunded to the constituent authorities, with the remainder (£0.121 million) added to the General Fund balance at the year end. In his Overview of the Joint Board's Finances, the Treasurer summarises performance against budget and highlights that the majority of the underspend is due to increased income (£0.668 million) offset by increased costs associated with repayment of debt (£0.161 million).



14. Capital expenditure totalled £3.241 million in 2007/08 and was funded by government grants (£3.056 million) and capital receipts (£0.185 million).

## **General Fund balance**

15. The joint board maintains a General Fund 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 2008, the General Fund totalled £1.677 million, of which £0.352 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.

## **Legality**

16. 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.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Financial outlook**

### **2008/09 budget and future financial pressures**

18. The joint board's revenue budget for 2008/09 was approved in January 2008. The August 2008 monitoring report projects an underspend of £0.058 million against budgeted net expenditure of £27.5 million at 31 March 2009. This is mainly due to vacancies and retirements in the first five months of the year offset by increased energy and fuel costs, reduced income from fewer staff being seconded outwith the Service and the costs of special responsibility allowances for the Convener and Vice Convener of the Board which were previously funded directly by their constituent authorities.
19. In September 2008, the Scottish Government announced changes to the commutation factors used to calculate firefighters' retirement lump sums and backdated these to 1 October 2007. Although this contingent liability was recognised in the joint board's 2007/08 accounts, no money was set aside to cover the backdated element as the change had not been confirmed at the time the accounts were finalised. The joint board estimates that this change will add an additional £0.438 million to commutation payments in 2008/09. The funding for this has still to be agreed between the Scottish Government and HM Treasury.





20. The joint board faces increasing pressure on its revenue budget following the removal of Grant Aided Expenditure (GAE) and councils' agreement to freeze council tax levels for the current and following two years. Historically, Grampian Fire and Rescue Service has been funded above GAE by its constituent authorities but the joint board recognises that there is no guarantee that this will continue.
21. The majority of the joint board's expenditure (81%) relates to staff, including pension costs with a further 13% spent on fixed overheads such as insurances, fuel and energy costs. The council faces significant pensions costs in 2009/10 due to the increased number of staff eligible to retire that year. In addition, the joint board is currently considering other options for a new headquarters following the breakdown of talks with Grampian Joint Police Board regarding the potential development of a joint emergency services headquarters.
22. The joint board acknowledges that careful business planning, more efficient use of resources and improved performance management, together with prudent budgeting and strong leadership will be necessary to enable it to progress its improvement agenda.

#### **Action point 1**

### **Pension liabilities**

23. 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.
24. 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.
25. The fire fighters' pension scheme is unfunded and, therefore, has no assets to be valued. At 31 March 2008, the present value of the scheme liabilities was £140.5 million, increasing from £128.7 million in the previous year. This liability will fall to be met by serving fire fighters' contributions and by tax payers in the future (through constituent authorities' contributions).
26. The joint board's estimated pension liabilities for civilian staff at 31 March 2008 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £3.2 million, increasing from £2.2 million in the previous year. The increase in liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.



## **IFRS adoption**

27. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas, including PFI.



# Governance

## Introduction

28. In this section we comment on key aspects of the joint board's governance arrangements during 2007/08.

## Overview of arrangements in 2007/08

29. 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. Based on the work undertaken, we concluded that the joint board needs to improve its corporate governance arrangements.

30. Our audit identified one area of non-compliance with Financial Regulations during 2007/08 relating to the sale of a piece of land to Tesco plc. Paragraph 4.7 of the joint board's Financial Regulations requires that properties for sale be advertised in at least one local newspaper. In exceptional circumstances, Board members can agree to suspend Financial Regulations but this was not done on this occasion despite the sale not being advertised. Although we have been assured that the sale price was well in excess of the land's open market value, in future the joint board should ensure that where Financial Regulations are not to be followed, Board members consent to them being set aside.

### **Action point 2**

31. In our Annual Audit Plan, we highlighted that although Standing Orders and Financial Regulations make reference to a register of members' interests, the joint board does not have one in place. Information on members' interests is currently being collated. Until this is complete, there is a risk that members may not be recording all their interests and that accountability may be reduced if the public are not able to easily access this information.

### **Action point 3**

32. In 2007 CIPFA/SOLACE published a framework 'Delivering Good Governance in Local Government' which incorporates the six principles of the Langland's report 'Good Governance in Local Government' and sets out standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The joint board has yet to demonstrate that it has assessed its corporate governance structures against this framework and adopted a local code of corporate governance.

### **Action point 4**



## Member training

33. Following the May 2007 elections, induction was provided for new members of the joint board including their role in performance management and scrutiny. Skills audits have not been undertaken and personal development plans have not been prepared. We have been advised that the joint board is planning to develop a competency framework to serve as a baseline for identifying members' skills gaps in the future but this has yet to be implemented. Audit Scotland is currently gathering information in order to obtain a fuller picture of member training across Scotland.

**Action Point 5**

## Finance, Audit and General Purposes Sub-Committee

34. 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.
35. Following the May elections, a new Finance, Audit and General Purposes Sub-Committee was established with significantly changed membership and a new chair. During 2007/08, we reviewed the committee's compliance with the good practice principles set out in CIPFA's guidance note '*Audit Committee Principles in Local Authorities in Scotland*' and concluded that it complied with the majority of them. The committee meets regularly and takes reports from internal audit. External audit reports are considered by the full Board.

## Internal audit

36. 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. The agreement was reviewed and renewed in March 2007 and runs until 2013.
37. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. Although our assessment confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government, internal audit's 2007/08 plan did not include review of any of the joint board's main financial systems. Consequently, we were unable to take any assurance from internal audit's 2007/08 work as part of our audit of the financial statements. We did, however, take partial assurance from internal audit's 2006/07 work on the payroll and creditors systems.



## Statement on the system of internal financial control

38. A Statement on the System of Internal Financial 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.
39. 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

40. 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
  - main accounting system
  - fixed asset system
  - creditor payments
  - debtors and income
41. We also placed reliance on the Chief Internal Auditor's conclusion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Service's internal control system in the year to 31 March 2008.'

## Prevention and detection of fraud and irregularities

42. 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

43. In May 2008, Audit Scotland published a 'National Fraud Initiative in Scotland 2006/07' report which highlighted that fraud and overpayments in excess of £9.7 million were identified as a result of the 2006/07 NFI exercise in Scotland.
44. The results of the joint board's involvement in the 2006/07 exercise were reported to the Board in April 2008. The report confirmed that all matches had been investigated and that no overpayments, frauds or savings had been identified. This provides assurance that the council's internal arrangement for preventing and detecting fraud are operating satisfactorily.



45. The 2008/09 NFI exercise commenced in October 2008 and all staff have been advised of the matching exercise through notices attached to their payslips. We will continue to monitor the joint board's involvement in NFI as part of our 2008/09 audit.



# Performance

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

46. In 2006, Audit Scotland undertook a performance audit of all fire and rescue authorities in Scotland, producing a local report for each Service. Grampian Fire and Rescue Service's report identified twenty-nine areas for improvement which were built into its strategic plan for 2007-2010 and the annual action plan for 2007/08.
47. Last year we reported that progress had already been made in addressing some of the issues raised in the performance report but highlighted that further work was required to develop:
- an integrated planning framework and performance management system
  - the asset management 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.
48. Although the joint board has continued to make progress with its improvement agenda during 2007/08, the key areas noted above have yet to be fully addressed. The joint board plans to progress these further in 2008/09.
49. In early 2008 Audit Scotland reviewed progress made by fire and rescue services in implementing the improvement actions included in local audit reports and published the results in July 2008. Overall, the follow up study found that progress had been made in a number of areas, including:
- implementing initiatives to increase the engagement of elected members, which has resulted in greater awareness of their responsibilities around governance and scrutiny
  - taking a more strategic approach to partnership work, with more partnership registers and a more proactive role in Community Planning partnerships
  - continuing to prioritise resources into community safety and fire prevention, within the context of their Integrated Risk Management Plans (IRMPs)
  - developing personal appraisal systems for staff and implementing the Integrated Personnel System for retained staff.



50. Within the report there are specific mentions of the Grampian Fire and Rescue Service. These include the lack of a training needs assessment for elected members, the absence of robust arrangements for evidencing efficiency savings and the need to complete the full roll-out of rank to role, the move from a traditional rank-based staffing structure to one based on competence.
51. The joint board needs to continue to build on the progress that it has made to date in implementing its improvement agenda. Audit Scotland is currently undertaking a national study on asset management covering the fire and rescue service. We will review the joint board's arrangements for addressing the report's recommendations as part of our 2008/09 audit.

#### **Action Point 6**

### **Statutory performance indicators**

52. 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 an annual Direction detailing the indicators that require to be published. Each year we review the joint board's arrangements for preparing the statutory performance indicators (SPIs) and assess the reliability of the resulting indicators.
53. Overall, the quality of working papers provided to support the SPIs was poor and there was little evidence that they had been checked to ensure that they were complete, accurate and in compliance with the Direction prior to submission for audit. Two indicators (accidental dwelling fires and call response times) were assessed as unreliable in 2007/08 compared to none in 2006/07. In both cases this was due to non-compliance with the definition set out in the Direction.

#### **Action plan 7**

54. The council does not compare its SPI performance against other Fire and Rescue Services as it does not consider they are similar enough to make valid comparisons.
55. Last year we reported that performance as measured by the statutory performance indicators deteriorated in 2006/07. In our 2007/08 Annual Audit Plan we highlighted there was a risk that there were underlying issues which would continue to impact on service delivery if they were not addressed. This year performance is broadly unchanged from 2006/07, except for a significant improvement in the sickness absence level for civilian staff.

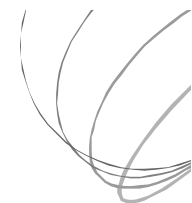




# Final remarks

56. Attached 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.
  
57. A mechanism 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 2008/09 audit.
  
58. The co-operation and assistance given to us by members and officers of the joint board is gratefully acknowledged.

Audit Scotland  
October 2008



# Appendix: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18 to 22	<p><b>Financial pressures</b></p> <p>The joint board faces increasing pressure on its revenue budget including increased energy and fuel costs, pension costs and the potential impact of constituent authorities' agreement to freeze council tax levels for the current and following two years.</p> <p><b>Risk: the joint board may not be able to sustain the current level of services in the future and continue to progress its improvement agenda.</b></p>	<p>The Chief Fire Officer previously submitted a detailed report to the current Joint board entitled '<i>Facing the Financial Challenges</i>'. The Service is acutely aware of the wider public sector funding pressures and has adopted a philosophy of realising potential and building capacity to allow reinvestment into the budget together with realising efficiency savings and more effective working to minimise requisitions to constituent authorities. We will continue to monitor the budget through regular reports to the Finance, Audit and General Purposes Committee.</p> <p>The budget submission to the January 2009 Joint Board will set out our 3 year proposals in line with our planned action.</p>	Chief Fire Officer	Ongoing



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
2	30	<p><b>Compliance with Financial Regulations</b></p> <p>Our audit identified one area of non-compliance with Financial Regulations during 2007/08. In future the joint board should ensure that where Financial Regulations are not to be followed, Board members consent to them being set aside.</p> <p><b><i>Risk: the joint board may not be able to demonstrate the legality of its activities and transactions and that adequate arrangements are in place for the conduct of its affairs.</i></b></p>	<p>The Service is aware of its responsibilities under the Financial Regulations and will ensure full compliance where it is applicable.</p>	<p>Head of Finance</p>	<p>Completed</p>
3	31	<p><b>Register of members' interests</b></p> <p>Although Standing Orders and Financial Regulations make reference to a register of members' interests, the joint board does not currently have one in place.</p> <p><b><i>Risk: members may not be recording all their interests and public accountability may be reduced if the public is unable to easily access information on members' interests.</i></b></p>	<p>All Joint Board members are councillors and have completed a Register of Interests for their Council. These will be combined into a Joint Board Register and put on the Joint Board website.</p>	<p>Clerk to the Joint Board</p>	<p>31 December 2008</p>



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
4	32	<p><b>Corporate governance arrangements</b></p> <p>The joint board has yet to demonstrate that it has assessed its corporate governance structures against CIPFA/SOLACE's revised framework 'Delivering Good Governance in Local Government' and adopt a local code of corporate governance.</p> <p><b>Risk: the joint board's corporate governance arrangements may not comply with best practice.</b></p>	<p>The document referred to is only one of many such techniques for the assessment of governance and is not a mandatory requirement on Public Bodies.</p> <p>Aberdeenshire Council has reviewed this guidance on behalf of the Joint Board.</p> <p>A Governance Review has been prepared by Board officers and is to be the subject of discussion with members on 21 November 2008.</p>	Clerk to the Joint Board	31 December 2008
5	33	<p><b>Member training</b></p> <p>Following the May 2007 elections, induction was provided for new members of the joint board including their role in performance management and scrutiny. Skills audits have not been undertaken and personal development plans have not been prepared. The joint board is planning to develop a competency framework to serve as a baseline for identifying members' skills gaps in the future but this has yet to be implemented</p> <p><b>Risk: members may not have all the skills necessary to fulfil their responsibilities.</b></p>	<p>Discussions are underway to arrange suitable dates for a CIPFA led training day on Governance. The training includes:</p> <ul style="list-style-type: none"> <li>▪ Functioning effectively as a Board</li> <li>▪ Performing Effectively and Making Accountability Real</li> <li>▪ Developing the Capacity and the Capability of the Board and Board Members</li> <li>▪ An Action Plan for Improvement</li> </ul> <p>Following the course, Board members will be invited to identify any areas for development and these will be addressed by the Service.</p>	Assistant Chief Fire Officer	31 March 2009



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
6	46 to 51	<p><b>Performance</b></p> <p>The joint board needs to continue to build on the progress it has made in implementing its improvement agenda.</p> <p><b>Risk: the joint board may fail to deliver best value in the use of its resources.</b></p>	<p>The Service has recently developed a number of strategies which have been fully endorsed by the Joint Board. These strategies will provide a focus for all service improvements including those areas previously highlighted by Audit Scotland.</p>	Assistant Chief Fire Officer	Immediate
7	53	<p><b>Statutory Performance Indicators</b></p> <p>Overall, the quality of working papers provided to support the SPIs was poor and there was little evidence that they had been checked to ensure that they were complete, accurate and in compliance with the Direction prior to submission for audit.</p> <p>Two indicators (accidental dwelling fires and call response times) were assessed as unreliable in 2007/08.</p> <p><b>Risk: members and the public may not be provided with complete and accurate performance information</b></p>	<p>The Service has recently had an Internal Audit report on Performance Management and will be working towards implementing those recommendations.</p> <p>Communication with Audit Scotland as to the standard of working papers expected will also be undertaken.</p> <p>The collation and presentation of the data was consistent with previous years but the Service accepts that there were minor errors in the data for the two indicators mentioned.</p> <p>The Service has already rectified the error for the call response times whilst further clarification is being sought at a national level, in conjunction with Audit Scotland, regarding the definition of the first indicator.</p>	Head of Central Support Services	31 March 2009