

# Central Scotland Joint Fire & Rescue Board

**Report to Members and the Controller of Audit  
on the 2008/09 Audit**

October 2009

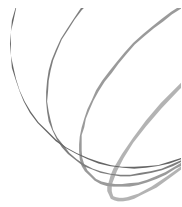


 AUDIT SCOTLAND



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# Key Messages

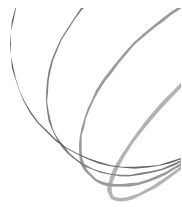
## Introduction

In 2008/09 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 2008/09 audit and the outlook for the period ahead.

## Key outcomes from 2008/09 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 Central Scotland Joint Fire & Rescue Board
- Final accounts preparation procedures and working papers were generally good
- Balances as at 31 March 2009 exceeded the level required as a contingency against unforeseen events and emergencies as required by the board's reserves strategy. However, the board has satisfied the legislative requirements for revenue reserve amounts carried forward having carried forward unused in-year amounts within the allowable limit of 3% of the contributions paid into the Board's general fund in the year and having received Scottish Minister approval to carry forward a cumulative general fund balance exceeding the 5% limit
- Many aspects of a sound corporate governance framework are in place. Work needs to continue, however, to fully embed risk management into strategic and operational planning activities
- Internal Audit concluded that "substantial assurance can be placed upon the Board's overall framework of control for the year to 31 March 2009"
- all statutory performance indicators were assessed as reliable
- the board are taking forward a shared services initiative for civil emergencies response and back office functions in conjunction with Fire and Rescue Services at Fife and Tayside.



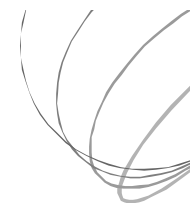
Key issues for the board in the future include:

- continuing to address the challenges to the Board in achieving its corporate objectives, including the introduction of an effective performance management framework
- the need to continue developments in relation to governance arrangements, including an assessment by the Board of the performance of the Best Value & Scrutiny Committee, ongoing training for members and the development of effective risk management processes
- the development of a robust asset management planning process
- working with councils and other partners to deliver the outcomes of 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 2009



# Introduction

1. This report summarises the findings from our 2008/09 audit of Central Scotland Joint Fire & Rescue Board, the third year of a five year appointment. Other detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. Findings are set out in four sections: performance; financial position; governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the board going forward.
3. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the board in May 2009. 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.
4. 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.
5. 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.
6. We thank the members and officers of the board for their assistance and cooperation in the conduct of our 2008/09 audit.

# Financial statements

## Introduction

7. In this section we summarise key outcomes from our audit of the board's financial statements for 2008/09. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
8. 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.
9. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the board to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the board.

## Overall conclusion

10. We have given an **unqualified** opinion on the financial statements of Central Scotland Joint Fire & Rescue Board for 2008/09.
11. The Board's balance sheet has an excess of liabilities over assets of £74.915 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.
12. In his Foreword to the accounts, the Treasurer outlines his view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as constituent authorities of the Board are required under the 1995 Combined Fire Area Administration Scheme Order, to meet all liabilities of the Board as they fall due. Future pension liabilities will be met, as they fall due, by government grant 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.
13. 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 2009 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

14. 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 were introduced by the 2008 SORP and overall, we were satisfied that the board had prepared the accounts in accordance with the 2008 SORP.
15. 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*.
16. A major change was made to the unaudited financial statements in respect of FRS 17 (Retirement Benefits) costs. Proper accounting practice requires local authorities to make a charge to the income and expenditure account for pension costs based on FRS 17 Retirement Benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003 (the 2003 Regulations) provides the statutory basis for local authorities to remove the FRS 17 based costs from being a charge to the general fund so that only the actual pension payments are charged to that fund. However, the 2003 Regulations do not currently apply to the new pension scheme established with effect from 6 April 2006 by the Firefighters' Pension Scheme (Scotland) Order 2007.
17. Although the Scottish Government intend amending the regulation to include this new scheme, there is no statutory basis for removing the FRS 17 based costs from the general fund in respect of the new scheme at the date these financial statements were authorised for issue. As a result, the financial statements have been adjusted to add back FRS 17 costs previously removed from the general fund amounting to £0.3 million in 2008/09 and £0.2 million in respect of previous years. This has resulted in a reduction of £0.5 million in the balance on the General Fund as at 31 March 2009, with a corresponding adjustment to the Pension Reserve. If the Scottish Government amend the regulations, the £0.5 million will be returned to the General Fund in 2009/10.
18. The financial statements have not been adjusted to reflect a recent judgement regarding the back dating of commutation payments in respect of the Firefighters' Pension Scheme. On 10 September 2009, the Scottish Public Pension Agency advised of additional backdating of new commutation factors to 22 August 2006. Until this date, the new pension commutation factors could only be



backdated to 1 October 2007. The additional backdated amount is estimated at £0.08 million which will be fully funded through a redetermination of revenue support grant as approved through the Local Government Finance (Scotland) Order 2010. As noted in note 14 to the core financial statements, these sums have not been adjusted for on the grounds that the amounts are not considered to be material.

## Legality

19. 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)

20. 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 2008/09 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system.
21. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
22. 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

23. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. However, it is important that the board starts the transition period in 2009/10. A comparative balance sheet as at 1

April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10.

24. This will present an early challenge in ensuring that the necessary financial (e.g. information in relation to leases and fixed assets) and non-financial (e.g. staff leave and flexitime balances) management information is available.
25. The board's financial statements are prepared by Falkirk Council officers. Falkirk Council has 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.

# Financial position

## Introduction

26. In this section we summarise key aspects of the board's reported financial position and performance to 31 March 2009, 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 2008/09

27. The board's net operating expenditure in 2008/09 was £23.541 million. This was met by constituent authorities' contributions of £16.844 million, resulting in an income and expenditure account deficit of £6.697 million. This represents 28.5% of the net expenditure for the year and largely reflects the unfunded nature of the Firefighters Pension Scheme.

28. The movement on the general fund balance is an important aspect of the board's stewardship as the main budget reference point. After making technical adjustments for amounts required by statute and non-statutory proper practices, a general fund deficit of £0.857 million was achieved for the year. The main technical adjustments required to arrive at the general fund balance result from:

- 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.

29. The Board's budget for 2008/09, assumed that reserves of £0.594 million would be utilised in the year. As noted at paragraph 28 above, the actual outturn for 2008/09 was a deficit of £0.857 million. In his Foreword, the Treasurer summarises the principal reasons for the budget variance of £0.263 million, including:

- the additional £0.3 million FRS17 costs for the new firefighters' pension scheme for 2008/09
- increased employee costs of £0.605 million resulting from additional pension costs, offset by
- increased income of £0.642 million from receipt of pension transfer values, Scottish Government pension funding and extrication grant funding;

## **Reserves and balances**

30. The board holds a general fund balance which is used as a contingency for unexpected events or emergencies. The Board has a policy to retain the general fund balance at a level of 3% of annual net revenue expenditure. At 31 March 2009, the board held a general fund balance of £1.303 million (5.5% of annual net revenue expenditure) which exceeds the 3% contingency level.
31. 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.
32. The Board's has incurred a deficit in 2008/09 and therefore the in year 3% carry forward limit has not been exceeded. The cumulative carry forward balance (£1.303 million equates to 7.7%) continues to exceed 5%, however the Board has received Ministerial approval to carry forward this balance with the proviso that the balance shall be contained within 5% for 2009/10.

## **Spending on assets and long-term borrowing**

### **Capital performance 2008/09**

33. Capital expenditure in 2008/09 totalled £1.271 million, increasing from £0.911 million in 2007/08. Capital investment in 2008/09 was funded from government grants (£1.190 million), Capital contributions (£0.063 million) and capital receipts (£0.018 million). There was an underspend of £0.094 million against the budgeted expenditure of £1.365 million contained in the capital expenditure programme in 2008/09. This underspend mainly arose due to slippage in the purchase of land for the location of a new station at Stirling and the timing of receipt of fire appliances after order.
34. In addition, £0.077 million of capital expenditure was incurred on the Maddiston HQ workshop upgrade to accommodate a joint workshop for Fire and Rescue vehicles and Scottish Ambulance Service vehicles. This sum had not been included in the 2008/09 budget as at the time no decision had been made regarding this development. However, this expenditure was funded in the main by a contribution of £0.063 million from the Scottish Ambulance Service, which had also been excluded from the 2008/09 budget.

## Financial outlook

### Future capital programme

35. Revised capital investment programmes for 2009/10 and 2010/11 anticipate annual capital expenditure of £0.892 million. This is expected to be funded from government grants.

### Pension liabilities

36. 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. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) 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 very large future liabilities being recognised in the annual accounts.
37. The Firefighters pension scheme is unfunded and has no assets to be valued. The board's estimated Firefighters pension scheme liability at 31 March 2009 is £89.800 million, reducing slightly from £89.900 million in the previous year. As the scheme is unfunded, the pension liability will fall to be met by serving officers' contributions and by taxpayers in the future (through government grant and constituent authorities' contributions).
38. The board's estimated pension liabilities for support staff at 31 March 2009 exceeded its share of assets in the Falkirk Pension Fund by £1.137 million. A full actuarial valuation of the Falkirk Pension Fund was carried out as at 31 March 2008. This valuation showed a reduction in the funding level, calculated as the ratio of fund assets to past service liabilities, decreasing from 86% as at March 2005 to 79% as at March 2008. This is mainly due to increased liabilities resulting from falls in bond yields.
39. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2009 to maintain the solvency of the fund. The actuary advised that the current 3 year assessment shows that budgeted contributions would increase from 16.8 % of pensionable pay to 23.8%.
40. Falkirk Council, as Fund administrators, requested the actuary to review the prospect of capping the increase (a stabilisation strategy). Applying the stabilisation strategy, the actuary advised that the new contributions for the three years to 31 March 2012 could be set as 18%, 18.5% and 19% respectively.
41. The results of this stabilisation satisfied the council that such an approach was appropriate for employers with a strong covenant and as a result the council and its actuary agreed to apply a stabilisation strategy with the revised contribution rates applying to a number of admitted bodies,

including Central Scotland Joint Fire & Rescue Board, from 1 April 2009 (with the consent of the Board).

42. In establishing contribution rates the actuary is required to have regard to the existing and prospective liabilities of the fund and to the desirability of maintaining as nearly a constant rate as possible. The funding level on valuation was low relative to other Scottish local government pension funds, and the decision to apply the stabilisation strategy means that the future funding level will be lower than would otherwise have been the case. The implications of the decision to restrict employers' contributions will be kept under review by the actuary in the course of future valuations.

**Key risk area 1**

43. Each year the Board receives reports from the actuary advising of the calculated amounts for pension expenses in compliance with FRS 17. The actuarial reports are based on information supplied by the Board and actuarial assumptions made by the actuary. The reports are advisory, however there is no evidence that the Board reviews the assumptions reported to ensure that it is satisfied with the assumptions used.

**Key risk area 2**

# Governance

## Introduction

44. In this section we comment on key aspects of the board's governance arrangements during 2008/09. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2008/09

45. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In 2008/09 we carried out a review of the governance arrangements in Central Scotland Joint Fire & Rescue Board. We concluded that, overall, the board had systems in place that operated well within a sound control environment, although some areas were identified where improvements could be made.

## Scrutiny

46. 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. The Board has a Best Value and Scrutiny Committee which carries out this role, comprising six elected members selected from constituent local authorities.
47. In our 2007/08 Report on the Audit we reported that the Board had not assessed the Best Value and Scrutiny Committee to ensure that it is carrying out its functions in an effective manner. Although we were advised that "the Joint Board considers and addresses the minutes of sub committee meetings and in doing so can further examine the issues raised", this does not constitute an assessment of the performance of the Best Value and Scrutiny Committee.

### **Key risk area 3**

48. Following our 2007/08 audit, we were also advised that "further training is required of members to further develop them in the performance of their scrutiny role" and that training would be scheduled to take place in the new year (by March 2009). Although this training had not yet been delivered at the time of our review, a training event for members, covering their scrutiny role, was delivered to Members in September 2009. This training should be supplemented with ongoing training for Members.

## Internal Audit

49. 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 Falkirk Council.
50. 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.

## Risk management

51. In previous years, we identified the development of effective risk management processes as a key issue for the Board to take forward. Although a comprehensive risk management policy has been put in place, continued action is required to fully embed risk management across the organisation.
52. Progress has been made with the appointment of a new department head at Group Manager level and the commencement of a review of the risk management function. The review is running parallel with a similar piece of work being undertaken by the Chief Fire Officers Association (CFOA). The board's operations & civil contingencies manager sits on the CFOA strategic group heading the work, which should ensure a similar approach is taken between the board project and the national review.
53. We have also been advised that the corporate risk register has been reviewed for its relevance against the current environment and its format and use is being compared to that used by various other Fire and Rescue Services.

**Key risk area 4**

## Systems of internal control

54. In his May 2009 report to the Best Value & Scrutiny Committee, the Internal Audit Manager concluded that he was able to provide an overall 'substantial' assurance on the Board's overall framework of control for the year to 31 March 2009. The 'substantial' assurance reflects systems which are "largely satisfactory, but there is some scope for improvement" and was based on reviews of the Board's Utilities Management, Catering, and Hospitality Arrangements, as well as follow-up work on Fleet Management and Corporate Governance and IT Arrangements.
55. Although an overall substantial assurance was provided, 'limited' assurance ("some satisfactory aspects, but contain a number of significant weaknesses") was given for Catering and Hospitality Arrangements. In addition, although progress had been made on Fleet Management and Corporate



Governance and IT Arrangements some work was still outstanding to fully implement the audit recommendations. We intend to monitor progress in these areas in 2009/10.

56. 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
- Main accounting system
- Accounts payable
- Budgetary control
- Fixed assets

## Prevention and detection of fraud and irregularities

57. The board has an approved Anti-Fraud Policy and Fraud Response Plan which contribute to sound arrangements to prevent and detect fraud and corruption.

## NFI in Scotland

58. 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 savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

59. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. We monitored the board's involvement in NFI during the course of the audit. Overall a total of 40 data matches were generated in respect of the Board, 32 of which are payroll/pensions related with a further 8 relating to procurement.

60. Falkirk Council's Head of Internal Audit acts on behalf of the board in investigating data matches. We are pleased to note that the Head of Internal Audit has investigated and cleared all high quality data matches with no incidences of fraud or overpayments found.

## Governance outlook

61. In the coming years the board faces challenges to improve its governance arrangements, including

- undertaking self assessments of the Best Value and Scrutiny Committee to ensure that the committee is operating effectively;

- ensuring that members receive adequate training to enable them to fully participate in the scrutiny process;
- continue its progress in respect of the Board's approach to risk management to ensure the embedding of risk management in strategic and operational planning activity

# Performance

62. 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.

## Single Outcome Agreement

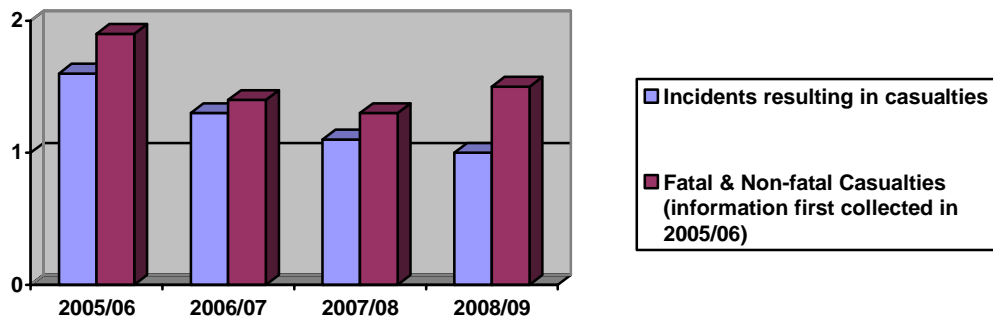
63. The concordat between the Scottish Government and COSLA set out the terms of a new relationship between the Scottish Government and local government. It underpinned the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA).
64. From 2009-10, the SOA will broaden to encompass the commitments and shared accountability of the local Community Planning Partnerships in delivering improved outcomes for local areas. The board has been active in all three Community Planning Partnerships since the introduction of SOAs and has been involved at all stages of the preparations for the Falkirk, Stirling and Clackmannanshire SOAs. Performance standards have been agreed and are being monitored.
65. For all that has been said about the concordat and the single outcome agreements with councils and their community planning partners, it has always been absolutely clear that councils still need to report on the quality, accessibility and value for money of all their services as part of their Best Value duties. This is also true of Police and Fire and Rescue services
66. We plan to continue to review progress in this area on an ongoing basis.

## Statutory performance indicators

67. The board has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the Board's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
68. Our assessment of the statutory performance indicators highlighted that the arrangements for collecting, recording and publication of the indicators were reliable.

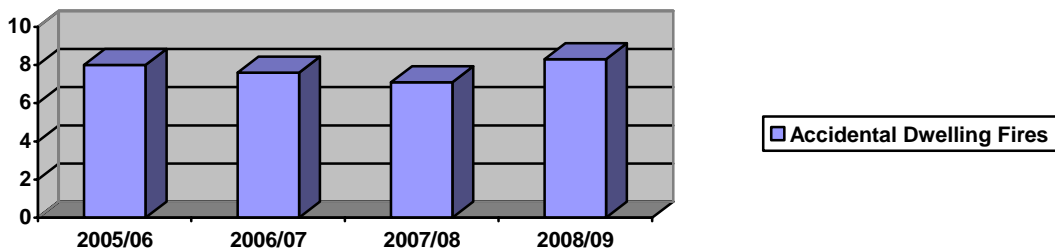
### **Fire Casualties**

69. The SPIs show decreasing numbers for incidents (reducing from 1.1 per 10,000 of population in 2007/08 to 1.0 in 2008/09) but an increase in casualties (increasing from 1.3 per 10,000 of population in 2007/08 to 1.5 in 2008/09). Both indicators compare favourably to the 2007/08 Scottish averages of 2.0 and 2.7 respectively (the latest available comparative year).



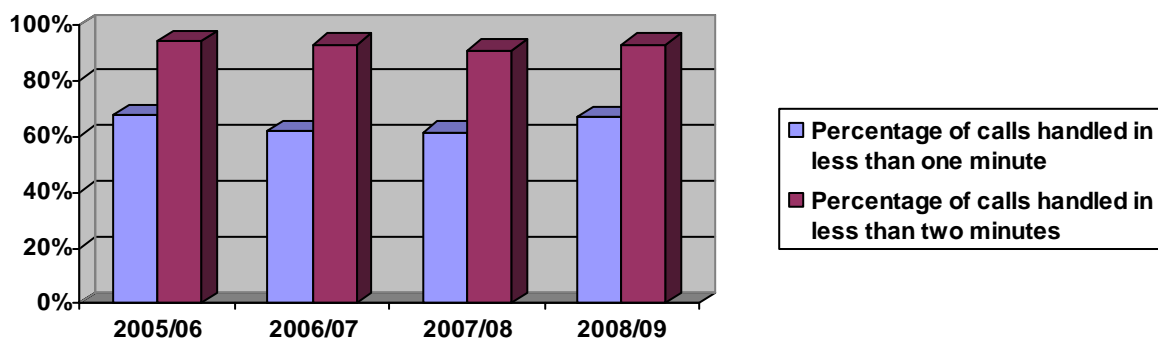
### **Accidental Dwelling Fires**

70. This SPI shows increasing numbers of accidental dwelling fires, increasing from 7.1 per 10,000 of population in 2007/08 to 8.3 in 2008/09. This indicator also compares favourably to the 2007/08 Scottish average of 9.4.



### **Call Response Times**

71. The timeliness of response to 999 calls is a key indicator of the effectiveness of the Fire & Rescue Service. Following year on year deterioration in this SPI between 2006/07 and 2007/08, performance in this area has improved in 2008/09, with the percentage of calls responded to within one minute rising from 61.4% in 2007/08 to 66.8% in 2008/09 and within two minutes from 91.1% in 2007/08 to 93.3% in 2008/09. Neither indicator compares well to the 2007/08 Scottish averages of 63.9% and 94.4%.



### ***Proportion of working time lost due to sickness absence***

72. Changes to this SPI definition prevent comparison with prior years. In 2008/09 the number of days lost by rider shifts due to sickness and light duties was 6 days. For all other staff, the number of days lost due to sickness was 8 days. We intend to monitor trends in this SPI in future years.

### **Performance outlook**

73. In our audit work we examine the strategic risks to the Board in delivering on its stated objectives and priorities in the years ahead. In 2008/09 we have looked at the progress made by the Board during the year and the key risks yet to be fully addressed. These risks were set out in our 2008/09 Audit Plan which was submitted to the board in March 2009.

74. ***Effective strategic planning:*** effective strategic planning requires a clear link between corporate planning, service planning and financial planning. During 2008/09 the Board carried out work on integrating the business and financial planning processes, with a new planning cycle implemented in April 2008. There is scope to further improve these arrangements to provide robust evidence of clear linkages in the processes.

#### **Key risk area 5**

75. ***Performance Management:*** in our 2007/08 report on the audit we noted that the board's performance management processes were underdeveloped and that the board was still developing its Public Performance Reporting processes. The appointment of a planning and performance manager has not yet been filled. Interviews had been held and the post was offered to a candidate but was not accepted. This post is being re-advertised and the anticipated timescale for appointment is November 2009.

76. The board has advised that, potentially, there may be an option of sharing this post/performance management function with other Fire and Rescue Services and this option may be explored if

difficulties continue to be encountered in filling this post. The development of a performance management framework will be a key part of the remit of any appointee.

**Key risk area 6**

77. **Public Performance Reporting:** in our 2007/08 report on the audit we noted that the board was still developing its Public Performance Reporting processes. The planning and performance manager will also have a key role to play in this process. We also note that a corporate communications and media relations officer has recently been appointed. This appointment should assist in improving public performance reporting.

**Key risk area 7**

78. **Best Value Reviews:** in our 2007/08 report on the audit we noted that the board had not yet introduced a best value review programme. At its meeting on 16 January 2009, the Best Value & Scrutiny Committee agreed to support the principle of continuing with the board's existing review process without the need for a formalised best value review programme.
79. To help achieve best value it is essential that the board undertakes a critical review of its overall improvement activity. Self-evaluation will be an important tool in managing future performance. The board needs to consider how well it coordinates all of its improvement activity and reviews to ensure that it systematically identifies key areas for improvement and ensures that it implements the actions necessary to improve effectiveness and efficiency.

**Key risk area 8**

80. **Workforce Planning:** in our 2007/08 report on the audit we noted that a formal workforce strategy was still not in place at the Board. We noted that a new workforce strategy was to be developed to reflect the national developments in career and contribution management
81. However we have been advised that no progress has been made in this area. The board has advised that the focus had been on implementing single status within the board. The implementation has now been completed and work has now begun in this area. It is anticipated career and contribution management will be introduced in December 2009.

**Key risk area 9**

82. We also noted that the board had intended to introduce a staff appraisal system from April 2008 as part of its career and contribution management framework. There has been some slippage in this timetable, however, and a revised timescale for roll by April 2010 has been set.

**Key risk area 10**

83. **Asset Management:** the Board's capital expenditure and funding arrangements are operated under the 'Prudential Code', a prudential regime based largely on self-regulation. A key requirement of the Code is the development and maintenance of Asset Management Plans. The Board does not have a comprehensive asset management strategy and supporting plan in place, linked to service planning priorities and the achievement of strategic objectives.
84. Board management are aware of the need for a comprehensive asset management strategy but progress to date has been limited. National negotiations in relation to procuring a national asset management system have been slow. Progress in this work is being monitored, however we have been advised that the board is considering this area for a potential shared service with other Fire and Rescue Services.

#### Key risk area 11

85. In 2005/06, the board procured two combined aerial rescue pump (CARP) appliances at a cost of over £0.8 million. We understand that these appliances were procured under a 'spend to save' bid funded by the Scottish Government, in order to provide better use of the board's resources. The board has not been able to provide us with any business case to support these purchases and this highlights some concerns about the robustness of procurement policies in operation at that time.
86. Since the outset, the board has encountered a number of difficulties in bringing these appliances to full operational capability. We understand that the board has sought legal opinion regarding possible recovery action against the appliances supplier, however currently these difficulties remain and the board has yet to decide how these appliances can best be deployed, given the operational deficiencies.
87. We intend to monitor the action taken regarding the CARP appliances during 2009/10.

#### Key risk area 12

88. **Shared Services:** 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.
89. We note that the Fire and Rescue Services in Central Scotland, Fife and Tayside have agreed to develop shared resourcing for responding to civil emergencies and also back office functions. We intend to monitor progress in this area during 2009/10.

# Final Remarks

90. 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.
91. 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 2008/09 audit.
92. The co-operation and assistance given to us by Central Scotland Joint Fire & Rescue Board members and staff is gratefully acknowledged.



# Appendix A: Reports and Opinions

## External audit reports and audit opinions issued for 2008/09

Title of report or opinion	Date of issue	Date presented to Best Value and Scrutiny Committee
Annual Audit Plan	5/3/09	22 May 2009
Governance and Internal Control	29/6/09	6 November 2009
Statutory performance indicators	17/8/09	N/A
Report on financial statements to those charged with governance	29/9/09	N/A (to be presented to the Board)
Audit opinion on the 2008/09 financial statements	30/9/09	N/A (to be presented to the Board)
Annual report to the members and the Controller of Audit	30/10/09	N/A (to be presented to the Board)
Audit opinion on Whole of Government Accounts	30/10/09	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	42	<p><b>Pension contributions stabilisation strategy</b></p> <p>The board's command and control and support staff are members of the Falkirk Pension Fund. The funding level of the Fund is low compared to other Scottish local government pension funds. The decision to apply a stabilisation strategy to restrict the rise in employers' contributions means that the future funding level will be lower than would otherwise be the case.</p> <p><b><i>Risk: The stabilisation strategy places a strain on the fund, leading to significantly higher employer costs in the long term.</i></b></p>	<p>The board relies on the resources of Falkirk Council for the administration of the Falkirk Pension Fund. The council will be working closely with the actuary to ensure continued stabilisation within an acceptable funding level/employer contribution.</p>	Treasurer	Ongoing
2	43	<p><b>FRS 17 pension costs, assets and liabilities</b></p> <p>In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) 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 very large future liabilities being recognised on the face of annual accounts. An actuarial calculation of the FRS17 impact is provided to the Joint Board each year however no review of the assumptions or rates applied by the actuary is carried out to ensure the Joint Board is satisfied that these are appropriate to local circumstances.</p> <p><b><i>Risk: FRS 17 pension costs, assets and liabilities may be based on inaccurate or inappropriate assumptions.</i></b></p>	<p>There is a long standing contractual relationship with the Actuary who has a very well developed knowledge of the fund and the relevance of assumptions etc. which underpins their report. No further action is required.</p>	N/A	N/A

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	46-47	<p><b>Best Value and Scrutiny Committee</b></p> <p>The Board has not assessed the Best Value and Scrutiny Committee to ensure that it is carrying out its functions in an effective manner.</p> <p><b><i>Risk: the committee may not be effective in scrutinising the activities of the board and holding management to account.</i></b></p>	We are currently developing a self-assessment checklist which will be submitted to the committee for completion early in 2010.	Clerk to the Board	February 2010
4.	51-53	<p><b>Risk management</b></p> <p>Although a risk management policy has been put in place, continued action is required to fully embed risk management across the organisation. Progress has been made with the appointment of a new department head at group manager level and a project to review risk management has commenced.</p> <p><b><i>Risk: In the absence of fully embedded risk management processes, risks to the achievement of the Board's key objectives may not be identified and managed.</i></b></p>	As noted, the service is reviewing the way in which it manages risk including a review of how the process and principles of risk will be central to the service's strategic direction , core business and department objectives .The service's operations and civil contingencies manager sits on the CFOA strategic group heading a national review of risk management which should ensure that the service project follows a similar approach to the national review	Director of Service Delivery	Ongoing
5	73-74	<p><b>Effective strategic planning</b></p> <p>There is scope to further improve the business and financial planning processes.</p> <p><b><i>Risk: resources may not be effectively targeted at board priorities.</i></b></p>	The service has re-defined its planning processes to bring both financial and business planning closer together. Business cases are required for all growth items as part of the planning process. The last part of formalising the processes is to demonstrate closer links between business cases and the strategic objectives of the organisation. This will be addressed in time for the 2011/12 planning process.	Director of Service Support	June 2010

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	76	<p><b>Performance management</b></p> <p>The Board's performance management processes are still underdeveloped. The appointment of a Planning and Performance Manager who will be responsible for developing the system has been delayed and the anticipated timescale for filling this post is now November 2009.</p> <p><b><i>Risk: The Board is unable to measure and monitor its performance against its corporate objectives and key targets.</i></b></p>	<p>The development of a performance management framework will be a key part of the remit of the planning and performance manager</p> <p>If difficulties continue to be encountered in filling this post, there may be an option of sharing the performance and management function with other Fire &amp; Rescue Services.</p>	Director of Service Support	Ongoing
7	77	<p><b>Public performance reporting</b></p> <p>The board is still developing its Public Performance Reporting processes and this function will fall within the remit of the new Planning and Performance Manager.</p> <p><b><i>Risk: in the absence of an effective public performance reporting framework, insufficient information may be provided to the public in informing them of service performance.</i></b></p>	Work is ongoing to develop and implement quarterly and annual PPR. This is linked to the appointment of the performance management post referred to above.	Director of Service Delivery	Ongoing
8	78-79	<p><b>Best Value</b></p> <p>To help achieve best value it is essential that the board undertakes a critical review of its overall improvement activity. Self-evaluation will be an important tool in managing future performance.</p> <p><b><i>Risk: the board is unable to assess its improvement activity in a robust manner and may not be well placed to deliver best value.</i></b></p>	As well as continuing to develop a series of reviews with Internal Audit, the service is considering the appropriateness of adopting the Public Service Improvement Framework. Discussions have taken place with the Improvement Service and it is hoped that the service will commence work on the project by the start of the new financial year.	Director of Service Delivery	April 2010

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	80-81	<p><b>Workforce planning</b></p> <p>A formal workforce strategy is not yet in place at the board. Work is ongoing to develop the board's strategy and action plan informed by a national workforce strategy developed by the CFOA. The aim is to align these objectives to the service's development plan.</p> <p><b><i>Risk: progress in implementing the board's corporate objectives may be hindered in the absence of a workforce plan/strategy.</i></b></p>	<p>Progress in this area has been slower than anticipated as the focus has been on implementing single status within the service. However work has begun in this area and it is anticipated that career and contribution management will be introduced in December 2009.</p>	Director of Service Support	December 2009
10	82	<p><b>Workforce planning</b></p> <p>There has been some slippage in the timetable for introducing a staff appraisal system which had been anticipated to be rolled out in November 2008.</p> <p><b><i>Risk: staff may not be adequately supported in developing their skills to ensure that they can carry out their tasks effectively in support of the board's objectives.</i></b></p>	<p>The staff appraisal system should be fully rolled out by April 2010.</p>	Director of Service Support	April 2010
11	83-84	<p><b>Asset management</b></p> <p>The board does not have a comprehensive asset management strategy and supporting plan in place, linked to service planning priorities and the achievement of strategic objectives. Management are aware of the need for a comprehensive asset management strategy but progress to date has been limited. National negotiations are taking place in relation to procuring a national asset management system and progress in this work is being monitoring.</p> <p><b><i>Risk: the board may be unable to demonstrate the sustainability of spending decisions or a robust, affordable and sustainable approach to capital planning in the longer-term.</i></b></p>	<p>Scottish Fire Services are working to procure a national solution for asset management.</p> <p>Central Scotland Fire &amp; Rescue Service is a key player in this piece of work and are part of the national working group. The service is monitoring developments but there is some concern about timescales for delivery.</p>	Director of Service Delivery	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
12	85-87	<p><b>Procurement of combined aerial rescue pump appliances</b></p> <p>Two appliances were procured for £0.8 million in 2005/06, but have never been fully operational since their purchase. No business case was provided to support the purchase and no decision has yet been made to determine how these appliances will be deployed.</p> <p><b><i>Risk: Best Value may not be achieved in the operation of these appliances.</i></b></p>	<p>Since the appliances were originally procured the service has completely changed the management of its procurement function and processes. Business cases are required for all major items of expenditure which must be linked to the service's strategic objectives.</p> <p>The deployment of the two appliances is still under consideration. Some technical issues remain unresolved and training and familiarisation plans continue to be disrupted. Work continues to try and resolve these matters in order that an operational decision can be made regarding their deployment. We are also considering the feasibility of taking legal action against the appliance provider.</p>	<p>Director of Service Support</p> <p>Director of Service Support</p>	<p>Ongoing</p> <p>March 2010</p>