

Lothian and Borders Fire and Rescue Board

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

October 2009



 AUDIT SCOTLAND



Lothian and Borders Fire and Rescue Board

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Key Messages

We have audited the 2008/09 financial statements and looked at key aspects of performance management and governance, including the key financial and strategic risks being faced by the board. 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 the 2008/09 audit

Overall we found the financial stewardship of the board 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 Lothian and Borders Fire and Rescue Board
- working papers to support the 2008/09 accounts have improved since last year, but there remains scope for further progress
- as at 31 March 2009 the board's reserves remained within the carry forward limits
- many aspects of a sound corporate governance framework are in place. The board has recently reviewed its governance arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*
- internal audit concluded that adequate assurance could be placed upon the adequacy and effectiveness of the board's internal financial control systems in the year to 31 March 2009

Outlook

Key challenges facing the board include:

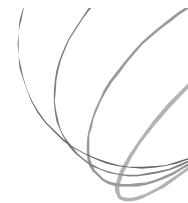
- the current economic climate and the potential for significant public sector expenditure cuts as the Government seeks to reduce its debt burden
- managing cost pressures associated with ill health retirals and Firefighters taking the option of receiving their pension lump sums but continuing to be employed by LBFRB. Both areas of expenditure can result in individually significant costs for all Fire and Rescue Authorities.
- Firelink developments will be funded by the Scottish Government but legacy microwave communications will still require maintenance
- the Scottish Government review of Fire Control Rooms has uncertain funding implications however we understand that this will be further reviewed following the completion of Firelink.



The co-operation and assistance given to us by Lothian and Borders Fire and Rescue Board members, officers and staff as well as the staff within the City of Edinburgh Council is gratefully acknowledged.

October 2009





Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of Lothian and Borders Fire and Rescue Board (the board). The scope of the audit is set out in the Annual Audit Plan which was submitted to the board in February 2009.
2. The financial statements of the board are the means by which it accounts for the stewardship of the resources made available and its financial performance in the use of those resources. It is the responsibility of the board to prepare financial statements that give a true and fair view of its financial position and of its income and expenditure for the year.
3. The members and officers of the 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 board's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of assets and interests
 - the 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 board has proper arrangements for securing best value in its use of resources.
4. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General. Reports published in the last year of that may be of interest to the board are:
 - The impact of the race equality duty on Council services
 - Improving energy efficiency
 - Asset management in Councils
 - Civil contingencies planning
 - Strategic procurement.

(Full copies of the studies can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.)



5. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the board understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the board.



Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the board's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

8. We have given an **unqualified** opinion that the financial statements of Lothian and Borders Fire and Rescue Board for 2008/09 give a true and fair view of the financial position and expenditure and income of the board for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the board to obtain assurances on systems of control.
10. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2008/09 accounts have improved since last year, but there remains scope for further progress. We will continue to work closely with City of Edinburgh Council finance staff in planning our 2009/10 audit in order to ensure that all the information and documentation we require are available at the outset of the financial statements audit thereby simultaneously increasing the efficiency of the audit process and minimising the audit burden on board staff.
11. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members 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 issues

12. Local authorities in Scotland are required to follow the *Code of Practice on Local Government Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP and we were satisfied that the board prepared the accounts in accordance with the 2008 SORP.



13. The board has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Treasurer and board via our letter issued in line with International Standard on Auditing 260 (ISA 260) *Communication of audit matters to those charged with governance*. Details of significant accounting issues which arose during the course of our audit are summarised below.
14. **Pensions Reserve:** The Statement of Recommended Practice (SORP) requires fire boards to make a charge to the income and expenditure account for pension costs based on FRS 17 *Retirement benefits*. The 2003 Regulation allows the FRS 17 based costs of specified pension schemes to be removed from being a charge to the general fund so that only the actual pension payments are charged to that fund. This removal is shown as a reconciling item in the statement of movement in the general fund balance, and the charge is instead made to the pension reserve.
15. However, it has recently been identified that *The Local Government Pension Reserve Fund (Scotland) Regulation 2003* (the 2003 Regulation), which provides the statutory basis for fire boards to remove costs based on FRS 17 from being a charge to the general fund, does not apply to the new pension schemes for police and fire that were set up from 6 April 2006. Although the Scottish Government intends to amend the regulations to include these schemes, there is currently no statutory basis for removing the FRS17 based costs from the general funds of police and fire and rescue services in respect of the new schemes. Following discussion with management, it was agreed that the financial statements would be amended to reflect the revised position. This has resulted in a decrease of £1.7 million in the 2008/09 pension reserve.
16. However, in order to maintain the statutory requirement to fully provide earmarked reserves for pension commutation payments, a further requisition of £0.22 million was required to be made on constituent councils. As a result of the full FRS 17 cost being charged to the General Fund and the additional requisition the general fund balance is £2.2 million all of which is earmarked for pension commutations. As a consequence of the technical adjustments the Board has no uncommitted funds for unforeseen events as at the 31 March 2009, pending the issue of amended regulations by the Scottish Government.
17. **Commutation Factors** - The Scottish Public Pensions Agency advised of a back dating of commutation factors for the Fire Fighters Pensions Scheme to 22nd August 2006. Previously, pension commutation factors were only back-dated as far as 1st October 2007.
18. The additional backdated amount to be paid to members is estimated to be £0.94 million and accordingly a creditor has been created for this amount. In addition, funding will also be paid to local authorities because of the redetermination of revenue support grant following approval by the Scottish Parliament of the Local Government Finance (Scotland) Order 2010. In view of this, a debtor for £0.94 million has been provided in the accounts.



Audit testing

19. As part of our work, we took assurance from a number of the main financial systems used by the board and operated by the City of Edinburgh Council. Our colleagues in the City of Edinburgh Council external audit team assessed the following relevant central systems as having a satisfactory level of control for our purposes:

- Payroll
- Main accounting system
- Creditors payments
- Debtors and income

20. In addition our colleagues in the City of Edinburgh Council external audit team also assessed the overall adequacy of internal audit and concluded positively. We placed formal reliance on the work of internal audit in the relation to their annual report to the board in support of the Annual Governance Statement included with the financial statements. The work of internal audit was adequate for our purposes and we aim to work closer with internal audit in the 2009/10 audit in order to maximise the efficiency of our respective audit efforts and thereby minimise the audit burden on board staff.

Prevention and detection of fraud and irregularities

21. At the corporate level, the board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. During the 2008/09 financial year there were no reported instances of fraud or any other irregularity.

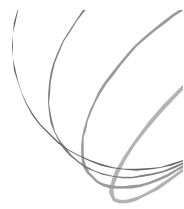
Legality

22. 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.

Financial reporting outlook

IFRS adoption

23. Looking ahead to the 2009/10 year International Financial Reporting Standards (IFRS) requirements will present some challenges to the board even though full IFRS compliance will not be a requirement until 2010/11. This is because opening balance sheet IFRS information will be required in order to provide comparatives for the 2010/11 year. Among the challenges will be ensuring that the necessary financial and non-financial management information processes are in place. We recommend that early action be taken to establish the relevant management information processes and that in areas where



significant judgements or assumptions are being made that these are agreed with the audit team. This will lead to the early identification of issues and aid a smooth transition to fully IFRS compliant financial statements in due course as well as facilitating the board's review of the appropriateness of accounting practice in terms of the significant judgements made and estimation techniques deployed.

Key Risk Area 1

24. LBFRB should take advantage of preparing for IFRS to look afresh at a number of accounting matters notwithstanding that each year all of the accounting policies are already subject to high level review for appropriateness. Among the areas that the board may wish to review are accounting for fixed assets and an assessment of the need for component accounting. In particular consideration should be given to reviewing the capitalisation of leases.

Key Risk Area 2



Use of resources

Financial results

25. The board's net operating expenditure was £63 million (2007/08: £65 million) resulting in a net deficit on the income and expenditure account of £10 million (2007/08: £18 million). The balance sheet discloses a net liability position of £241 million (2007/08: £217 million).
26. The surplus or deficit on the income and expenditure account measures the board's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The board's net cost of service in 2008/09 was £46 million (2007/08: £49 million).
27. The movement on the general fund balance is also an important aspect of the board's stewardship as the main budget reference point. The general fund balance was £2 million (2007/08: £3 million). As indicated above this represents a temporary position that will be revised once the relevant pensions regulations are made and will result in a general fund balance of £4 million (2007/08: £4 million). The board has carried out a detailed risk analysis regarding the adequacy of the unallocated general fund balance and considers the balance of £0.7 million, which is within the statutory limits for general fund balances carried forward, to be adequate. Pending revised pension regulations the Board had an unallocated general fund balance of nil as at 31 March 2009.

Going concern

28. The board's balance sheet discloses net liabilities of approximately £241 million (2007/08: £217 million) represented by balances on a capital adjustment account of £24 million (2007/08: £22 million), general fund £2 million (2007/08: £3 million) offset by a pension reserve balance of £267 million (2007/08: £242 million). As can be seen from this analysis the liability position arises solely as a result of pension liabilities. Because pension liabilities are accounted for when they arise but are paid when due there is no going concern matter arising since government policy is that pension liabilities be met when due and that funding will be provided for this on an ongoing basis.

Capital expenditure 2008/09

29. The Board spent £1.3 million on vehicles, plant and equipment. During the audit, and as a result of a parliamentary question and some media interest, we examined, in some detail, the purchase of a new type of fire appliance that combined the normal functions of a fire appliance with a hydraulic platform vehicle. As with any new design or innovation there were a number of technical teething problems with the new type of appliance.



30. After making relevant enquiries we are content that the board took the necessary steps to ensure that the vehicle specification sought was delivered and that teething problems were overcome. We understand that the board is content that the new type of appliance is fit for purpose and is being readied for fully operational service.
31. The board spent approximately £1.5 million on land and buildings and has acquired land with a value of £1.4 million accounted for as assets under construction. We examined the most significant purchase which was the acquisition of a lease for land at Newbridge for the proposed training centre purchased for £1.1 million. We considered the timing of this transaction at the end of the financial year and note that a number of factors delayed the acquisition of this site and that further delays may impact on the delivery of the Service Improvement Plan.

Key Risk Area 3

Budgetary control

32. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the board managed its budgets. We found that arrangements for budgetary control were reasonable. In particular we found that board management and City of Edinburgh Council finance staff worked well together in providing explanations of actual / budget variances and ensuring that budget reports are properly derived from board prime financial records.
33. As part of our audit of the financial statements we considered full year outturn to budget analysis. This was carried out by finance and board staff in some detail and this analysis was of value to management and our audit process. As indicated above ongoing budget challenges exist as a consequence of current economic conditions.

Support services

34. Support functions provided by the City of Edinburgh Council to the board, include payroll, legal services, internal audit, accounts payable and accounts receivable. In addition, the City of Edinburgh Council's finance function prepares the annual financial statements for the board. In 2008/09 the cost of these services was £434,000 (2007/08: £453,000) which represents 7% of the board's non-payroll operating costs (2007/08: 8%).
35. In our report on the 2007/08 audit we drew attention to the fact that these arrangements and the levels of service and performance to be provided were not subject to a formal Service level Agreement and recommended that the board address this. We note that this has not yet been completed. It is essential that, in order to demonstrate best value in its use of resources that the board has proper arrangements in place to ensure that all purchased supplies and services are subject to adequate quality and value scrutiny mechanisms including contracts where appropriate.

Key Risk Area 4



Governance and accountability

Introduction

36. We believe that an effective organisation is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective managerial structures and processes to govern decision-making and the exercise of board within the organisation.

Structure and policies

37. Corporate governance is about direction and control of organisations. The board has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment results suggest that the board has a sound governance framework.
38. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account, and support continuous improvement. The board scrutiny committee receives and reviews all reports and plans from internal and external audit.
39. The Accounts Commission issue a range of national study reports and an overview of local government each year. Recommendations are generally directed at all councils but may be applicable to the board as well. It would be appropriate for the board to consider findings and ensure that significant matters are being addressed. We will draw management attention to those reports we believe may be of value to the board in the expectation that they will be considered at board meetings as appropriate.

Roles and relationships

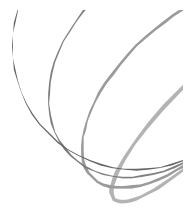
40. The Accounts Commission recommends that bodies give priority to the continuous professional development of its members. Members of the board come from a number of constituent councils and it is important that the training and development needs of members, in the context of their service to the board, are adequately captured and acted upon. This may entail merely confirming that members have all received the training they require from their respective councils or devising and delivering tailored training for board members.

Key Risk Area 5



Public performance reporting

41. The board produces a number of reports each year regarding the Service Improvement Plan. The E-zine of the Lothian and Borders Fire and Rescue Service represents the main media through which performance and initiatives of the service are communicated to citizens. The E-zine appears accessible and informative. The board Performance Plan provides a comprehensive review of performance including statutory performance indicators.
42. With the move to IFRS there may be some scope for developing an overall publication incorporating an annual report from the fire and rescue service along with the financial statements of the board. Not only would such a publication give a more comprehensive picture to stakeholders and citizens of the board's business and activities but may also create more interest in reading the financial statements as well.



Performance management and improvement

Performance management

43. Whilst we remain vigilant to any performance management matters that may come to light during the course of our audit our primary focus is the audit of the board's financial statements.
44. 2008/09 was the second successive year in which the SPI return was submitted late. However, we were able to conclude positively with respect to all 4 SPI's. Nevertheless we note that 2008/09 data had to be revised because the board did not have arrangements in place to ensure that changes in SPI's required were monitored and actioned. Our role is to carry out an assessment of SPI data and it is management's responsibility to ensure that necessary arrangements are in place to produce SPI's on time and in compliance with guidance issued by the Accounts Commission.

Key Risk Area 6

45. Of the SPI information produced we obtained a commentary from senior management which explained the SPI results in the context of the boards business and factors that have played a role in performance. Sickness absence information indicated that 10.7 days were lost per firefighter and 6.6 days for other staff. Board management are aware that firefighter sickness absence is high and are currently examining this in some detail. Initial indications are that a small number of medium to long term sickness absence cases and a spike in influenza sickness absence cases in October to November 2008 may be skewing the SPI result but that this is not enough to account fully for the reason for absence levels being high. We will continue to monitor this area.
46. The number of accidental dwelling fires fell to 1001 which is the lowest figure recorded for many years and continues the downward trend for the area. The Home Safety Check programme has been a key factor in this change. Since 2005 the programme to fit free smoke alarms to every home in the area and provide prevention advice to residents has been delivered to over 80,000 homes with around 88,000 free detectors fitted.
47. In addition to a reduction in the loss of life, injuries and damage accidental dwelling fires cause it is estimated that, across the Lothian and Borders Fire and Rescue area, this initiative has resulted in savings to society in excess of £8.4 million.



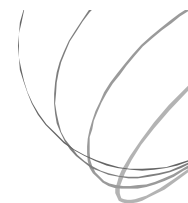
48. The number of casualties from all types of fires rose slightly last year. Board management consider this disappointing, as the numbers had been decreasing in previous years and have worsened despite significant community safety activities. Management are currently carrying out further analysis of these figures to determine the types of fires involved. Initial indications are that fires in common stairs resulting in multiple fire casualties may be one cause. With this in mind management have developed targeted awareness campaigns to reduce these incidents. Furthermore management will also improve the targeting of Home Safety Visits to ensure that they reach the most vulnerable and high-risk citizens. We also note that, due an increase in the population, the number of casualties per 10,000 remains the same as the previous year at 2.3.

Risk management

49. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
50. The board's business means that many of the risks faced are operational in nature and adequate arrangements appear to be in place to prepare for and plan for dealing with incidents adequately and in partnership with other bodies as circumstances may dictate.
51. The board has a good approach to managing risk. There is a risk register that is regularly updated and monitored by senior management.

Outlook

52. As with all public sector bodies the current economic climate means that board will be increasingly under pressure to, at the very least, contain expenditure growth.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	23	<p>IFRS preparedness</p> <p>Aspects of IFRS preparedness will entail the operation of relevant management information processes and articulation of material judgements or assumptions from 1st April 2010.</p> <p>Risk</p> <p><i>There is a risk that the necessary management information processes may not be in place to generate opening IFRS compliant balances as at 1 April 2010. Furthermore, significant judgements and assumptions regarding IFRS should be agreed with the audit team as early as possible.</i></p>	<p>External advisers PWC and CIPFA have been engaged to aid in the preparation for the implementation of IFRS.</p> <p>Treasurer and Lothian and Borders Fire and Rescue Service staff are actively progressing necessary actions.</p>	Treasurer/Chief Fire Officer	March 2010
2	24	<p>Capitalisation of leases</p> <p>Currently the board capitalises leases for land. Accounting standards in this area require an assessment of whether or not lease conditions meet the criteria for capitalisation.</p> <p>Risk</p> <p><i>There is a risk that current practice and accounting conventions may not represent best practice.</i></p>	Accounting policies will be reviewed as part of the IFRS implementation.	Treasurer	March 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	31	<p>Training centre land</p> <p>The transaction to lease the training centre land was completed at the financial year end. We note that a number of factors have delayed the project and that it is currently at site investigation stage.</p> <p>Risk</p> <p><i>There is a risk that further delays may impact on delivery of the Service Improvement Plan.</i></p>	We will continue to manage the development of the training centre.	Chief Fire Officer	Ongoing
4	35	<p>Service Level Agreements</p> <p>A service level agreement between the Lothian and Borders Fire and Rescue Board and the City of Edinburgh Council should be formalised.</p> <p>Risk</p> <p><i>The Board cannot monitor the performance of services provided by the City of Edinburgh Council.</i></p>	To develop a Service Level Agreement with the City of Edinburgh Council.	Treasurer/Chief Fire Officer	April 2010
5	40	<p>Member training</p> <p>Members are trained by their own councils and learning and development needs are not considered in the context of member roles for the Board.</p> <p>Risk</p> <p><i>There is a risk that all members of the Board may not have had all of the training and development opportunities that they require to maximise the value that they can bring to the Board.</i></p>	Development inputs are given to board members (Notwithstanding consideration is being given to using the training package developed by the Improvement Service).	Chief Executive / Clerk to the board	April 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	44	<p>SPI's</p> <p>The board should establish an SPI co-ordination to have responsibility for ensuring that the correct SPI's are produced on time and in compliance with Audit Scotland guidance.</p> <p>Risk</p> <p><i>There is a risk that SPI returns could be subject to adverse audit comment.</i></p>	Arrangements for data management are being revised to ensure that SPI's are produced on time.	Chief Fire Officer	April 2010