

Grampian Joint Fire and Rescue Board

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

October 2009



 AUDIT SCOTLAND



Grampian Joint Fire and Rescue Board

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

Contents

Introduction	1	Final Remarks	14
Financial statements	2	Appendix: Action Plan	15
Governance	7		
Performance	12		

Introduction

1. This report summarises the findings from our 2008/09 audit of Grampian Joint Fire and Rescue Board. The scope of the audit was set out in our Annual Audit Plan issued in February 2009.
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 give a true and fair view of 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 2008/09 and summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2009. 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 a true and fair view of 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 a qualified opinion on the financial statements of Grampian Joint Fire and Rescue Board for 2008/09 due to a disagreement about the accounting treatment of FRS 17 Retirement Benefits pension costs. The Local Government Pension Reserve Fund (Scotland) Regulation 2003 (the 2003 Regulations), which provides the statutory basis for local authorities to replace FRS 17 based costs with the actual pension contributions / payments, does not apply to the new fire pension scheme introduced for firefighters joining after 6 April 2006. Although the Scottish Government intend amending the regulation to include this new scheme, there is currently no statutory basis for reversing the FRS 17 based costs from the General Fund in respect of this scheme.
8. As the financial statements have been prepared on the basis that all FRS 17 based costs can be reversed from the General Fund, the General Fund balance and Pension Reserve are overstated by £1.141 million as at 31 March 2009. The Joint Board has decided not to amend the financial statements for this material misstatement and we have qualified our auditor's report as a result.

9. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were generally 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 council and publication.

Issues identified during the financial statements audit

10. The findings from our financial statements audit were reported to the Treasurer in our ISA 260 *Communication of audit matters to those charged with governance* report. A number of presentational changes were made to the figures included in the unaudited accounts provided for public inspection. These did not impact on the deficit for the year or the net worth of the Joint Board.
11. In addition to the qualification issue highlighted in paragraphs 7 and 8 above, the audited accounts were not adjusted for one other financial misstatement. As a result, creditors and the deficit on the Income & Expenditure Account are overstated by £0.032 million due to a cut-off error relating to a credit note received in 2009/10 but relating to 2008/09. The financial statements have not been amended for this item as it is not material to them.
12. The Joint Board is required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008* (the 'SORP'). With the exception of the qualification issue noted in paragraphs 7 and 8, we were satisfied that the Joint Board prepared its accounts in accordance with the 2008 SORP.

Financial position

Going concern

13. The Joint Board's balance sheet at 31 March 2009 shows net liabilities of £78.066 million due to the accrual of pension liabilities in accordance with Financial Reporting Standard 17 (Retirement Benefits). 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.
14. 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 2008/09

15. The Joint Board's net operating expenditure in 2008/09 was £37.149 million. This was met by requisitions from constituent authorities of £27.927 million, resulting in an income and expenditure account deficit of £9.222 million. After taking into account statutory and non-statutory adjustments, a general fund deficit of £0.297 million (1.1% of budget) was achieved, reducing the general fund balance to £1.380 million as at 31 March 2009.
16. In his Overview of the Joint Board's Finances, the Treasurer summarises performance against budget and highlights that the majority of the deficit is due to increased pensions and energy and fuel costs and a provision of £0.240m to cover the costs of settling claims for sick pay from retained firefighters. These were offset by reduced staff costs due to vacancies in the first 6 months of the year.
17. Capital expenditure totalled £3.815 million in 2008/09 and was funded from a government grant of £3.878 million. The balance of government grant (£0.063 million) has been carried forward to fund future years' capital expenditure.

General Fund balance

18. 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 2009, the General Fund totalled £1.380 million, of which £0.099 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 a working balance just less than the permitted maximum to provide a cushion in the event of a major incident.

Legality

19. 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.
20. Except for the qualification issue reported in paragraphs 7 to 9 above, there are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial outlook

2009/10 budget and future financial pressures

21. The Joint Board's revenue budget for 2009/10 was approved in January 2009. The August 2009 monitoring report projects an underspend of £0.028 million against budgeted net expenditure of £30 million at 31 March 2010. This is mainly due to reductions in the expected level of pensions costs offset by increased energy and fuel costs and reduced income from bank interest.
22. 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 the Joint Board made these additional payments during financial year 2008/09, police officers in England and Wales have won a court case to backdate these awards to December 2006. The Joint Board has included a contingent liability within its 2008/09 financial statements to reflect the possibility that a similar claim may be made by its retired firefighters, and estimates that it would cost an additional £0.316 million to backdate these awards to December 2006. No money has been set aside to cover the costs should a successful claim be made.
23. 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 year. The Joint Board has recognised the tight financial settlements for all three constituent councils when preparing its 3 year revenue budgets for 2009/10 to 2011/12.
24. The majority of the Joint Board's expenditure (80%) relates to staff, including pension costs with a further 16% spent on fixed overheads such as insurances, fuel and energy costs. The Joint Board faces significant pension costs in 2009/10 due to the increased number of staff eligible to retire during the year. The Scottish Government has agreed to provide financial assistance amounting to £0.472 million for continuing increases to pension costs. This has been reflected in the revenue budget for 2009/10.
25. In April 2009, the Joint Board agreed to progress plans for the development of a new Headquarters building. A site was identified and an ambitious completion date of 2011 agreed, some two years earlier than that recommended by officers. Further investigation has indicated that the proposed site may not be the most favourable for the Joint Board. In order to demonstrate best value in the use of its resources, the Joint Board needs to demonstrate that it has undertaken a rigorous option appraisal of all viable sites, considered the full costs of the each option and has set an achievable timeframe for project completion before it makes a final decision on how to proceed with this major capital investment.

Action plan no. 1

26. The Joint Board estimates that the new Headquarters will cost in the region of £6.9 million. There is significant uncertainty over the future of the capital grant for fire and rescue services and, therefore, the Joint Board plans to borrow the money to fund this project. The Joint Board's indicative revenue budgets for 2010/11 and 2011/12 include the costs of this additional borrowing but these have yet to be finally approved by constituent councils. Given the current financial pressures facing all councils, the constituent authorities may not be able to fund the additional requisitions required to fund this project.

Action plan no. 2

Pension liabilities

27. 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.
28. 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.
29. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. At 31 March 2009, the present value of the scheme liabilities was £116.3 million, decreasing from £140.5 million in the previous year. This liability will be met by future firefighters' contributions and constituent authorities' contributions.
30. The Joint Board's estimated pension liabilities for civilian staff at 31 March 2009 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £2.5 million, decreasing from £3.2 million in the previous year. The 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

31. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although some aspects of IFRS have already been adopted, 2009/10 is a key year in the transition to IFRS with Joint Boards expected to prepare a comparative balance sheet as at 1 April 2009.

Action plan no. 3

Governance

Introduction

32. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09.

Overview of arrangements in 2008/09

33. 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. Our review found that the Joint Board has many aspects of a sound corporate governance framework in place.
34. The Accounts Commission plan to undertake best value audits at all fire and rescue services in 2010. These audits will focus on effective leadership and sound governance arrangements from the perspective of both elected members and senior officers. In response to the Accounts Commission's plans the Joint Board set up a Best Value Assessment Task Group of elected members to:
- carry out an assessment against the Best Value in Public Services Self Assessment Questionnaire and determine whether the Joint Board is achieving best value
 - introduce an improvement plan for any areas of weakness identified in the current arrangements which prevent or curtail all aspects of best value being achieved
 - identify what development Joint Board members may require in order to support the requirements of best value
 - identify the most effective governance arrangements to ensure best value requirements are sustained.

35. Following its review of the Joint Board's existing governance arrangements, the Group proposed a revised governance structure which has recently been approved for implementation in 2010. The new structure consists of the Joint Board and two committees. Revised remits for these committees are set out below:

Full Joint Board

- Approval of Service Budget and Annual Accounts
- Approval of capital projects in excess of £500k
- Approval of Policies derived from statute
- Approval of Service Integrated Risk Management Plan

Strategy Committee

- Protecting the Community
- Human Resources
- Budgetary Planning

Scrutiny Committee

- Continuous Improvement
- Performance Management and Audit
- Financial Monitoring

Member training

36. Elected members received induction training following the May 2007 elections covering their role in performance management and scrutiny. In addition, a seminar was held in November 2008 to promote governance responsibilities and discuss future developments within the Service. Attendance at this latter event was poor, with only 4 of the 15 members attending.
37. As noted at paragraph 34 above, one of the remits of the Best Value Assessment Task Group is to consider what development each member needs to support the requirements of best value. Once the new governance structure is in place and membership of the individual committees is known, members will be asked to identify the training they require to enable them to fulfil their role on the committee and deliver best value services for the people of Grampian.

Risk Management

38. 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.
39. Although the Joint Board has had a Risk Reduction Strategy in place since September 2008, we noted in our Annual Audit Plan that further work was required to develop a corporate risk register. Work on this is still ongoing, but is expected to be completed in 2010.

Internal audit

40. 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.
41. 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. Our assessment confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government.
42. Auditing standards encourage internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. As set out in our 2008/09 Annual Audit Plan, we planned to place reliance on internal audit's work on payroll, fixed assets and general ledger/budget monitoring systems.
43. Our review of internal audit's work in these areas concluded that we could take assurance from the majority of the work undertaken. Work on payroll starters and leavers had, however, been undertaken on the wrong financial year and, therefore, we had to do additional work to obtain the assurances required to enable us to express our audit opinion on the 2008/09 financial statements. Our Annual Audit Plan highlights that we reserve the right to charge an additional fee for further audit work required when planned internal audit reliance is not achieved within the agreed timescales and to the required standard.
44. We will continue to work with internal audit as part of our 2009/10 planning process in order to obtain maximum benefit from the systems work undertaken by internal and external audit.

Statement on the system of internal financial control

45. 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.
46. 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

47. 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
 - debtors and income
 - main accounting system and budget monitoring
 - creditor payments
 - fixed asset system
48. 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 2009.'

Prevention and detection of fraud and irregularities

49. 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

50. 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.

51. The results of the Joint Board's involvement in the 2008/09 exercise were reported to the Joint Board in September 2009. The report confirmed that all matches had been investigated and that no overpayments, frauds or savings had been identified. This provides assurance that the Joint Board's internal arrangement for preventing and detecting fraud are operating satisfactorily.

Performance

A performance audit of the Scottish fire and rescue services

52. 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.
53. During 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.
54. Within the report there were specific mentions of the Grampian Fire and Rescue Service. These included 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.
55. A number of the areas for improvement are being addressed by the Best Value Assessment Task Group. The remainder are being taken forward through the strategic planning process. We will continue to monitor progress in this area throughout our audit appointment.

Overview of performance

56. Quarterly performance monitoring reports are submitted to the Finance, Audit and General Purposes Committee setting out performance against the Scottish Local Performance Indicators (LPI's). These LPI's were revised at the end of 2007/08 and now consist of seven indicators. The performance reports contains key messages in a narrative style and include some contextual information for each indicator.

57. The latest monitoring report, for quarter 4 of 2008/09, was presented to committee in September 2009. Key messages include:
- the number of deliberate primary fires has dropped by 6 compared to quarter 4 in 2007/08
 - the level of accidental dwelling fires shows no change compared to prior year
 - there was a slight increase in incidents resulting in casualties during quarter 4 in comparison to 2007/08, but the number of fatal and non fatal casualties fell in the same period
 - the service undertook 470 Home Fire Safety Visits in quarter 4
 - an average of 2.5 shifts were lost due to sickness and light duties for operational staff, and an average of 2.7 days lost due to sickness for all other staff
 - there were 17 reported injuries to staff
 - net revenue cost per head of population for 2008/09 was £52.73.
58. The Joint Board has recently reviewed its performance management and reporting arrangements, and introduced revised processes and performance measures for reporting to committee on a quarterly basis. We will review the operation of the revised performance management arrangements as part of our 2009/10 audit.

Statutory performance indicators

59. 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.
60. Overall, the quality of working papers provided to support the SPIs was good and there was evidence that they had been checked to ensure that they were complete, accurate and in compliance with the Direction prior to submission for audit. One indicator, call response times, was assessed as unreliable in 2008/09 compared to two in 2007/08. This was due to an error in the time synchronisation for one terminal in the control room, causing data for 5 months of the year to be unreliable. This indicator is no longer included in the Statutory Performance Indicators with effect from 2009/10.

Final remarks

61. 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.
62. 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.
63. The co-operation and assistance given to us by members and officers of the Joint Board is gratefully acknowledged.

**Audit Scotland
October 2009**

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	25	<p>Financial pressures</p> <p>In April 2009, the Joint Board agreed to progress plans for the development of a new Headquarters building. In order to demonstrate best value in the use of its resources, the Joint Board needs to demonstrate that it has undertaken a rigorous option appraisal of all viable sites, considered the full costs of the each option and has set an achievable timeframe for project completion before it makes a final decision on how to proceed with this major capital investment.</p> <p><i>Risk: the Joint Board does not achieve Best Value from the development of the new Headquarters.</i></p>	<p>A specific sub committee of the Joint Board has been established to provide additional scrutiny and accountability of the project.</p> <p>An options appraisal will be presented to that sub committee on the 13th of November 2009 setting out the associated risks and benefits against potential sites. Their decision will go to the full Joint Board meeting on the 16th of December 2009</p> <p>A multi disciplined officer team involving Aberdeenshire Council professionals have provided full cost options.</p>	Chief Fire Officer	<p>Initial decision 16 December 2009</p> <p>Monitor through project management life of contract</p>

Action Point	Refer Para. No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	26	<p>Financial pressures</p> <p>The Joint Board plans to fund its new Headquarters through prudential borrowing. This will impact on the amount it will require to requisition from each constituent authority.</p> <p><i>Risk: given the current financial pressures facing all councils, the constituent authorities may not be able to fund the additional requisitions required to fund this project.</i></p>	In presenting the options to elected members that risk will be highlighted together with strategies to minimise that through the realisation of capital assets, use of the Hub Initiative and potential asset disposal options that may provide 'up front' capital.	Chief Fire Officer	16 December 2009
3	31	<p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>2009/10 is a key year in the transition to IFRS, with Joint Boards expected to prepare a comparative balance sheet as at 1 April 2009.</p> <p><i>Risk: the Joint Board will be unable to produce IFRS compliant financial statements within the required timescales.</i></p>	The Service have attended seminars regarding the changes required under IFRS and have signed up to the assistance programme offered by CIPFA / PwC to assist in meeting the required timescales.	Head of Finance	31 March 2010

