

Grampian Joint Fire and Rescue Board

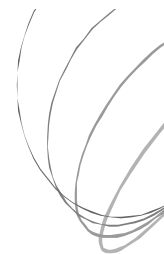
Report to Members on the 2005/06 Audit

October 2006



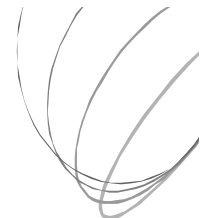
Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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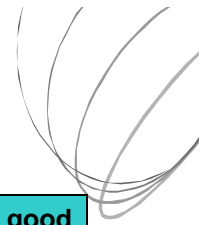
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Executive summary

1. This report summarises the main issues arising from the 2005/06 audit. Overall, the financial stewardship of Grampian Joint Fire and Rescue Board during the year was satisfactory. Our conclusions on key aspects of the Joint Board's performance are highlighted in the table below, based on the audit work undertaken during the year and an assessment range of very good, good, fair and unsatisfactory.

Financial statements	Good
<ul style="list-style-type: none">• The financial statements present fairly the Board's financial position.• The Statement on the System of Internal Financial Control complies with accounting requirements and is consistent with audit findings.• Final accounts preparation procedures and working papers were generally satisfactory.• Balances held at 31 March 2006 were in line with approved levels permitted by the Scottish Executive.	
Corporate governance	Good
<ul style="list-style-type: none">• The Fire and Rescue Service has implemented its Integrated Risk Management Plan. More work is however required to embed risk management activities across the Service.• The Finance, Audit and General Purposes Sub-Committee largely complies with audit committee principles and has recently extended its remit to include arrangements for scrutiny of service performance.• A fraud policy is in place including a strategy for prevention and detection of fraud and corruption.• Internal Audit concluded that <i>'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'</i>.• Based on the work undertaken by internal and external audit during the year, satisfactory controls were generally found to be operating.	
Performance management	Fair
<ul style="list-style-type: none">• A planning framework involving a longer term corporate plan supported by command/service plans, risk and finance plans continues to be developed.• The Service is in the early stages of reporting performance information linked with the corporate planning framework which can be used to manage performance and take corrective action when necessary.	



Performance indicators	Very good
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- All statutory performance indicators were assessed as reliable and were supported by adequate working papers.
- The main movement highlighted by the 2005/06 indicators was an increase in sickness absence. This is essentially due to long term sickness involving serious illnesses. However, the Corporate Team has recently considered procedures for robust return to work interviews.

2. Detailed action plans covering the issues raised during the audit have been discussed with management as part of the 2005/06 audit. Key issues for the attention of members are outlined in the Action Plan included in this report.

Introduction



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 corporate 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 mis-statement, 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 information.
4. This report summarises the most significant issues arising from our work during 2005//06. More detailed reports to management, including agreed action plans, have also been submitted to officers.
5. This is the final year of a five year appointment. We would like to take the opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.



Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
7. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Joint Board and its expenditure and income for the year; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We also 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 internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

Overall conclusions

9. We have given an **unqualified** opinion on the financial statements of Grampian Joint Fire and Rescue Board for 2005/06.
10. The Joint Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally satisfactory and this enabled the audit to progress smoothly.

Financial position

11. The Joint Board's net revenue expenditure amounted to £24.523 million in 2005/06 and was met by constituent authorities' contributions of £25.411 million, resulting in a surplus for the year of £0.888 million. In his Overview of the Joint Board's Finances, the Treasurer summarises performance for the year. Overall, there was a surplus against budget of £0.9 million due to vacant posts across the organisation.
12. Capital expenditure totalled £1.8 million and was totally funded by government grant. As highlighted in the 2004/05 audit, the Service does not yet have a robust asset management planning process in place. This is scheduled for implementation in 2007 and when linked with capital expenditure strategies and plans, will ensure that projects are affordable, prudent and sustainable.

Action point 1



13. The Joint Board holds a revenue reserve which consists of both earmarked amounts set aside to support future years' expenditure and a contingency for unexpected events or emergencies. The Controller of Audit's '*Overview of the local authority audits 2005*' recognises that the appropriate level of balances is for organisations to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in constituent authority contribution levels results in an inadequate cushion held to deal with emergencies.
14. At 31 March 2006, the Joint Board held a reserve of £1.9 million of which £0.6 million has been set aside to fund future payment of fire pension commuted sums. Joint Fire and Rescue Boards are permitted to hold a balance equal to 5% of requisitions for cumulative years. Grampian has retained the maximum amount permitted as a working balance to provide a cushion in the event of a major incident.

Accounting practice

15. Joint Boards 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'). There was only one significant adjustment made to the figures included in the unaudited accounts made available for public inspection. As a result, the surplus for the year and the contributions from the pensions reserve were increased by £218,000 to correct the double counting of pension commutations within the accounts.
16. During 2005/06, the Head of Finance amended the template for the financial statements to provide better information for users. However, further disclosure improvements were made to the unaudited accounts to meet the requirements of the *Code of Practice for Local Authority Accounting in the United Kingdom* (Code of Practice). The main changes to the accounts were:
 - the inclusion of a more detailed commentary on the purpose of the accounts and the revenue outturn for the financial year within the overview; and more narrative information generally throughout the notes to the accounts;
 - inclusion of the basis of the valuation of fixed assets within the accounting policies;
 - revision of the statement of total movements in reserves and accompanying notes to comply with the format required by the Code of Practice.

Action point 2

17. Further matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised below.



Going concern

18. The Joint Board's balance sheet has an excess of liabilities over assets of £101.4 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.
19. The Joint Board's Accounting Policies state that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the accounting requirements for pensions do not impact on the underlying basis for meeting the Joint Board's current and ongoing liabilities. Future pension liabilities will be met, as they fall due by contributions from constituent authorities in the normal way. We are satisfied that the process the Joint Board has undertaken to consider going concern is reasonable.

Pension liabilities

20. 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. 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.
21. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. At 31 March 2006, the present value of scheme liabilities was £129.8 million. The increase from a liability of £124.5 million at 31 March 2005 is largely due to a change in the financial assumptions used to calculate the rate of increase in salaries.
22. As the firefighters' scheme is unfunded, the pension liability will fall to be met by serving firefighters' contributions and by taxpayers in the future (through constituent authorities' contributions). The government is currently considering major changes to public sector pension schemes, with one of the aims being to provide an affordable, secure and sustainable benefit structure.
23. The Joint Board's estimated pension liabilities for civilian staff at 31 March 2006 exceeded its share of assets in the Aberdeen City Council Pension Fund by £2.9 million. The increase from a liability of £2.1 million at 31 March 2005 is again largely due to the change in discount rate for the increase in salaries. The full actuarial valuation of the Aberdeen City Council Pension Fund at 31 March 2005 recommended that the overall net liability be recouped through increased employers' contributions. The Joint Board's contributions have increased from 255% of employees' contributions in 2004/05 to 265% and 275% in 2005/06 and 2006/07 respectively. This situation is common across Scotland.



Legality

24. Each year we request written confirmation from the Treasurer that the Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Fire Officer and the Corporate Management Team, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
25. While the Service has done much to progress diversity and equalities issues, further work is needed to fully integrate these activities within the Service. In particular, at 31 March 2006, the Race Equality Scheme had not been revised and more consistent awareness training needed to be completed across the Service. I am pleased to note that an Interim Race Equality Scheme was submitted to the Joint Board in April 2006 to cover the period to April 2007, when the revised scheme covering the three year period 2007-2009 is expected to be available. There are also plans in place to appoint a diversity champion within the Service to ensure that this important agenda is properly addressed.

Action point 3

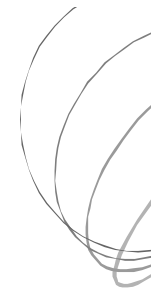
26. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

27. The 2005/06 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.
28. 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 consistent with the findings of our audit.

Financial reporting outlook

29. Overall the Joint Board is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. A number of changes have been made to the 2006 SORP which will need to be addressed before the preparation of the 2006/07 accounts. It is therefore critical that early resources are allocated to consider the challenges which lie ahead and to ensure that the template is revised to meet the new requirements which include:
 - replacement of the revenue account with a traditional income and expenditure account;
 - a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and



- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.

30. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Joint Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial activity is fully transparent.

Action point 2

Change of external auditor

31. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
32. This is the final year of our current appointment to the audit of Grampian Joint Fire and Rescue Board. From 2006/07 Audit Scotland will remain as the Joint Board's appointed auditor and the engagement lead will be Maggie Bruce.



Corporate governance

Overview

33. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that the Joint Board had many aspects of a sound corporate governance framework in place.
34. The Joint Board has a Finance, Audit and General Purposes Sub-Committee. It meets in advance of Joint Board meetings as and when required. The Committee generally complies with CIPFA's guidance notes on audit committee principles. More involvement is, however, required with regard to taking forward the corporate risk assessment process, ensuring that risks are highlighted and that there are appropriate links with internal audit's risk evaluation of financial and non-financial risks.
35. 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. We carry out an annual review of the Joint Board's internal audit arrangements and found that the function continues to deliver quality work in accordance with its plan. All work on which we planned to place reliance was completed and the relevant assurances obtained.

Anti-fraud and corruption arrangements

36. At a corporate level, the Joint Board has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include a code of conduct for elected members and for staff, an anti-fraud policy including a strategy for prevention and detection of fraud and corruption and a whistle blowing policy.
37. During 2004/05 the National Fraud Initiative, which has operated for a number of years in England and Wales, was introduced in Scotland. This initiative aimed to identify and reduce fraud by bringing together data from councils and other public agencies to help detect a wide range of frauds against the public sector. If the exercise is approached appropriately and little or no fraud identified, assurances can be taken about internal arrangements for prevention and detection.
38. Information on a range of data matches which may indicate anomalies was supplied to the Service in February 2005. These were investigated by the Service but no overpayments, frauds or savings were identified. This links with our past experience that the Joint Board does not have a history of fraud. The National Fraud Initiative exercise will be re-run on a national basis as part of the 2006/07 audit.



Systems of internal control

39. 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
 - Creditors payments
 - Main accounting system
 - Debtors and income
40. As part of this process, reliance was placed on the work of internal audit in 2005/06 to evaluate the payroll system which is a key financial system. The Chief Internal Auditor concluded that *'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'*.

Looking ahead

41. In the coming years the Joint Board continues to face significant challenges which include:
- specific cost pressures arising from the requirement to absorb transitional funding and the need to fund increased pension costs;
 - implementation of a robust asset management planning process, linked to capital expenditure strategies and plans, to ensure best value in the use of the Joint Board's assets and that spending plans are affordable, prudent and sustainable;
 - involvement in a major joint project with Grampian Police for a joint emergency services headquarters on the North Anderson Drive site. This project will offer a number of opportunities for both parties to benefit from joined-up working. There are however various challenges ahead with regard to the funding of the new headquarters.
42. These areas, and the controls put in place by management to address the issues, are likely to be subject to ongoing review during the 2006/07 audit.

Performance management



The development of Best Value in the Fire Service

43. The Local Government in Scotland Act 2003 established Best Value and community planning as statutory duties for all local authorities and joint boards. Up until now, auditors have discharged their duty to review best value in fire authorities through working with HM Fire Service Inspectorate (HMFSI) on integrated inspections/audits. These arrangements are now under discussion between Audit Scotland and HMFSI with a view to establishing a joint approach to the audit of best value which builds on existing scrutiny arrangements.

A performance audit of the Scottish fire and rescue authorities

44. As part of the Fire Service National Joint Council agreement on pay and conditions in 2003, the Accounts Commission agreed to undertake a verification exercise to examine whether the intended benefits of the various national changes under modernisation were being delivered locally. This was undertaken in two phases during 2004. The second national verification report concluded that modernisation was a long process and that there was still a significant amount of work to be done before real change would be delivered on the ground.
45. The Accounts Commission asked Audit Scotland to undertake a performance audit on the Scottish fire and rescue authorities during 2006 and to include a review of the overall outcomes of modernisation. Consequently, the study was undertaken across Scotland over the summer and in particular, on-site work was undertaken in Grampian in August 2006. It focused on the extent to which fire and rescue authorities are achieving the objectives of modernisation and in particular whether the integrated risk management plans are effectively supporting the change in emphasis from intervention to prevention, and that the progress to modernisation is reflected in the culture of the organisation.
46. The format of the study required fire and rescue services to make a submission around the effectiveness of fire and rescue authorities in the undernoted areas which was followed up by detailed site visits.
- strategic management ;
 - fire prevention and risk management;
 - financial management arrangements;
 - workforce management and development;
 - management of operational business;
 - communications.



47. Each joint fire and rescue service will shortly receive a local report from Audit Scotland's Performance Audit Group and key messages will also be brought together for national reporting.
48. In preparation for this study, Grampian Joint Fire and Rescue Board engaged the services of Robson Rhodes earlier in the year to conduct 'a best value health check'. The findings were reported in February 2006 and included a range of issues which reflected the conclusions from external audit work carried out around performance management and improvement. In particular, that:
 - the Service is committed to continuing to modernise and improve service delivery;
 - the strategic planning framework incorporating long term planning, risk management and financial management is in the early stages of development;
 - performance and risk management frameworks are currently underdeveloped. These are both recognised by management who are taking proactive steps to address these matters;
 - the Service has undertaken extensive preparation for addressing significant aspects of developing its people;
 - overall the Service has ambitious plans to achieve sustained improvement.

Performance management and improvement

49. The delivery of high quality and cost effective public services is a cornerstone of current government policy. Performance management and improvement involves raising the standards and quality of performance, achieving greater efficiency in the use of public funds and becoming more responsive to the needs and aspirations of both individual service users and the communities that the Service covers. The development of the community planning agenda will start to generate a number of performance indicators to reflect partnership activity. Bodies' performance management systems will need to be robust to handle changing requirements.
50. As part of the 2004/05 audit, a review of performance management was carried out locally for Grampian Joint Fire and Rescue Service. The implementation of an integrated Risk Management Plan was identified as the starting point for the Service. The overall framework for corporate and service planning needed revision to become longer term and we had also noted that performance indicators were not used by officers or members to manage the Service. A detailed action plan was agreed with the Service which we followed up as part of the 2005/06 audit.



51. Overall, in 2005/06, we found that the Service continued to develop its performance management framework. Considerable work was done to implement the new corporate planning and performance management framework approved by the Joint Board in December 2005. The Service has progressed with the corporate planning aspect of the framework having developed its long-term strategic plans underpinned by a suite of area command and portfolio plans and the 2006/07 Action Plan associated with its integrated risk management plan. In particular, Grampian Fire and Rescue Service has set out the Service's Strategic Vision for the period 2006 – 2016 and following an extensive internal and external consultation process, the Service has now agreed a set of organisational core values.
52. The performance management aspect of the framework, however, was just beginning to produce performance information in June 2006. Challenge and scrutiny of service performance became part of the remit of the Finance, Audit and General Purposes Sub Committee in February 2006. As a result, the Service's first quarterly performance management report setting out the Scottish Local Performance Indicators was considered by the Sub Committee in August 2006. Time will however be required for the process to bed in and be reviewed to ensure that meaningful information from the framework is being produced for consideration and scrutiny by members and for feedback to the public on service performance.

Action point 4

Performance indicators

53. The Joint 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 indicators that require to be published and external auditors review the joint boards' arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
54. In 2005/06, all indicators were assessed as reliable and were supported by satisfactory working papers.
55. Key points from the 2005/06 statutory performance indicators include:
 - a reduction in the number of calls handled within one minute, from 76.5% in 2004/05 to 73.1% in 2005/06;
 - a further increase in sickness absence levels from 4.4% to 4.8% due to long term sickness involving serious illnesses. However, the Corporate Team has recently considered procedures for robust return to work interviews.



Looking ahead

56. Particular challenges facing the Joint Board in the coming years include:

- responding to the Efficient Government agenda including the absorption of transitional funding;
- continuing to develop an integrated planning framework and a performance management system for the Service.



Final Remarks

57. The members of Grampian Joint Fire and Rescue Board are invited to note this report. We would be pleased to provide any additional information that members may require.
58. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.
59. The co-operation and assistance given to us by Grampian Joint Fire and Rescue members and staff over the five years of our audit appointment is gratefully acknowledged.

Action plan

No.	Key Risk Areas	Responsible officer	Response & agreed action	Action date
1. (para 12)	<p>Asset Management Planning</p> <p>The Board does not yet have a corporate asset management plan.</p> <p><i>Potential Risk: The Board cannot demonstrate a robust, affordable and sustainable approach to capital planning in the longer-term.</i></p>	Head of Finance	A Corporate Asset Management Policy and Plan is being developed to be implemented for the beginning of financial year 2007/08.	March 2007
2. (paras 16 and 29 – 30)	<p>Financial Reporting</p> <p>Changes have been made to the 2006 SORP which will have an impact on the presentation of the 2006/07 annual financial statements.</p> <p><i>Potential Risk: In the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p>	Head of Finance	This is being progressed to take account of the changes required by 2006 SORP.	March 2007
3. (para 25)	<p>Diversity and Equality Issues</p> <p>An interim Race Equality Scheme needs to be developed into a formal revised three year scheme.</p> <p><i>Potential Risk: The Board/Service may not be meeting the requirements of the legislation.</i></p>	Deputy Chief Fire Officer	The April 2006 Joint Board meeting approved the formal Interim Scheme following guidance from HMI (Fire) Equality Advisor that it would satisfy the legislation. A more strategic Scheme, linked through the Service's wider integrated risk plan and the Service's core values will be produced in early 2007.	March 2007

No.	Key Risk Areas	Responsible officer	Response & agreed action	Action date
4. (para 52)	<p>Performance Management</p> <p>The Joint Board is in the early stages of implementing a formal performance management framework. Work needs to continue to ensure performance can be assessed, measured and reported both internally and externally.</p> <p><i>Potential Risk: The Board does not know how its Service is performing or whether it is achieving its objectives. It may therefore be failing to deliver best value to the public.</i></p>	Assistant Chief Fire Officer	<p>A Performance Management and Improvement report was agreed at the February 2006 meeting of the Joint Board. The same meeting approved the extended remit of the Finance, Audit and General Purposes Sub Committee to include performance management scrutiny and reporting. Ongoing members awareness sessions are in place.</p> <p>The Joint Board meeting in April 2006 agreed a set of internal performance indicators as part of the Service's Corporate Planning and Performance Management Framework and the first reporting of those indicators has subsequently been reported to the Sub Committee.</p> <p>Continued refinement of the internal performance indicators and wider performance indicator reporting is a key element of the Service's new business planning process.</p>	March 2007