

# Highland and Islands Fire Board

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



24 October 2008





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October 2008

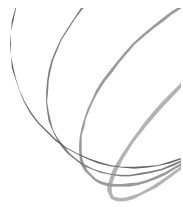
# Contents

<b>Introduction</b>	<b>1</b>	<b>Performance</b>	<b>11</b>
<b>Financial statements</b>	<b>2</b>	<b>Final remarks</b>	<b>15</b>
<b>Governance</b>	<b>7</b>	<b>Appendix A: Action Plan</b>	<b>16</b>



# Introduction

1. This report summarises the findings from our 2007/08 audit of Highland and Islands Fire Board. The scope of the audit was set out in our annual audit plan issued on 19 February 2008.
2. The financial statements of the Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Joint Board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the Joint Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Joint Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Joint Board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
  - the Joint Board has proper arrangements for securing best value in its use of resources.



# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2007/08. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2008.
5. We audit the financial statements and give an opinion on:
  - whether they present fairly the financial position of the Joint Board and its expenditure and income for the year; and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. 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 systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

## Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Highland and Islands Fire Board for 2007/08.
8. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes included:
  - accounting for financial instruments based on financial reporting standards FRS25, FRS 26 and FRS 29
  - replacing the fixed asset restatement account and capital financing account by a revaluation reserve and a capital adjustment account.
9. Overall, we were satisfied that the financial statements were prepared in accordance with the revised SORP.



10. There were a number of significant adjustments made to the figures included in the un-audited financial statements provided for public inspection. Details of the adjustments are summarised below in paragraph 18.

## **Financial position**

### **Going concern**

11. The Joint Board's balance sheet at 31 March 2008 shows net liabilities of £51.58 million. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
12. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In common with similar authorities, the Joint Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

### **Financial performance 2007/08**

13. The Joint Board's net operating expenditure for 2007/08 amounted to £22.669 million (after elimination of FRS 17 pension adjustments) and was met by constituent authorities' contributions of £22.47 million resulting in a small deficit for the year of £0.199 million. In his Report the Treasurer summarises performance against budget. The factors contributing to the outturn position included underspending on staff costs of £0.33 million; overspending on supplies and services of £0.333 million and advantageous borrowing rates reducing capital charges in the year by £0.084 million.
14. The Joint Board holds a general fund reserve as a contingency for unexpected events or emergencies. It is for the Joint Board to determine its strategy for managing such funds after taking account of local circumstances. At 31 March 2008 the Joint Board held a general fund reserve of £1.137 million (£1.336 million at 31 March 2007).
15. Capital expenditure totalled £4.314 million and was funded by government grant of £3.442 million, current revenue of £0.738 million, capital receipts of £0.042 million and capital grant brought forward of £0.092 million.



## Issues arising from the audit of the financial statements

16. 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. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June.
17. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). A number of adjustments were made to the figures included in the unaudited financial statements made available for public inspection.
18. The most significant adjustments were:
  - capital expenditure of £0.198 million treated as not adding value and written off against the revaluation reserve now correctly included as additions to fixed assets
  - a valuation for the old Lerwick Fire Station was not identified in the original financial statements. On investigation the value of the asset was identified as £0.212 million. The effect of the adjustment in the financial statements was to change the gain on sale of £0.123 million to a loss of £0.089 million. There was no impact on the resources available to the Fire Board
  - an alteration was required in the treatment of impairment of assets in the sum of £0.148 million, the effect of the change was to increase the deficit on the income and expenditure account by £0.148 million and increase the revaluation reserve by £0.148 million. The increase in the deficit was neutralised by an adjustment through the statement on the general fund balance with no impact on the general fund balance carried forward
  - software licences costing £0.09 million were originally charged to supplies and services, these are now shown as intangible assets in the balance sheet. This adjustment had no impact on the income and expenditure account as it was ultimately treated as capital financed from current revenue.
19. The service entered into a contract in March 2008 for the supply and installation of automatic gates and street lighting system for training areas and garages at the Command and Control Centre at a cost of £34,744.47. The contractor received payment in advance of making the gate. We found that work was not completed until approximately 9 April 2008. After the gate was fitted it was found that it did not fit properly and was removed. Housing and Property Services are still trying to resolve the dispute and the gate is still not in place.

**Key risk area 1**



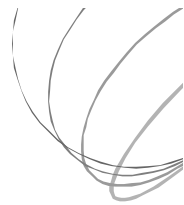


## **IFRS adoption**

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

## **Financial outlook – pension liabilities**

21. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions.
22. 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 financial statements.
23. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. Note 9 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2008 is £65.501 million (£70.264 million to 31 March 2007). As the 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).
24. The Board's estimated pension liabilities for support staff at 31 March 2008 exceeded its share of assets in the Highland Council Pension Fund by £1.481 million (£1.462 million at 31 March 2007).
25. The next full actuarial valuation of the Highland Council Pension Fund will assess the position at 31 March 2008 and is expected to be reported by December 2008. This will determine contribution rates for 2009-10 and the next two financial years. Factors such as volatile stock markets and increasing life expectancy impact on the funding level for the Highland Pension Fund, calculated as the ratio of fund assets to past service liabilities. The employers' contribution levels are based on percentages of employee contributions of 5% to 6% of salary. The budgeted contributions rose from 270% of employee contributions in 2006/07 to 280% in 2007/08 and 290% in the 2008/09 financial year.



## Legality

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



# Governance

## Introduction

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

## Overview of arrangements in 2007/08

29. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

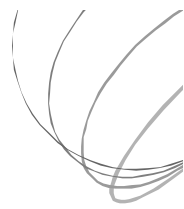
30. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system. The statement highlighted the need to improve controls related to the firefighters' pension scheme including the lack of a lead person to co-ordinate the administration of the scheme and lack of a system to trigger the third and fifth anniversary dates of ill health pensions for review. The Treasurer has indicated that appropriate action was taken to address findings in internal audit's report on the scheme.

31. The statement complies with accounting requirements and is consistent with the findings of our audit.

## Systems of internal control

32. The Joint Board's financial transactions are processed through Highland Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.

33. Our review of these systems was conducted as part of the audit of Highland Council, supplemented by specific audit work on the Joint Board's financial statements. Overall there are no material issues of concern in relation to the operation of the council's main financial systems.



34. Our specific audit work on the Joint Board's financial systems identified insufficient segregation of duties in respect of accounts payable and insufficient evidence to support payments for goods and services.

#### **Key risk area 2**

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 Highland Council's internal audit section provided an internal audit service to the Joint Board during 2007/08.
36. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the joint board's internal audit arrangements and found that, during 2007/08, the internal audit service continued to operate mostly in accordance with the code.
37. The internal audit plan for 2007/08 assumed audits would be undertaken in six areas (audit of the firefighters' pension scheme was brought forward from 2006/07) including budgetary control and procurement. However, only the audits of the firefighters' pension scheme and performance management were completed in 2007/08. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that there were no reports issued by internal audit in 2007/08 on which we wished to place reliance in arriving at our opinion on the financial statements.
38. We have reviewed internal audit's planned audit work for 2008/09 and propose to place reliance on the audits of budgetary control and procurement in arriving at our opinion on the 2008/09 financial statements.

#### **Key risk area 3**



## Prevention and detection of fraud and irregularities

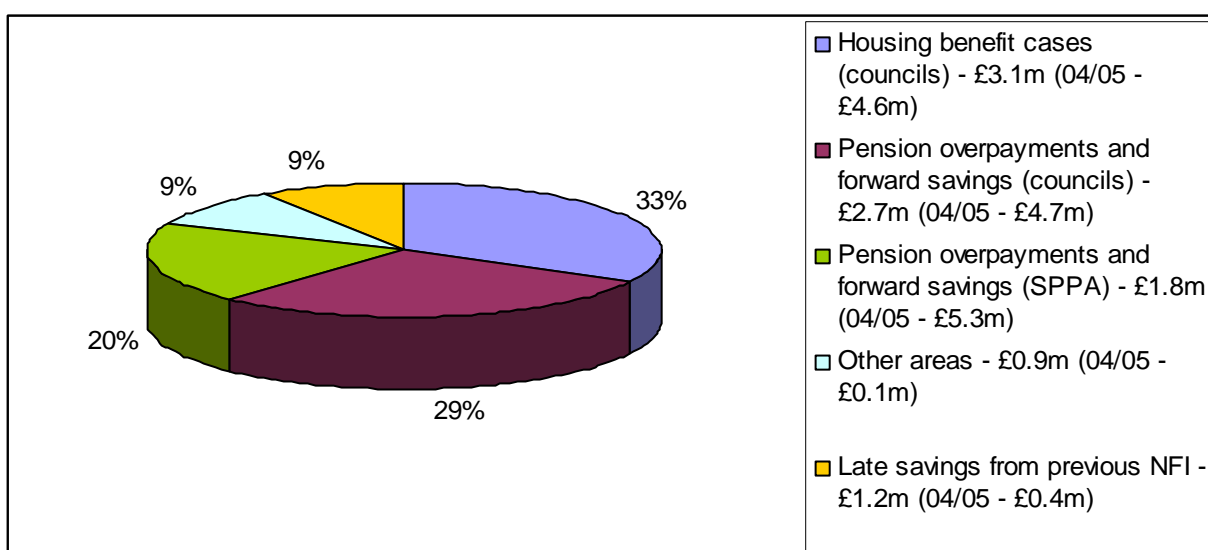
39. The Joint Board has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud and corruption, written procedures for the investigation of suspected cases of fraud and corruption and a whistle blowing policy.

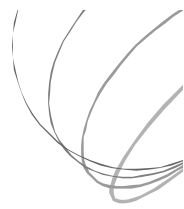
### NFI in Scotland

40. During 2007/08, we continued to monitor the Joint Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audits of participating bodies. NFI brings together data from councils, police and 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 (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.

41. Audit Scotland's report on the National Fraud Initiative in Scotland 2006/07, published in May 2008, provided an analysis of the frauds and overpayments of £9.7 million and this is set out in the chart below.

#### *Analysis of savings from the 2006/07 NFI in Scotland*





42. The report also highlighted that the level of fraud and error identified from the 2006/07 exercise is about a third less than that reported in the 2004/05 exercise. It suggested the most likely reasons were that:
- 2004/05 NFI was the first significant roll out of NFI for councils in Scotland, and were always likely to be untypical. NFI 2004/05 helped bodies to identify the longest-running frauds and errors; whereas most fraud and error found at the 2006/07 exercise should only have run for two years at most
  - NFI, and other anti-fraud work by bodies, is making an impact in deterring fraud
  - informed by the fraud and error cases identified previously, bodies have made improvements to their systems of control
  - in addition, the Scottish Public Pensions Agency (SPPA) had not completed its investigations at the time of preparing this report and its final results are expected to reduce the difference between the 2004/05 and 2006/07 NFI outcomes.
43. The next NFI exercise will commence in October 2008 and the scope is likely to be similar to NFI 2006/07. NFI 2008/09 will see the addition of online interactive training modules that will make it easier for officers to learn about the application, and how to use it efficiently and effectively, at the times when it best suits them.



# Performance

## Introduction

44. In this section we summarise key aspects of the Board's reported performance and provide an outlook on future performance.

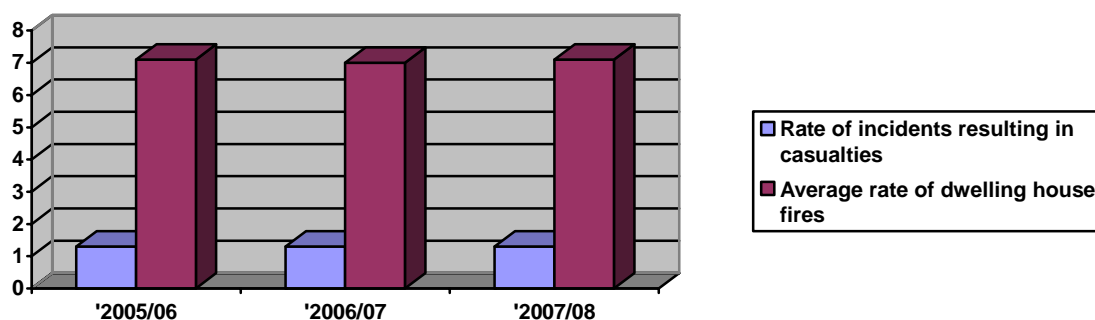
## Statutory performance indicators

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

46. We assessed all four of the Board's statutory performance indicators as reliable.

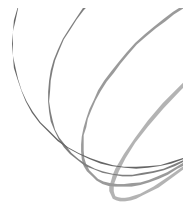
### *Community fire safety*

47. SPIs show that the rate of incidents per 10,000 of the population resulting in casualties was unchanged from 2006/07 at 1.3 although up slightly from 1.2 in 2005/06. The rate of accidental dwelling fires per 10,000 of the population was 7.1 in 2007/08, 7 in 2006/07 and 7.1 in 2005/06.



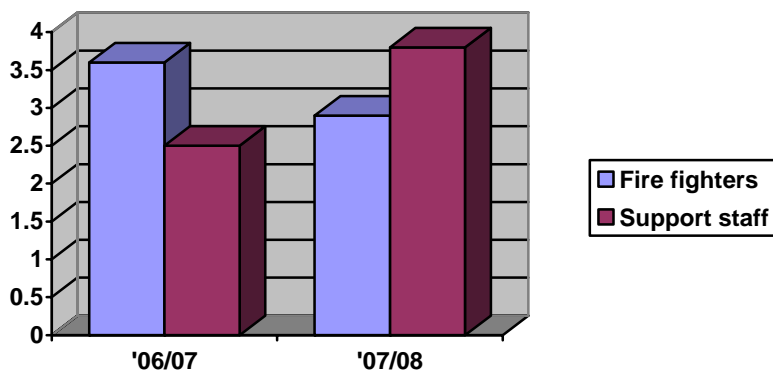
### *Call response time*

48. In 2007/08 the Joint Board was able to answer 94.9% of all calls within 2 minutes which is slightly below the figures of 95.6% in 2006/07 and 96% in 2005/06.



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

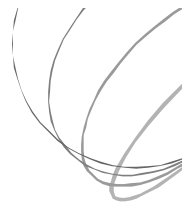
49. The percentage of rider shifts lost during the year for firefighters due to sickness fell from 3.6% in 2006/07 to 2.9% in 2007/08. The level of absence for support officers increased from 2.5% in 2006/07 to 3.8% in 2007/08.



## Review of Scottish Fire and Rescue Authorities

50. In March 2007 the Accounts Commission published a report entitled “*A review of service reform in Scottish fire and rescue authorities*”. The Accounts Commission reviewed progress made by fire and rescue authorities (FRAs) against its recommendations and published its findings in July 2008.
51. The follow up study found FRAs have made progress 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.

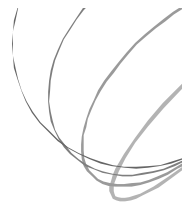




52. Within the report there are specific mentions of the Highlands and Islands Fire and Rescue Service including:
- a more proactive approach to improving governance arrangements through the establishment of subcommittees, member/officer working groups and champions in the service
  - less than two-thirds of members on the Joint Board participating in training sessions whereas it was higher in some other Joint Boards
  - introduction of six community safety advocates to support the delivery of community fire safety work
  - partial implementation of the firefighter development programme.

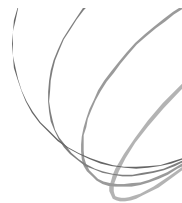
## Public performance reporting

53. Audit Scotland published a report on Highlands and Islands Fire and Rescue Service's performance in 2006. The main conclusions were:
- Highlands and Islands Fire and Rescue Authority (the FRA) has a clear strategic direction which reflects the requirements of the Fire (Scotland) Act 2005 and accompanying national framework, and is designed to meet the needs of the local communities it serves
  - The FRA manages its business through a robust service planning process and performance management framework
  - The Integrated Risk Management Plan (IRMP) has been a key driver for change in the FRA
  - The FRA has tailored its approach to workforce management to accommodate the largely retained workforce.
54. The Accounts Commission's publication entitled "*A review of service reform in Scottish fire and rescue authorities*" also identified public performance reporting as still having some way to go before meeting statutory best value guidance.



55. Guidance suggests the content of public performance reporting should be easy to understand, concise and include:
- information that allows the public to see the body is achieving value for money on behalf of its communities
  - trend information, comparative information, and performance against targets or benchmarks to help stakeholders assess how performance is changing
  - information on what the body is doing to improve its performance and impact, what targets it has for improvement, and what improvements have been achieved since it last reported.
56. We reviewed Highlands and Islands Fire and Rescue Service's Public Performance Report 2007/08 against the above criteria and concluded the public performance report meets many of the criteria for public performance reporting. However, there is scope to provide contextual information in the public performance report to inform stakeholders of how initiatives have improved or will improve the service's performance in the longer term. The Chief Fire Officer indicated the public performance report will change in 2008/09 to reflect the single outcome agreement recently agreed with the Scottish Government and other partners in Highland. He also indicated he will consider the possibility of including more contextual information in the report.

**Key risk area 4**



# Final remarks

57. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Board. The action plan sets out management's response to the identified risks.
58. The members of Highland and Islands Fire Board are invited to note this report. We would be pleased to provide any additional information that members may require.
59. The co-operation and assistance given to us by officers of the Joint Board is gratefully acknowledged.

**Audit Scotland**  
**24 October 2008**



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Key Risk Area	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	19	<p><b>Financial statements</b></p> <p>The service made a payment in advance for work that is now in dispute and incomplete.</p> <p><b>Risk: failure to get work completed to a satisfactory standard and/or refund of payment made.</b></p>	<p>Housing and Property Services is taking action to resolve the disputes.</p> <p>The Treasurer will issue an instruction that advance payments above £10,000 will require his approval in future.</p>	<p>Director of Housing and Property Services</p> <p>Treasurer</p>	<p>December 2008</p> <p>November 2008</p>
2	34	<p><b>Governance</b></p> <p>Insufficient segregation of duties in respect of accounts payable and insufficient evidence to support payments for goods and services.</p> <p><b>Risk: failure to comply with Financial Regulations.</b></p>	<p>Internal audit will be asked to look at controls in respect of accounts payable as part of its 2008/09 audit.</p>	<p>Treasurer</p>	<p>November 2008</p>
3	38	<p><b>Governance</b></p> <p>Internal audit did not complete its 2007/08 audit plan.</p> <p><b>Risk: internal audit does not complete its 2008/09 audit plan and is unable to provide assurance to the Treasurer on the adequacy of controls in the Joint Board.</b></p>	<p>Internal audit will complete its planned programme of work for 2008/09.</p>	<p>Head of Internal Audit</p>	<p>May 2009</p>
4	56	<p><b>Public performance reporting</b></p> <p>There is scope to provide contextual information in the public performance report to inform stakeholders of how initiatives have improved or will improve the service's performance in the longer term.</p> <p><b>Risk: stakeholders may be unaware of how initiatives have improved or will improve the service in the longer term.</b></p>	<p>In compiling the 2008/09 public performance the service will consider the need for and possibility of including more contextual information in the report.</p>	<p>Head of Corporate Services</p>	<p>August 2009</p>