

Highland and Islands Fire Board

Annual report on the 2012/13 audit



Prepared for Members of Highland and Islands Fire Board and the Controller of Audit for Scotland

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

We have given an unqualified opinion that the financial statements of Highland and Islands Fire Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The Police and Fire Reform (Scotland) Act 2012 wound up Highland and Islands Fire Board on 31 March 2013 and transferred the Board's functions to the Scottish Fire and Rescue Service. The Board therefore ceased to exist as a separate legal entity at midnight on 31 March 2013 and all assets, liabilities, interests and obligations transferred to the Scottish Fire and Rescue Service (classified as a machinery of government change).

The Board's Balance Sheet at 31 March 2013 had an excess of liabilities over assets largely due to pension commitments. However, we are satisfied that the process which the Board has undertaken to consider the organisation's ability to continue as a going concern is reasonable, as the Scottish Government has a legal obligation to provide the service with the funding it needs in the future to meet all pension liabilities as and when they fall due.

There were no issues of concern in relation to the operation of the Board's corporate governance arrangements noted during the audit.

An overview report on *Best Value in fire and rescue services in Scotland* was issued in July 2012 by the Accounts Commission. It focused on the opportunities and challenges facing fire and rescue in moving towards the new Scottish Fire and Rescue Service (SFRS), which came into operation on 1 April 2013.

Introduction

1. The Police and Fire Reform (Scotland) Act 2012 wound up Highland and Islands Fire Board on 31 March 2013 and transferred the Board's functions to the new Scottish Fire and Rescue Service (SFRS). Residual accounting and reporting obligations were transferred to The Highland Council which had previously been the lead authority for financial advice and support to the outgoing board.
2. This report is the summary of our findings arising from the 2012/13 audit of Highland and Islands Fire Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
3. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by The Highland Council's Audit and Scrutiny Committee.
5. The co-operation and assistance given to us by Highland and Islands Fire Board members and staff is gratefully acknowledged.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on 1 March, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of Highland and Islands Fire Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 30 September 2013.
9. The Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings

10. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the deficit on the provision of services by £0.384 million, increase other comprehensive expenditure by £0.115 million and decrease net liabilities in the Balance Sheet by £0.269 million. There are no unadjusted misstatements to bring to your attention.

Going concern

11. The Board's balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £65.4 million due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The Explanatory Foreword by the Treasurer to the Board and the accounts confirms that the Board has adopted a 'going concern' basis for the preparation of the financial statements as the Scottish Government, under the Police and Fire Reform (Scotland) Act 2012, has a legal obligation to provide the service with the funding it needs in the future to meet all pension liabilities as and when they fall due.
12. The accounts detail the Police and Fire Reform (Scotland) Act 2012 as an event taking place after the balance sheet date whereby all existing Fire and Rescue Joint Boards in Scotland

ceased to exist as separate legal entities at midnight on 31 March 2013 and all assets, liabilities, interests and obligations transferred to the SFRS. Note 5 to the accounts highlights that it is still appropriate to adopt a going concern basis for the preparation of the Board's financial statements as the changes being implemented are a transfer from one public body to another, which is classified as a machinery of government change.

13. We are satisfied, therefore, that the process which the Board has undertaken to consider the organisation's ability to continue as a going concern and the conclusion reached is reasonable.

Statement on the system of internal financial control

14. The Board included a statement on the system of internal financial control (SSIFC) within the audited financial statements in line with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The SSIFC reported that no material weaknesses had been identified during the course of the year. Assurances for this should include the annual assessment and year end opinion from internal audit. The Chief Internal Auditor's opinion has not been formally reported in an annual assessment but it is detailed in the SSIFC that *"on the basis of a review of policies and procedures in place and the work completed during 2012/13, including a review of the Board's implementation of agreed actions from previous years' audits, reasonable reliance can be placed on the Board's system of overall internal financial control"*.

Remuneration report

15. We are satisfied that the Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant officers and Board members.
16. The exit packages disclosed in the Remuneration Report relate to severance agreements reached with four individuals. A voluntary severance scheme had been agreed which identified 4 posts surplus to the requirements of the Scottish Fire and Rescue Service (SFRS) when it took over its full range of powers on 1 April 2013. The Scottish Government funded the costs (£0.194 million) associated with redundancy and additional cost of paying pensions early for these posts. The £0.264 million expenditure detailed in the remuneration report relates to the costs of these four exit packages evaluated on an actuarial basis in accordance with International Accounting Standard 19 (Employee Benefits).

Legality

17. Through our planned audit work we consider the legality of the Board's financial transactions. In addition, the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Board's management team, the financial transactions of the Board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Financial position

Financial Results

18. The Board's net expenditure before receipt of requisitions in 2012/13 was £23.326 million compared to the net budgeted expenditure of £22.869 million giving a net overspend of £0.457 million. In the Explanatory Foreword, the Treasurer outlines the key variances against budgeted expenditure including:
- higher than anticipated ill health referrals (£0.309 million)
 - national insurance relating to equal treatment for part time workers (£0.127 million)
 - voluntary severance costs of £0.052 million funded through the Scottish Government's scheme.
19. The net expenditure differs from the Net Cost of Services in the Comprehensive Income and Expenditure Statement of £25.975 million by £2.65 million. This is because reports prepared for the Board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. For example, capital investment is accounted for as it is financed, rather than when the assets are consumed and retirement benefits are based on cash flows rather than the current service costs of benefits accrued in the year. Note 17 to the accounts reconciles the figures in the budget performance report to the figures in the Comprehensive Income and Expenditure Statement.
20. Capital expenditure in 2012/13 totalled £2.971 million financed by capital grants and other contributions of £2.424 million, disposal proceeds of £0.073 million with the balance of £0.474 million being funded from revenue.

Financial position

21. In 2012/13, the usable reserve balance was adjusted to nil in the accounts to reflect the agreement for the repayment of the £0.016 million uncommitted reserves to the constituent councils.
22. The Board's balance sheet at 31 March 2013 had net liabilities of £65.412 million due largely to the requirements of IAS 19 (Employee Benefits) which requires the full pension obligations to be recognised in the year they are earned. The pension liabilities of the Board at 31 March 2013 were £101.5 million. In addition to the pension liability there was a £1.7 million liability for the IAS 19 adjustments for injury benefits. These technical accounting requirements have no impact on the underlying basis for meeting current and on-going pension/injury benefit liabilities which will be met, as they fall due, by the SFRS from 1 April 2013.

Corporate governance and systems of internal control

Overall governance arrangements

23. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Board had sound governance arrangements in place.

Accounting and internal control systems

24. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
25. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
26. Internal audit is an important element of the Board's governance structure. Our review established that the work of internal audit is satisfactory and we placed reliance on the Head of Internal Audit and Risk Management's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control systems for the year to 31 March 2013.

NFI in Scotland

27. Audit Scotland has coordinated a further major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in January 2013 but is not due to report until May 2014.
28. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate. With regard to the Board there were a number of matches identified. All the Board's matches have been investigated and cleared with no fraud or irregularities highlighted.

Prevention and detection of fraud and irregularity

29. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Board's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Standards of conduct and arrangements for the prevention and detection of corruption

30. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Performance

Best value

31. In July 2012, the Accounts Commission published its overview report on *Best Value in fire and rescue services in Scotland*. This report drew on the findings of Best Value audits of Scotland's eight fire and rescue services published between January and March 2012. It focused on the opportunities and challenges facing fire and rescue in moving towards the SFRS, which came into operation on 1 April 2013.
32. The report on Highland and Islands Fire and Rescue service was published in March 2012 and highlighted serious concerns about the sustainability of the fire cover model that had developed within the Board and its compatibility with the approach taken in other parts of the country. A peer support team, formed from senior officers from other Scottish fire and rescue services, identified major shortcomings within the Service in areas such as staff training, quality assurance processes and health and safety. Significant work has been done to address the weaknesses identified and substantial progress has been highlighted by Her Majesty's Chief Inspector of Fire and Rescue Authorities (HM CIFRA) in his recent report to Members. He has however noted that considerable challenges remain in delivering a sustainable Fire and Rescue Service across the Highlands and Islands area.

Performance management

33. Elected members received quarterly performance reports which showed progress against each of the Board's strategic objectives, and used a traffic light system to indicate how performance compared to expectations. Indicators were compared through trend analysis to previous years and were analysed by constituent local authority area. In addition, the Board received regular reports on progress made with delivering the Safer Firefighter Programme.
34. The prescribed Statutory Performance Indicators (SPIs) contained in the Accounts Commission's 2008 Direction were submitted to Audit Scotland by the 31 August 2013 deadline. The information and arrangements in place for the collation and checking of data for fire service specific indicators were adequate. This information is gathered through a UK-wide performance management system called IRS (Incident Reporting System).

Overview of performance in 2012/13

35. Each Fire and Rescue Service was required to report a range of information sufficient to demonstrate that it was securing best value in relation to community fire safety, intervention in response to emergency incidents, staff and equalities and diversity. The information that was reported included 3 specified statutory performance indicators on fire casualties, accidental dwelling fires and sickness absence. Some of the measures of performance in the year include:

- the number of incidents resulting in fire casualties increased (41 to 48) although the number of fire casualties fell (57 to 55)
- the days lost due to sickness and light duties per uniformed staff has marginally increased to 11.3 days in 2012/13 (2011/12 : 11.2 days). There has also been an increase in overall sickness days for all other staff to 8.9 days in 2012/13 (2011/12 : 8.2 days). The national averages were 7.2 and 6.8 respectively in 2012/13.

National performance reports

36. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. The Board has not been directly involved in any reviews during the year however *Improving community planning in Scotland* issued in March 2013 notes that a fresh drive to realise community planning's full potential, particularly in the light of severe budget pressures on all public services, has been outlined in a Statement of Ambition from the Scottish Government and the Convention of Scottish Local Authorities. Any action arising from this review should be considered by the SFRS.