

HIGHLAND AND ISLANDS FIRE BOARD

Minutes of Meeting of the **Audit Working Group** held in the Council Chamber, Glenurquhart Road, Inverness on **Friday, 11 August 2006** at **11.30 am**.

Present

Representing Orkney Islands Council	Mr R C Sclater
Representing the Highland Council	Mr R A C Balfour
Representing Comhairle nan Eilean Siar	Mr D MacLean
Representing Shetland Islands Council	Mr J P Nicolson (Substituting)

Officials in attendance:

Mr B Murray, Chief Fire Officer
Mr T Wood, Deputy Chief Fire Officer
Mr H Henny, Assistant Chief Fire Officer
Mr A MacAllister, Fire and Rescue Service Head of Corporate Services
Mr D Robertson, Treasurer's Office
Mr G Munro, Head of Internal Audit and Risk Management, The Highland Council
Ms M Bruce, Audit Scotland
Ms L Lee, Committee Administrator

Mr R C Sclater in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mrs M E Paterson of the Highland Council and Mr W Tait of Shetland Islands Council.

2. Statement of Unaudited Accounts 2005/06

There had been circulated Report No. Aud4/06 comprising the Statement of Unaudited Accounts for 2003/2004. Mr D Robertson, Treasurer's Office, drew attention to a number of points in the report including that:

- a) the revenue account for 2005/06 showed a final outturn surplus of £113,000 and this was reflected in an increase in the revenue reserve, which stood at £919,000 as at 31 March 2006; there had been a total underspend against the operational budget of £491,000, of which £257,000 had been returned to the Constituent Authorities; reserves in respect of commuted pension sums had reduced by £121,000;
- b) as Members were aware, the 2005/06 requisitions had not been based strictly on the Montgomery Formula; in order to avoid this situation occurring in the current financial year, the Treasurer had written to the Scottish Executive requesting that an adjustment in GAE allocations be made for 2006/07; however, no response had as yet been received and it was therefore possible that requisitions for the Constituent Authorities might need to be adjusted later in the year, as for 2005/06;
- c) the balance sheet was negative as a result of the application of Financial Reporting Standard 17 (FRS17) on retirement benefits, but this was not unusual for a small public sector body and preparation of the accounts on a going concern basis had been previously accepted by External Audit; and

- d) the full audited accounts would be ready towards the end of September 2006.

The Working Group **NOTED** the report.

3. Audit Scotland – Audit Briefing Note 2005/06

There had been circulated Report No. Aud5/06 dated 31 July 2006 by Audit Scotland outlining the Audit Briefing Note for 2005/06. Ms M Bruce, Audit Scotland, summarised the content of the Briefing Note. In particular, the report stated that the main focus of the 2005/06 audit would be the financial statements and supporting papers. Ms Bruce aimed to produce an opinion on these for the Controller of Audit by 30 September 2006. The audit would also follow up progress made on previous recommendations, the Board's preparations for the 2006/07 National Fraud Initiative in Scotland, and the Board's arrangements for collecting, recording and publishing directed Statutory Performance information. Some reliance would be placed on internal audit services, and opportunities to contribute to the current Performance Audit of Scottish Fire and Rescue Services would be taken up, in order to avoid duplication of scrutiny where possible. A final report would be submitted to the Board meeting to be held on 22 November 2006.

The Working Group **NOTED** the report and that 2005/06 would be the final year of Ms Bruce's appointment with Audit Scotland.

4. Audit Scotland – Financial Statements Strategy 2005/06

There had been circulated Report No. Aud6/06 dated 31 July 2006 by Audit Scotland outlining the Financial Statements Strategy for 2005/06. Ms M Bruce advised that, following the introduction of new international audit standards, auditors were now required to advise the Board of the scope of any forthcoming audit, the approach they would take, and "materiality" (i.e. how important ("material") information was, from the point of view, for example, of how far its omission or misstatement could influence the economic decisions taken on the basis of financial statements). For the 2005/06 audit, the auditors would be looking at issues of national importance, including the operation of the Prudential Code in funding capital investment and developments in international accounting standards, and at areas where there had been previous concerns generic to all Fire Boards, such as disclosures in relation to FRS17 (retirement benefits), the application of capital accounting and disclosures in the Statement system of Internal Financial Control. Ms Bruce expected to report by 15 September 2006, which would allow time for the Constituent Authorities to ascertain that the figures were correct, before the final submission to the Controller of Audit on 30 September 2006.

The Working Group **NOTED** the report.

5. Internal Audit Annual Report 2005/06

There had been circulated Report No. Aud7/06 dated 14 July 2006 by the Head of Internal Audit and Risk Management, The Highland Council, comprising his Annual Report for 2005/06 and summarising the operations undertaken by the Internal Audit Section on behalf of the Board. The Head of Internal Audit and Risk Management, the Highland Council, explained that the audit had been less in-depth this year and had relied to a larger extent than usual on the self-assessment carried out by the Service. The reasons for this were: (i) a recognition that the Service had undergone a period of significant change and time was needed for new processes to bed in; (ii) that the audit section had moved to an e-based system and staff training had been required; and (iii) an awareness that the Service was undergoing an additional Performance Audit and it was important not to place too onerous a number of additional duties on staff, to the detriment of their normal duties.

The key systems had been found to be satisfactory and could be relied on. However, two areas of concern had been identified, these being: (i) that a review of the Financial Regulations was now due – these should now include a section dealing with reporting lines and communication arrangements between the Head of Internal Audit and Risk Management, The Highland Council and Members of the Board, and (ii) the need for some changes to the Performance Indicator process, including the introduction of an independent check on the process, a review of the Guide available to staff, and the introduction of a retention policy for information extracted for the calculations. It was hoped in future years that areas of concern would be rated to give a clearer indication of the seriousness of the issues raised.

The report advised that, following a review of Best Practice in the Auditing profession, it was now recommended that, rather than the preparation of a longer term 3-5 year risk assessment plan together with a one year tactical plan, the one-year tactical plan only be produced. The report therefore contained a Tactical Plan for 2006/07.

The Chief Fire Officer advised Members that the issues concerning performance management had been addressed and that, in conjunction with the Treasurer a review of Financial Regulations would be presented to the Board in November.

The Working Group **NOTED** the report, including the one year Tactical Plan for 2006/07 contained therein.

6. Internal Audit Review

There had been circulated Report No. Aud8/06 dated 27 July 2006 by the Head of Internal Audit and Risk Management, The Highland Council, outlining work undertaken by the Internal Audit Section, together with, as an Appendix, final Internal Audit report on Statutory Performance Indicators. The Head of Internal Audit stated that no areas of major concern had been identified. He went on to remind Members that the purpose of the audit was to predict the likelihood of any adverse events and take action to prevent such events from happening.

Members having welcomed the positive conclusion of the Management Summary, the Working Group **NOTED** the report.

7. Monitoring of Retirements 2005/06

There had been circulated Report No. Aud9/06 dated 26 June 2006 by the Payroll and Pensions Manager, The Highland Council, advising Members of the number of retirements in the year 2005/06 of Highland and Islands Fire Board members of the Local Government Pension Scheme.

The Working Group **NOTED** the report.

8. Performance Audit of Scottish Fire and Rescue Services

There had been circulated Report No. Aud10/06 dated 14 July 2006 by the Assistant Chief Fire Officer on progress on the Performance Audit study being carried out by Audit Scotland on behalf of the Accounts Commission. All Fire Authorities in Scotland were undergoing the Performance Audit, the aim of which was to evaluate the impact of the modernisation agenda, particularly following (i) the resolution of industrial action in 2004 when a number of modernisation issues had been agreed and (ii) the introduction of the Fire and Rescue Framework in 2005.

The Study had begun in March 2006 with the issuing of a self-assessment pro-forma and was scheduled to be concluded in January 2007. A local report would be produced for each Fire and Rescue Authority giving the specific audit findings for that Authority. Each Authority would be asked to submit an improvement plan in relation to the audit findings. A report would also be prepared for the Accounts Commission making recommendations on ways to improve standards in performance across Scotland.

The Assistant Chief Fire Officer gave a verbal update on progress with the Performance Audit, advising that the Audit team had visited the Board area and spent considerable time interviewing staff, Board partners and Board Members. The audit had focussed on a number of management areas. The Audit Team leader, Ms S Pollock, would be attending the Board meeting to be held on 25 August 2006, as part of the assessment process. The Audit Team would return for a further visit to the Service in September 2006 and it was anticipated that the local report would be issued towards the end of the year, with the national report expected to be published in January 2007. Informal feedback to date had been positive.

The Working Group **NOTED** the position.

9. Chief Fire Officer's Annual Public Performance Review 2005/06

This item not having been on the agenda, the Chairman gave his consent for discussion to take place.

There were tabled (a) the Chief Fire Officer's Annual Public Performance Report 2005/06 (PPR), and (b) draft report by the Chief Fire Officer dated 10 August 2006, both of which would be submitted to the Board at its meeting to be held on 25 August 2006. The Chief Fire Officer nonetheless brought the PPR to the Working Group seeking the Group's agreement that in future years the PPR and Service Plan be submitted to the Working Group for more detailed consideration, as Board scrutiny of Performance Management was becoming an increasingly important audit activity. Ms M Bruce, Audit Scotland, supported this approach as it would provide an extra layer of scrutiny.

The PPR served as a dual purpose document, including information which would be useful to communities as well as the performance information which the Service had statutorily to provide. It would be widely distributed and included a comments form for recipients to provide feedback. The performance figures were in general positive, with most targets being met, but, where the results showed that improvement was required, actions would be built into the Service Plan. The Assistant Chief Fire Officer outlined the content of the report, and emphasised that Members needed to give consideration to the information given in the performance figures in particular.

Having been advised that a summary report would also be published alongside the PPR, the Working Group **NOTED** the information given and **AGREED** that, in future years, the PPR and Service Plan be submitted to the Working Group prior to submission to the Board to facilitate additional scrutiny.

The meeting ended at 12.40 p.m.