Introduction by so doing, an organisation is

Introduction

This paper discusses good financial practice with reference to Greater Manchester Fire and rescue Services as well as the cuts and risks faced by the organization in their daily business activities. It focusses on the risks that are directly linked to the accounting and fianncial records. First, the paper frames in general what financial management is all about. Further, the critical role of proper financial management in an organisation is discussed. Considering financial management at the Greater Manchester Fire and Rescue Services, the paper brings out the critical elements of a good financial management system. Considering the greater Manchester Fire and Rescue Services employs an international financial standard, the paper analyses in detail the stipulations of FRS17. Finally, the paper concludes with a discussion of risk management measure employed.

Risk management measures are critical because organisation sustainability and growth are dependent on identification of financial opportunities but also on handling financial risks well. (Financial management association 25)

Financial management

Financial Management is a critical aspect of organisational governance. Proper financial management is important because it helps organisations find ways of putting the financial resources available to the best use possible. By so doing, an organisation is able to maximise benefits from available resources. Financial management is directly linked with accounting; the only difference is that accounting deals with the financial records while financial management determines ways of allocating the resources to the various needs. An organisation is made up of two main components, which are the strategic components and the operational components.

As Campbell (45) explains, “ The strategic components of an organisation comprise of the vision, strategy to attaining the vision, the structure and the culture of the organisation”. Further, Campbell (48) explains, “ The operational components comprise of products and services, sales and marketing channels, people, systems, processes and finance”. Operational components are the main concerns of financial management since they involve the daily running of activities in the organisation. In order to successfully allocate available resources, an organisation should have a pre-determined operational boundary and authorised limits.

Greater Manchester fire and rescue services financial reports

One of the main considerations in any organisation is maximising the interests of the stakeholders. In this case, stakeholders include the employees, government, environmentalists, customers and the managers. To maximise shareholder value and for the organisation to operating in consistency with the international finance standards, a number of requirements have to be met. The first requirement is that “ there should be updated cash flows which indicate the net inflows and outflows” (Compton and John 12).

The second requirement as per Compton and John (12) is the “ the amount of the working capital should be determined with certainty and stated in the financial records”. Finally, the taxation system applied to the organisation should also be determined. An allowance for inflation should be provided to ensure that the net present value is as accurate as it can be. The operations in the finance department of the Greater Manchester Fire and rescue services are considered a fundamental part of the organisation’s activities since effective financial management is necessary for the stability of any organisation. With this in place it is possible to do planning on a long-term basis without having the fear that it could fail somewhere along the way. It is also possible to take large investment risks expecting a significant return on investment. “ Sound financial management helps to identify and free off resources and this maximises the opportunity to invest in new fire stations, technology and equipment” (Financial management association 34).

It also ensures that the employees the majority of whom are fire fighters are protected while in their duties of handing fires, dangerous chemicals and any other risky situation they may find themselves in. The financial records kept by this company include, a statement of accounting policies, the income and expenditure account, the balance sheet and the cash flow accounts. The statement of accounting policies contains an explanation of the foundation for the identification, measurement and exposure of transactions in the financial records. An income and expenditure account is a statement of the organisation’s revenue items and expenditure in the financial year. A balance sheet provides a summary of the organisation’s financial position while a cash flow provides a summary of the general cash movements in and out of the organisation. A greater Manchester fire and rescue service is a nonprofit making organisation whose main sources of funds are “ government grants, collections from national non domestic rates and the precept levied on the ten Greater Manchester District authorities" (Shenkir 78).

The main expenditure items on the other hand include salaries and wages, employer's contribution to pension's scheme, fuel expenses and capital expenditure charges.

Main Considerations of Fire and Rescue Services

One of the main considerations of greater manchester fire and rescue servives in relation to risk managemenet is the creation of a safe community in the regions where they function. To achieve this, they call upon the corporation of the members of the community since they are in a better position to identify the risk areas in their sorroundings especially the ones related to fires and the danger of falling objects or collapsing buildings. Risk evalaution in a fire and rescue services organization can be classified as either internal or external. Internal risks affect the staff of the organization and they include errors in financial and accounting reports either intentional or unintentional, fire outbreaks at the station among others. External risks on the other hand are the risks that the firefighters are exposed to while out in assignments and this may include falling objects, danger of falling from the ladders or even suffocating when rescuing peopel from burning buildings. One of the main ways of dealing with these risks as indicated in the financial reports is adhereance to FRS17. This fire service pension's scheme " is an unfunded scheme which is administered by the authority in accordance with the DCLG regulations" (Martin 21).

This scheme has no investment items in form of assets. FRS17 therefore requires that the liabilities and pension reserve should be recognised in the Balance sheet and the transactions carried out under this scheme to be recorded in the income and expenditure account. The local government pension scheme on the other hand is considered a defined benefits scheme and the liabilities attributable to this scheme are incorporated in the balance sheet on the foundation determined by the actuaries. This is determined using the projected element process, which involves " an assessment of the future payments that should be made in relation to retirement benefits earned by employees to date" (Martin 22).

The assessment is not done arbitrarily. As Martin (23) explains, the assessment " is based on assumptions about mortality rates, employee turnover rates as well as the forecast on the projected earnings for the current employees". A discount rate of 3. 2% is used to discount the liabilities under this scheme to their present values based on an analytical rate of return on a corporate bond that is considered to be of high quality.

Characteristics of the Greater manchester Fire and rescue services

One of the major characteristics of the greater manchester fire and rescue services is the fact that they maintain a medium term forecast of the budgetary allocations which are more focussed on the risk management plan.

" this budget is aimed at meeting the corporate priorities of the authority and the mitigation of the corporate risks as stated in the integrated risk management plan” (Financial management association 36). The government plays a major role in ensuring that the safety standards are adhered to both from within the organizations and from the outside as well. It requires the organization to be in possession of clearly defined documents that indicates the linkage existing between the anticipated spending plans and the plans on how to deliver their services effectively and effeciently. These plans are guided by the integrated risk management plan framework (Compton and John 10).

The main aim of this organization is to provide quality services that are affordable to the community. This is owing to the fact that fire outbreaks are usually unanticipated occurences and once they occur, they have to be attended to whether the victim had paid for the services or not. They therefore use a payment method whereby everyhousehold in the commuity is expected to subscribe to the services. They are required to pay a small monthly fee that is set to the point that can be afforded by the lowest income group hence ensuring that every household can handle the cost. In relation to FRS17, one of the most outstanding characteristics of the fire and rescue sevices as mentioned above is that it’s pension schemes are classified as defined pension’s benefit scheme. This implies that the assets are and liabilities are considered according to their book value the end of every financial year. The assets under consideration in this case include the insurance policies, notional funding, quoted and unquoted securities, unitized securities as well as the tangible assets. The surpluses recognised at the end of the year are also classified as assets.

The liabilities on the other hand include constructive rules occurring in the public statements, the promised benefits as well as any form of deficits accruing at the end of the financial year (Compton and John 12). The financial statements in Greater Manchester fire and rescue services are prepared in accordance with the above standards especially in relation to the realisation of the asset and liabilities items. One of the indications that the organisation complies with this standard is in the treatment of its assets and liabilities in the financial statements. The items related to pensions fund are treated separately from the other items to ensure that the pensions account is accurate and is consistent with the international financial standards.

Financial Risk Management Areas the fire and rescue services

The financial department of the Fire and rescue services just like any other organization is faced with a number of operational risks and uncertainties. A risk is defined as the possibility of things going the wrong direction while uncertainties are the outcomes that cannot be determined with assurance. Risks in an organisation are classified according to their probable effects and these include financial risks, operational risks, quantitative risks, commodity risks, market risks and credit risks (Financial management association 34). Financial risks affect the financial position of the organisation. The most common form is defaulted payments, which end up being declared as bad debts.

These have an adverse effect on the pension scheme fund since its accounts can run out of funds to facilitate its activities if the amount of bad debts increases significantly. The second type of risk is the operational risks, which affect the daily operations in the organisation and most of the times it comes as a result of human mistake especially in relation to the preparation of the financial records. This can as well affect the pension fund accounts by bringing up inaccurate figures in the records.

The third type of risk, which is the quantitative risk, affects the quantification of the financial records. These risks result into unanticipated unfavorable financial circumstances and this affects the pensions department by tampering with the database, which contains long-term data concerning pension contributions and payments. The fourth one is the commodity risk mainly concerned with the risk of losing property to unanticipated occurrences such as bad weather conditions and natural calamities. This risk can bring about a significant loss in the organisation since the destroyed property will need replacement for the organisation to perform effectively in service delivery (Compton and John 40). The fifth type of risk is the credit risk, which relates to the ability of the creditors to repay the amount owed to them.

This puts the organisation at a stake of being unable to cover for its expenses, which include payment of pension funds to the retirees at the end of each financial year. The sixth and final type of risk is the market risk whose main concern is the changes in interest rates and the value of money as influenced by inflation (Fabozzi and Peterson 77). This is completely beyond the organisation’s control since the market forces influence it. Owing to these factors, the nominal amount of money in the pension’s fund account differs from the real value. This affects the retirees since with the rising levels of inflation; the real value of their payments may be less than that of their contribution meaning that they have incurred a loss.

Risk Assessment

Due to the possibility of these risks occurring and having adverse effects on the general operations of the fire and rescue services, a provision that safeguard the department from such uncertain events has been made. In order to analyse these risks, a number of techniques are used.

The first technique is the SWOT analysis, which is an acronym for strength, weakness, opportunities and threats evaluation. The other technique commonly used is PESTEL, which evaluates the aspects affecting the operations of the organisation classified as political, economic, social, technological, environmental and legal factors. The third most commonly used technique is referred to as the Porter's five forces.

These forces include competition with the existing firms, threat of entry by other firms, substitute products, suppliers and finally customers. Of the three commonly used methods, SWOT analysis is simpler and thus most commonly applied in the identification and evaluation of risks in the business environment of an organisation (Compton and John 12).

Conclusion

The best way to handle risks in an organisation is to concentrate on the risks that can be of considerable harm/benefit to the organisation before hand. This especially applies when making investment decisions. It is advisable to invest in the areas with high risks but whose return on investment is equally high. However, even as one invest in high risk investments that often have high returns, it is advised that one takes some buffer assets in the form of low risk investment. Risks are good in the sense that without taking risks an organization can not move to the next level. Nevertheless, precautionary measures are critical towards ensuring an organization is not brought down by risky endeavours.

In order to eliminate or reduce the effects of a risk, there are four possible responses that can be developed. The first one is to avoid the risk causing activity completely; the second possibility is to transfer the risk to another area. Third, the risk can be accepted though this should be done with the certainty that its effects will not have a material effect on the organisation and fourthly, the magnitude of the risk can be reduced. The decision taken will entirely depend on the anticipated effects of the risk to the organisation.

The risk assessment plan is usually determined by the use of quantitative tools such as probability estimation, simulation technique, and decision tree diagram or sensitivity analysis depending on the competence of the financial management team (Financial management association 36).

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