



HENDERSON LOGGIE

**Tayside Fire and Rescue Board**

**Report to Members and the  
Controller of Audit**

**2007/2008**

**External Audit Report No: 2008/04**

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# Contents

	<b>Page</b>		<b>Page</b>
1. Executive Summary	1 - 2	<b>Appendix I</b> Respective Responsibilities	20
2. Introduction	3	<b>Appendix II</b> Action Plan for 2007/08	21- 22
3. Financial	4 - 10		
4. Governance	11 - 14		
5. Performance	15 - 19		



# Executive Summary

## 1.1 Financial

- 1.1.1 The audit of the 2007/08 financial statements has been completed within the timescale advised by Audit Scotland. Our opinion on the financial statements is unqualified. The financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of the Board and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 1.1.2 On 27 August 2008 our audit report no. 2008/03; *Report to those charged with Governance on the Audit of Tayside Fire and Rescue Board* was issued. We agreed with the Board's management that the communications required under ISA 260 would be with the Treasurer. The report provides audit comment on the key issues, audit adjustments and audit opinion arising from the audit of the financial statements and of the system of internal financial control.
- 1.1.3 The Board's Income and Expenditure Account shows a deficit for the year of £9.248 million. After adjusting for amounts required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance, there is a reported increase in the General Fund Balance of £0.418 million for the year. The total balance carried forward on this fund at 31 March 2008 is £1.836 million; £0.562 million has been approved to support the budgets over the next three years and £1.051 million earmarked for pension commutations and transfers leaving £0.223 million available to meet future contingencies. At 31 March 2008 the uncommitted balance was less than 1% of the 2008/09 Revenue Budget which is below the Board's approved range. The Board has subsequently taken corrective action to deal with this and will continue to monitor the position going forward.

- 1.1.4 Last year following the issue of local reports on service reform during 2005/06 Audit Scotland asked the local auditors to follow-up the financial improvement agenda items. In 2006/07 we reported that the Board had progressed one out of the four agreed actions that year. We have followed up progress made in 2007/08 to implement the outstanding agreed actions and have found that progress has been very limited. Management have decided not to take forward any further devolvement of budgets and there has been no movement on efficiency savings or asset management during the year.
- 1.1.5 We have included a number of recommendations in our report and an action plan arising from this year's audit is included at Appendix II.

## 1.2 Governance

- 1.2.1 Members of the Board and the Performance Monitoring Sub-Committee are drawn from the three constituent Councils in Tayside. Training has been provided to the members appointed to the Board following the May 2007 election.
- 1.2.2 Following the change in the political makeup of the constituent councils the Councillor Members appointed to the Board maintained delivery of the Board's statutory and corporate objectives.
- 1.2.3 The Board is responsible for a number of key aspects including budget setting, appointment of chief officers and scrutiny and challenge of performance. During 2008 the Board's financial regulations were reviewed and updated.



# Executive Summary

## 1.2 Governance (Cont'd)

- 1.2.4 Officers provide the Board and the Performance Monitoring Sub-Committee with reports and statistical data to enable Members to make informed decisions.
- 1.2.5 From our attendance at the Performance Monitoring Sub-Committee we observed that there is rarely any challenge or discussion of the reports submitted. More scrutiny by members and challenge of management is expected particularly where performance has not met targets set or has deteriorated and where progress in implementing agreed actions is slower than anticipated.
- 1.2.6 During 2007/08 the Board completed work on the 2006/07 National Fraud Initiative (NFI) exercise in Scotland. No frauds or errors have been found.

## 1.3 Performance

- 1.3.1 Strategic planning is set out in the Board's medium and long term plans articulated through its five year strategies covering the four areas of Prevention, Intervention, People and Performance. The Board's vision, "Protecting the Community", encompasses these four strategic aims.
- 1.3.2 The 2007/08 return to Audit Scotland for Statutory Performance Indicators (SPIs) was made by the 31 July 2008 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all three indicators. The Board's overall performance was mixed; casualties rose slightly and call handling times deteriorated whereas sickness absence levels improved.

- 1.3.3 Audit Scotland published "**Scottish Fire and Rescue Authorities 2007/08 - Progress Report**" in July 2008 which was submitted to the August Board meeting for information. This was a follow-up of their Audit Performance Report following a full review of service reform in 2006 and publication of local reports which included agreed action plans.
- 1.3.4 The overall conclusion of the Progress report is that "*Fire and Rescue authorities have made some progress in service reform in 2007 but more needs to be done to demonstrate Best Value*". Tayside Fire and Rescue Board's management are to consider the findings to ensure that it continues to improve in terms of effectiveness and efficiency in pursuit of its mission of protecting the community.
- 1.3.5 We are required to follow-up the financial improvement agenda items within the agreed action plan until all agreed actions have been fully implemented. Our detailed findings are reported at 3.10. Overall little progress has been made this year with the outstanding action points; further devolvement of budgets is not being taken forward and there is work outstanding on progressing efficiencies and asset management.

## 1.4 Acknowledgements

- 1.4.1 Our audit for this year has brought us in contact with a wide range of staff within the Board and Board members. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff and members in the discharge of our duties.



# Introduction

## 2.1 Introduction

2.1.1 We are pleased to submit our second annual report covering significant matters arising during the course of our audit of Tayside Fire and Rescue Board (the Board) for the year ended 31 March 2008.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our *Risk Assessment, Annual Plan and Fee Proposal for 2007/08* (Report 2008/01 issued on 13 February 2008). The respective responsibilities of Board members, officers and the auditors are set out in Appendix I to this report.

2.1.3 Broadly the scope of our audit was to:

- ❑ provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
- ❑ review and report on the Board's corporate governance arrangements in relation to systems of internal financial control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Board's financial position;
- ❑ review and report on the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
- ❑ review and report on whether the Board has made adequate arrangements for collecting, recording and publishing prescribed performance information.

2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Board.

## 2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

2.2.2 We have raised a number of issues during the course of our audit, including matters highlighted in our *Financial Statements Audit Plan* (Report 2008/02 issued on 22 May 2008) and our *Report to those charged with Governance on the Audit of Tayside Fire and Rescue Board*; (Report 2008/03 issued on 27 August 2008). The main points from our reports are summarised in this report.

2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Board. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.2.4 We take this opportunity to remind you that this report is prepared for the sole use of Tayside Fire and Rescue Board and the Performance Monitoring Sub-Committee and will be shared with Audit Scotland. No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.





## 3.1 Audit Completion

- 3.1.1 We are pleased to report that the target date of 30 September 2008 for the audit completion and certification of the annual accounts was met.
- 3.1.2 In accordance with International Standard on Auditing (ISA) 260 we issued our *Report to those charged with Governance on the Audit of Tayside Fire and Rescue Board 2007/2008* (Report 2008/03 issued on 27 August 2008). We agreed with the Board's management that communications required under ISA 260 would be with the Treasurer. This report included our proposed audit certificate and detailed the agreed adjustments to the draft accounts arising from our audit.

## 3.2 Accounts Certification

- 3.2.1 On 27 August 2008 we issued our audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2008. We set out below a summary of the audit certification issues:
- ❑ the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of Tayside Fire and Rescue Board as at 31 March 2008 and its income and expenditure during the year;
  - ❑ the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973; and
  - ❑ the Statement on the System of Internal Financial Control complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Board's corporate governance and risk and control procedures.

## 3.3 Financial Position

- 3.3.1 In accordance with the changes in the 2007 SORP the Board made the appropriate entries required in the accounts for the pension fund, capital adjustment account, revaluation reserve and financial instruments.
- 3.3.2 The Board reported a deficit of £9,248 million in its Income and Expenditure Account for the year as the net operating expenditure of £36.717 million exceeded the income received from the constituent Councils' contributions of £27.469 million.
- 3.3.3 This reported deficit is carried into the Statement of Movement on the General Fund Balance and adjusted for items required by statute and non-statutory proper practices to be credited to the General Fund of £9.666 million. The net effect of these adjustments is to increase the balance on the General Fund Balance by £0.418 million to £1.836 million as at 31 March 2008.
- 3.3.4 An opening entry of £32k was required by the SORP to create the new Financial Instruments Adjustment Account in the Balance Sheet adjusting the opening General Fund Balance. In line with statutory guidance this entry is then transferred to the Balance Sheet giving rise to a one off loss in the Statement of Total Recognised Gains and Losses.
- 3.3.5 Further details of the adjustments are reported in the accounts in the note on page 18 and note 6.1 on page 23. These adjustments are due to the Board being required to consider funding elements of expenditure on different accounting basis, including capital investment which is accounted for as it is financed rather than when fixed assets are consumed and pension as amounts charged and payable to the funds and pensioners rather than as future benefits earned.

## 3.4 Financial Performance

3.4.1 Financial performance measured against the revenue budget set by the Board in November 2006 for 2007/08 shows a small overspend for the financial year of £0.225 million, comparing the budgeted expenditure on Net Cost of Services of £27.923 million against the actual expenditure on Net Cost of Services of £28.148 million.

3.4.2 The main reasons for this variance are a small underspend on salary costs of £0.038 million and a significant overspend of £0.198 million on running costs which included overspends on protective clothing of £0.064 million, ICT expenditure £0.092 million and increased fuel costs of £0.023 million. Income generated was also £0.065 million below the budget mainly due a reduction of income from recharges to other organisations for seconded officers.

3.4.3 Higher than expected returns on pension assets, investment income and gains on sale from asset disposals together with lower interest costs due to discounts received on rescheduling debt led to an adjusted surplus increasing the General Fund Balance by £0.418 million for the year.

## 3.5 Pensions

3.5.1 Accounting for the costs of pensions presents a difficult challenge for Public Sector bodies. The amounts involved are large; the timescales long, the estimation process is complex and involves many areas of uncertainty that are 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.

3.5.2 The Board accounts for three defined benefit pension schemes, the Local Government Pension Scheme (Tayside Superannuation Fund) administered by Dundee City Council and two Firefighters' Pension Schemes, the old Firefighters' Pension Scheme ("the Old Scheme") and the new Firefighters' Pension Scheme ("the New Scheme"). The Old Scheme was closed to new entrants from 6 April 2006 and the New Scheme came into effect on 6 April 2006. The Board's estimated pension liabilities at 31 March 2008 exceeded its share of assets in all three schemes.

**Table 1 – Pension liabilities**

<b>Estimated pension liabilities</b>	<b>2007/08</b>	<b>2006/07</b>	<b>Movement</b>
<b>Pension Scheme</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Local Government	1,035	1,567	-532
Fire (the Old Scheme)	150,471	158,790	-8,319
Fire (the New Scheme)	1,022	289	733
	=====	=====	=====
<b>Pension liability at 31 March</b>	<b>152,528</b>	<b>160,646</b>	<b>-8,118</b>

3.5.3 The overall decrease in the two main schemes' liabilities for the year to 31 March 2008 is primarily due to changes in the actuary's assumptions and discount rates applied underlying the present value of the schemes' liabilities.

## 3.5 Pensions (Cont'd)

- 3.5.4 The Firefighters' Pension Schemes are administered by Dundee City Council under the relevant pension regulations and are unfunded schemes in that there are no assets. The liabilities for the schemes represent the best estimate of the Board's future commitments to pay retirement benefits to existing pensioners and serving officers who will become pensioners in due course. The Actuary provided the valuations using similar financial assumptions to those used for the Local Government Scheme.
- 3.5.5 The last full actuarial valuation of the Tayside Superannuation Fund was carried out as at 31 March 2005 and highlighted a deficit. The Fund was measured on the basis of this valuation and increased for all known movements since then. The report recommended the following increased rates in the employers' contributions for the next 3 years: 275% in 2007/08 rising to 315% of the employee contributions in 2008/09. The next full valuation will be carried out during 2008/09 and will set the contribution rates for the following three years.
- 3.5.6 The pension liabilities have resulted in a negative net assets position in the Board's Balance Sheet. This is normally seen as an indicator of a body's inability to continue as a going concern however, as per Practice Note 10 '*Audit of financial statements of Public Sector Entities in the United Kingdom*' issued by the Auditing Practices Board, it is not uncommon for public sector bodies to have an excess of liabilities over assets and in these circumstances, auditors should consider the circumstances in which a body may cease to continue in operational existence. Given that FRS 17 is concerned only with pensions accounting and does not, in itself, impact on the cash-flows or funding of the Board, the going concern basis is considered appropriate.

- 3.5.7 We are aware that the issue of future funding of Firefighters' pensions is being addressed at a national level.

## 3.6 Pension Commutations

- 3.6.1 The regulations relating to the amount of pension that can be taken as pension commutations or lump sum payments for the Firefighters' schemes changed in England and Wales in May 2008 by Circular FPSC 5/2008 and were backdated to cover pensions commencing on or after 1 October 2007. HM Treasury has agreed to underwrite these changes in England and Wales. On 9 September 2008 the Scottish Government announced it was to provide funding to meet the cost of the revised pension commutation arrangements for police officers and fire-fighters.
- 3.6.2 The Board paid out nine pensions commencing between 1 October 2007 and 31 March 2008 under the existing regulations and have estimated the increased cost to the Board will be in the region of £0.164 million once the Circular has been adopted in Scotland. It is hoped that funding arrangements will be put in place to fund these increases.

## 3.7 Reserves and Balances

- 3.7.1 All Boards hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2008 the General Fund held by the Board totalled £1.836 million. The balance has increased by £0.418 million in 2007/08 as a result of the overall adjusted surplus for the year after statutory and non-statutory adjustments.





## 3.7 Reserves and Balances (Cont'd)

- 3.7.2 A total of £1.051 million has been earmarked to pay pension commutations including £0.504 million for pension commutations for those officers eligible to retire on or before 31 March 2008 who have continued in post and a further £0.547 million relating to the transfer value for a senior officer to another authority in May 2008.
- 3.7.3 In preparing the 2008/09 to 2010/11 budgets the Board agreed to utilise a further £0.562 million of reserves to fund expenditure pressures that will not be covered by the expected efficiency savings from reductions in staffing levels proposed over 2009/10 and 2010/11. The remaining element of the General Fund which has not been committed amounts to £0.223 million. At 31 March 2008 the uncommitted balance represented less than 1% of the Board's 2008/09 revenue budget which is below the Board's approved range of 1.5% to 5%. This arose as a result of the unanticipated transfer of a senior officer to another authority. This had previously been identified as a risk in developing the Reserve Strategy and action has subsequently been taken to re-instate the reserves to a level within the approved range.
- 3.7.4 Tayside Fire and Rescue Board are authorised to accumulate surpluses into reserves up to the statutory limit for Fire and Rescue Authorities as recommended by the Police and Fire Services (Finance) (Scotland) Bill 2001. This is 3% of the total of the funding paid to Fire Authorities in respect of the carry forward for each year and 5% as a cumulative total. Once the earmarked pension commutations of £0.504 million are deducted from the overall reserves, the Board is within these limits.

- 3.7.5 A Single Status agreement has been implemented during the year. This agreement is a means of addressing equal pay issues for support staff; however it does not preclude any equal pay claims taken against the organisation. Nothing has been included in the accounts for the settlement of equal pay claims and it is envisaged that such claims would require to be settled from the Board's uncommitted reserves, as noted in the Reserve Strategy.

## 3.8 Capital Expenditure

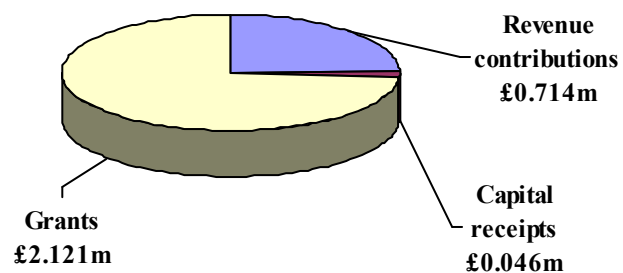
- 3.8.1 Capital expenditure is determined by the Board, based on the specific Scottish Government (SG) grant, capital receipts and Prudential borrowing, if required. The total available funding for the capital programme was £2.922 million, made up of the SE grant and capital contributions of £2.121 million, capital receipts of £0.046 million, 2006/07 capital grant brought forward from the previous year of £0.041 million and a significant contribution from revenue (CFCR) of £0.714 million. Unutilised funding of £0.035 million is available to help fund capital expenditure in 2008/09. No borrowing was required.



## 3.8 Capital Expenditure (Cont'd)

3.8.2 Gross capital expenditure for the year amounted to £2.887 million. Funding for the capital expenditure was made up as follows:

**Capital Expenditure Funding Sources 2007/08**



## 3.9 Capital Accounting

3.9.1 The main movements on fixed assets were additions of £2.887 million on tangible assets which included £0.925 million on land and buildings, £0.609 million on vehicles and equipment and £1.353 million on assets under construction. Details of movements on fixed assets and the related capital accounting entries are disclosed in the accounts.

3.9.2 In accordance with the new requirements of the 2007 SORP the Board introduced a Revaluation Reserve with a nil balance as at 1 April 2007. There were no revaluations during the year and therefore the balance on this reserve at the year-end is nil.

3.9.3 The Board also amalgamated the balances on the Fixed Asset Restatement Account and the Capital Financing Account as at 1 April 2007 to give an opening total of £8.308 million on the new Capital Adjustment Account in line with the SORP requirements.

3.9.4 Regular capital expenditure monitoring reports against the plans have been submitted to the Board Members during the year. Details of the main movements on fixed assets for the year and the appropriate capital accounting entries are fully disclosed in the notes to the accounts.

3.9.5 We were satisfied with the Board's capital accounting arrangements for 2007/08 and that the entries for additions and disposals were not materially misstated.

## 3.10 Financial Instruments

3.10.1 In accordance with the new requirements of the 2007 SORP relating to financial instruments the Board made the appropriate accounting entries and disclosure notes in the accounts.

## 3.10 Financial Instruments (Cont'd)

- 3.10.2 The main impact of these new requirements on the Board's accounts relates to the Lender Option, Borrower Option Loan (LOBO) included in the Board's overall borrowing. The carrying amount for borrowing included in the Balance Sheet is now based on the effective interest rate method of calculation. For fixed rate loans such as the Board's Public Works Loan Board loan there is no significant difference between the coupon rate and effective rate calculations but for variable rate loans such as the LOBO this calculation method gives rise to a significantly different amount. A calculation was required at the start of the year to establish the carrying amount for the LOBO and the resultant difference was recorded in the new Financial Instruments Adjustment Account which was debited with the increase in the carrying amount of the loan creating an opening balance of £32k (Refer to paragraph 3.3.4 for further detail). Each year the effective rate calculation will be required at the year-end and changes from the previous year's carrying amount will be taken to this new account.
- 3.10.3 Premiums paid of £0.085 million and discounts received of £0.295 million on debt rescheduling during the year have been written off, or credited to, the Income and Expenditure Account and included in interest paid and similar charges in line with the new requirements. Further details of all of the new disclosure requirements for the Board's financial instruments are included in note 6.21 to the accounts on pages 36 to 41.

## 3.11 Follow-up Audit Scotland Performance Audit Report 2006

- 3.11.1 As part of a national review Audit Scotland published their local performance review of Tayside Fire and Rescue Board in 2006. We were requested to follow-up the financial improvement agenda items in 2006/07 and reported that the Board had progressed one out of the four agreed actions in last year's report: a new Service Level agreement with Perth & Kinross Council for internal audit services was put in place for the three years from April 2007 to March 2010. The three outstanding actions have been followed up again this year but there has been little progress during 2007/08.
- 3.11.2 The first outstanding item was to improve the identification and monitoring of efficiency savings to ensure there is adequate budgetary provision to deliver the service once transitional funding has ceased. The Board was to pursue a number of initiatives in addition to those identified through integrated risk management planning (IRMP), and officers were confident this would allow them to plan within available budgets going forward. Further progress was to be made when the details of the review of the funding mechanism were reported. Further work will be undertaken on this area.
- 3.11.3 The second financial improvement agenda item was the devolvement of budgets to station level, ensuring training was put in place to support this. This was considered by the Tayside Fire and Rescue Management Team during 2007/08 but was not implemented as they decided not to pursue the further devolvement of budgets.

## **3.11 Follow-up Audit Scotland Performance Audit Report 2006 (Cont'd)**

3.11.4 The final outstanding item was to develop an asset management strategy to demonstrate Best Value in the use of the Board's assets and to ensure that spending plans are affordable, prudent and sustainable. This item was to be considered by an Officers' Capital Planning and Monitoring Group. Last year we reported that the Board was in the process of implementing an asset management system and that the original timeframe for the implementation had been delayed with one station piloting the system. We have been advised that there has been limited progress in this area.

**R.1 The Board should consider the remaining outstanding actions from the 2006 review. Where actions are not to be implemented reasons should be documented. Where the action remains relevant plans should be put in place to deliver the actions during 2008/09.**



# Governance

## 4.1 General

- 4.1.1 The Board met regularly during 2007/08 and comprised members from the three constituent councils in Tayside. As a result of the May 2007 elections, a number of Councillor Members, including the Convener, have been replaced with new Councillors.
- 4.1.2 The Board is responsible for a number of key aspects including budget setting, appointment of chief officers and scrutiny and challenge of performance. The August 2008 Board meeting approved the Appointment Sub-Committee's recommendations in the appointments of the new Assistant Chief Fire Officer and Deputy Chief Fire Officer.
- 4.1.3 We have observed the operation of the Board during the year. Members generally understand the issues they are considering and approving.
- 4.1.4 A revised operating structure was reported to the Board meeting of 20 August 2007 and approved. The revised structure aligns the work of the Board more closely with Tayside Fire and Rescue's mission of "Protecting the Community" through the provision of the highest standard of fire safety and emergency response services to all of the communities served. This is to be achieved through the four strategic aims: prevention, intervention, people and performance. The first two aims are the responsibility of Service Delivery and the second two are primarily the responsibility of Service Support.
- 4.1.5 The Service Delivery Forum has assumed the role and responsibilities of the Integrated Risk Management Planning Sub Group relative to the prevention and intervention agenda. The Service Support Forum has assumed the role and responsibilities of the Integrated Risk Management Planning Sub Group relative to the people and performance agenda.
- 4.1.6 The Performance Monitoring Sub-Committee's decision-making responsibilities were retained in relation to considering the content of all external and internal audit reports and the development of the revenue and capital budgets.
- 4.1.7 Our high level review of the key controls for the Board's main financial systems found no material weaknesses in the systems reviewed. Some areas of improvement were noted and reported to management and the Performance Monitoring Sub-Committee in our *Financial Statements Audit Plan* issued on 22 May 2008.
- 4.1.8 Our review last year of the fixed assets system found that the financial regulations were outdated and needed to be updated to reflect current terminology under the Prudential Code rather than making reference to capital consent which was abolished in 2004. The Financial Regulations were reviewed, updated and presented at the Board meeting in January 2008.
- 4.1.9 The Board has a service level agreement with Dundee City Council for payroll bureau services. The Council introduced a new payroll system at the end of 2007/08. Management has advised that the payroll section of the Board's manual will be updated for the changes the new system has brought in during 2008/09. The updated manual and the system changes arising from the new payroll system will be subject to audit review in due course.





## 4.2 Member Information

- 4.2.1 Revenue and capital budgets and expenditure monitoring information are routinely presented to the Board and Performance Monitoring Sub-Committee. Other reports to the Board are made in a standard format that includes financial implications of any decision that will be made and generally make it clear what Members are asked to do in terms of noting or decision making.
- 4.2.2 Officers submit detailed performance information on key operations to each cycle of meetings and a commentary is provided so that Members can focus on key data and trends. Items reported to the recent Board meeting in August include Audit Scotland's Progress Report on Scottish Fire and Rescue Authorities and a report on the Implications of Single Outcome Agreements for the Board.
- 4.2.3 Shortly after the new members were appointed to the Board induction training was provided on both the Service Delivery forum and Service Support forum. In June 2008 this was followed up with workshops on both these forums in which Board Members considered the annual plan "Towards a Safer Tayside". Further training will be provided where a need is identified.

## 4.3 Audit Committee's Effectiveness

- 4.3.1 The Performance Monitoring Sub-Committee held three meetings over the last year. Members considered the outputs from both internal and external audit reviews and budget setting and monitoring information from management at these meetings. Responsible officers and representatives from both external and internal audit attend the meetings.

- 4.3.2 Attendance of officers is designed to generate discussion with members and to increase their involvement with the development of corporate governance, system and financial controls and other performance issues.
- 4.3.3 From our attendance at these Committees we observed that there is an opportunity to improve the effectiveness of the committee. Initial discussion has taken place with the Treasurer and this will be taken forward during 2008/09.

## 4.4 Annual Governance Statement

- 4.4.1 In compliance with the 2007 SORP the Board included a Statement on the System of Internal Financial Control (SSIFC) within its statement of accounts. In Scotland there is no statutory requirement for local authority bodies to conduct a review at least annually of the effectiveness of their system of internal control and prepare a Statement on the System of Internal Control (SIC), as there is for bodies in England and Wales. However authorities in Scotland are encouraged to produce a SIC on a voluntary basis.
- 4.4.2 The annual review and SIC requires a much wider review than one that only examines financial systems' controls as it would include all corporate governance arrangements and operational systems such as risk and asset management.

## 4.4 Annual Governance Statement (Cont'd)

4.4.3 In June 2007 CIPFA, in association with SOLACE, published a revised framework - ***Delivering Good Governance in Local Government***. This framework represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement. The 2008 SORP will be revised to incorporate this change. LAAP Bulletin 71 issued in March 2008 advises that for Scotland the new framework does meet the definition of proper practice referred to in the regulations and as such authorities are encouraged to produce an Annual Governance Statement with their Statement of Accounts. A guidance note for Scottish authorities in complying with the Delivering Good Governance in Local Government Framework.

**R.2 We recommend that the Board considers producing an Annual Governance Statement for inclusion in next year's accounts.**

## 4.5 Reliance on Internal Audit

4.5.1 To minimise audit duplication we liaise with internal audit during our planning to identify areas of their work that we can place reliance on. For 2007/08 we agreed to rely on work for the following areas from the initial plan and later additions to the plan:

- Procurement and Creditors;
- IST;
- General Ledger Follow-up;
- SPIs; and
- Income.

4.5.2 The IST project has still to be carried out.

4.5.3 Following our review of the files relating to the remaining reports, we concluded that we could place reliance on the work and findings of internal audit.

4.5.4 During 2007/08 the Board's internal audit arrangements were provided by the internal audit section of Perth & Kinross Council through a formal Service Level Agreement (SLA). This new SLA was signed covering the three-year period for 2007/08 to 2009/10.

4.5.5 In 2007/08 the Chief Internal Auditor has reported informally that "*on the basis of the audit work undertaken, reasonable reliance can be placed on the Board's system of internal control.*" The Chief Internal Auditor did not produce an Annual Statement as required by the SLA before the draft accounts were submitted to the Controller of Audit.

**R.3 We recommend that the Chief Internal Auditor produces a formal Annual Statement which would feed into the Annual Governance Statement for inclusion in the draft accounts received for audit.**



## 4.6 National Fraud Initiative

- 4.6.1 During 2007/08 we continued to monitor the Board's participation in the 2006/07 National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the 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.
- 4.6.2 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 by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 4.6.3 The 2008/09 exercise will commence in October 2008 with the upload of data via the new secure Data File Upload facility which removes the need to send data by post. Following changes to the legislative framework in England and developing understanding of data protection good practice, new guidance has been issued on the fair processing notices issued to possible data subjects. The approach should be 'layered'; subjects receive a summary which directs them to condensed text which in turn directs them to the full text. Although legislation is not yet in place in Scotland requiring bodies to adopt this approach, it is regarded as good practice. The Board, in conjunction with Dundee City Council which manages the Board's payroll, is putting arrangements in place to comply with the new guidance in time for the 2008/09 exercise.
- 4.6.4 No frauds or errors were found this year when the review of the matches was completed during 2007/08, confirming the position reported last year.

# Performance

## 5.1 Strategic Planning

- 5.1.1 The Board's overall strategic document is "*Towards a Safer Tayside*" and it includes the stated mission and aims covering the four areas of prevention, intervention, people and performance. Strategies are being developed for each of the four areas. The strategies are currently monitored through the Service Delivery and Service Support internal Fire and Rescue meetings on a quarterly basis. We have been informed that the Board is considering formalising these documents and channelling them through the Service Delivery and Service Support forums of the Board and establishing these as a source for annual action plans.
- 5.1.2 The Board develops annual plans based on the Board's overall strategies. The annual plans are subject to wide consultation with stakeholders and partner bodies throughout Tayside to agree and prioritise the actions to be taken forward each year. The Action Plan 2008-09 is on the Board's website.
- 5.1.3 Bi-annual service planning workshops lead to strategic objectives for the service, which are then followed by operational plans. Individual managers / departments submit reports on progress against the service plan objectives and agreed performance information to Service Delivery and Service Support internal Fire and Rescue meetings. They also assist with the compiling of revenue and capital budgets and provide submissions to assist with monitoring performance, all of which is reported to Committee.

- 5.1.4 Budget Holders are asked to prepare annual Business Plans for their areas which include the budget requirements in line with the work priorities and objectives. As part of this process, each area considers how to gain Best Value from the Board's activities and submits requirements for increases and reductions in budgets. Should funding constraints be tight budget holders will use their knowledge to decide which projects should be suspended / delayed or deferred.

## 5.2 Performance Management

- 5.2.1 On-going performance management is undertaken in a framework that involves the senior management team and members. The Performance Monitoring Sub-Committee acts as the audit committee and scrutinises financial and audit performance, as does the full Board. (See comments at section 4.3.) The Board is assisted in this by the Service Delivery and Service Support forums. (Refer to paragraph 5.1.1)
- 5.2.2 The annual public performance report *Towards a Safer Tayside 2007-08* was submitted to the Board meeting on 12 May 2008 and has been distributed to the public. It is also available on the Board's website [www.taysidefire.gov.uk](http://www.taysidefire.gov.uk).



## 5.3 Efficient Government

- 5.3.1 All public sector bodies in Scotland are involved with the Scottish Government's Efficient Government initiative. The initiative is designed to achieve cash and time-releasing savings over a five year period through elimination of waste, bureaucracy and duplication.
- 5.3.2 There is no statutory requirement placed on Fire and Rescue Authorities to formally report efficiency savings for 2007/08. Savings have however been included in the 3 year Revenue Budget agreed at Board level. The requirement to report on efficiency savings will become a formal agreement from 2008/09 onwards.
- 5.3.3 As detailed above the Board considers its Efficient Government activities within the budget setting processes. Cash savings and non-cash savings are identified once the Board is aware of their funding parameters.
- 5.3.4 Savings were made in 2007/08 through prudent financial management. The major areas were substantial savings against the ill-health retiral budget as a result of the implementation of revised attendance management policies and additional savings through the early repayment of debt. These measures resulted in savings of approximately £0.5 million.
- 5.3.5 In addition we note that the Board has entered into a user agreement with Tayside Police in relation to shared use of facilities at Kinloch Rannoch Fire Station. This agreement commenced on 1 July 2007; it has a five year term with proposed income of £2.5k per annum to the Board.
- 5.3.6 During the setting of the 2008/09 revenue budget, and in order to help manage future budget pressures, efficiency savings were identified for consideration by the Board. Options for additional efficiency savings of approximately 0.5% of the proposed revenue budget for 2008/09 or £140k were considered to meet the proposed reduction in funding from the constituent councils. The savings identified include reductions in temporary support staff and course and conference expenditure.
- 5.3.7 In addition to these savings, a decision was made by the Board to support the deletion of 16 firefighter posts from the authorised establishment of Tayside Fire and Rescue. Savings of approximately £480k will be generated through the introduction of a new Aerial Rescue Pump which combines the operational capacity of two former individual appliances, and the alternative provision of firefighter welfare support at operational incidents.
- 5.3.8 These savings will be generated over two financial years 2008/09 and 2009/10 and will be phased in evenly over both years, through the non-replacement of fire personnel who retire during the year and the cessation of temporary contracts.
- 5.3.9 In addition to the above savings there has been agreement at Board level that savings of £200k and £150k respectively in 2009/10 and 2010/11 are required to meet funding targets.
- 5.3.10 The Chief Fire Officers Association (CFOA) is currently considering an efficiency template for use by all Scottish Fire and Rescue Associations for 2008/09.



# Performance

## 5.4 Procurement

- 5.4.1 A Procurement Strategy 2006/09 was developed covering a range of procurement activities including Best Value and statutory obligations, leadership and responsibility, categories of procurement, purchasing guidance and best practice.
- 5.4.2 It was proposed that the appointed procurement manager would progress this strategy and this will include looking at consortia, joint negotiations and framework agreements. The departure of the procurement manager and re-organisation of activities within the Board has led to delays in progress and high priority action target dates not being met.
- 5.4.3 We have been informed that following the appointment of a Procurement manager the Procurement Strategy will be reviewed and updated and a revised action plan will be drawn up to implement this strategy.

**R.4 We recommend that the Procurement Strategy is reviewed and updated, with a revised action plan drawn up to implement this strategy as soon as possible.**

## 5.5 Risk Management

- 5.5.1 Development of a Risk Management Strategy was identified as an improvement area by Audit Scotland and is to be addressed as part of the 2008/09 service planning process. An additional risk management workshop is planned during 2008/09 in order to assess the Board's business risks. This will be subject to audit review in due course.

- 5.5.2 The Board did not agree a risk management strategy during 2007/08 as this was deferred with the introduction of the Civil Contingencies Act which covered both the operational and business continuity aspects of risk management.
- 5.5.3 The Business Continuity Management (BCM) document and plans are complete and available to be called upon in the event of an incident that threatens to interrupt day to day functions. Areas of training and exercising BCM are on-going and are to be rolled out. Once complete the BCM document is to be maintained by Corporate Services.

## 5.6 Statutory Performance Indicators (SPIs)

- 5.6.1 The 2007/08 return to Audit Scotland for SPIs was made by the 31 July 2008 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all indicators.
- 5.6.2 Overall the Board's reported performance through the SPIs has been mixed and is summarised as follows:

### *Community Fire Safety*

The number of incidents resulting in casualties per 10,000 population has increased from 2.2 in the previous year to 2.5.

The number of fatal and non-fatal casualties per 10,000 population has increased from 3.0 in the previous year to 3.1.

The number of accidental dwelling fires per 10,000 population has decreased from 11.8 in the previous year to 11.6.



## 5.6 Statutory Performance Indicators (SPIs) (Cont'd)

### *Sickness Absence*

The percentage of rider shifts lost during the year due to sickness and light duties has decreased from 7.1% and 1.0% for the previous year to 4.1% and 0.4% respectively.

The percentage of working time lost due to sickness for all other staff directly employed by the Board has also decreased from 5.7% the previous year to 5.4%.

The reported decreases in sickness absence are due to a number of factors including a large reduction in the number of employees on long term sick and improved efficiency surrounding Occupational Health provision including the pro-active measure of seeking private treatment in some cases in order to speed up the process of helping employees back to work.

Increases in light duties due to measures such as phased return to work, has meant that more people will be able to return to meaningful duties prior to a return to full operational duties and should ease the rehabilitation back to work after long term absence.

### *Call Response Time*

The percentage of calls to incidents handled within the following time periods have decreased as follows:

- handled within one minute has decreased from 54.8% to 52.6%; and
- handled in less than two minutes has decreased from 90.8% to 85.9%.

The main reasons for the decrease in call handling times are due to this being the first full year of operating the new call handling system "Vision" and some control room staff being off on long term sick. The Board's performance is expected to improve now that employees have returned to work and the new system becomes more familiar to them.

## 5.7 Best Value Audits

- 5.7.1 There were no plans to carry out a Best Value review in the fire authorities during 2007/08.
- 5.7.2 Audit Scotland published "*Scottish Fire and Rescue Authorities 2007/08 - Progress report*" in July 2008 which was submitted to the August Board meeting for information.



# Performance

## 5.7 Best Value Audits (Cont'd)

- 5.7.3 The overall conclusion of the Progress report is that *“Fire and Rescue authorities have made some progress in service reform in 2007 but more needs to be done to demonstrate Best Value”*.
- 5.7.4 Tayside Fire and Rescue Board’s management are to consider the findings to ensure that it continues to improve in terms of effectiveness and efficiency in pursuit of its mission of protecting the community.
- 5.7.5 The Accounts Commission will be introducing Best Value audits of fire and rescue authorities from April 2009. This will be a rolling programme of audits, as has been done in councils.
- 5.7.6 These audits are being developed alongside the developments for the next round of Best Value audits in councils, often called BV2. A number of principles for BV2 have been agreed and these include a greater emphasis on community leadership and the effectiveness of partnership working. These will also inform the Best Value audits in police and fire. The focus of the audit is likely to be on the extent to which the fire and rescue service is delivering a Best Value service.
- 5.7.7 The audit approach is currently being developed by the team developing the BV2 audits and consultations are planned with authorities.



## Appendix I - Respective Responsibilities

### Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and officers of a public sector body.

This responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Board and the Treasurer's responsibilities for the Statement of Accounts are set out on page 15 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Board's Statement on the System of Internal Financial Control reflects the Board's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.



## Appendix II - Action Plan for 2007/08

No	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date
1	<p><b>Financial</b></p> <p><b>3.11 Follow-up Audit Scotland Performance Audit Report</b></p> <p>The Board should consider the remaining outstanding actions from the 2006 review. Where actions are not to be implemented reasons should be documented. Where the actions remain relevant plans should be put in place to deliver the actions during 2008/09. <b>(R.1 on page 10)</b></p>				
2	<p><b>Governance</b></p> <p><b>4.4 Annual Governance Statement</b></p> <p>We recommend that the Board considers producing an Annual Governance Statement for inclusion in next year's accounts. <b>(R.2 on page 13)</b></p>				





## Appendix II - Action Plan for 2007/08

No	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date
3	<p><b>4.5 Reliance on Internal Audit</b></p> <p>We recommend that the Chief Internal Auditor produces a formal Annual Statement which would feed into the Annual Governance Statement for inclusion in the draft accounts received for audit. <b>(R.3 on page 13)</b></p>				
4	<p><b>Performance</b></p> <p><b>5.4 Procurement</b></p> <p>We recommend that the Procurement Strategy is reviewed and updated, with a revised action plan drawn up to implement this strategy as soon as possible. <b>(R.4 on page 17)</b></p>				

