



HENDERSON LOGGIE

**Tayside Fire and Rescue Board**

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

**2008/2009**

**External Audit Report No: 2009/04**

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# Executive Summary

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## **Restriction on Use**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of Tayside Fire and Rescue Board's financial statements. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Tayside Fire and Rescue Board and the Performance Monitoring Sub-Committee and will be shared with the Accounts Commission and 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.



# Executive Summary

## 1.1 Finance

- 1.1.1 The audit of the 2008/09 financial statements has been completed within the timescale advised by Audit Scotland. Our opinion on the financial statements is qualified as a result of a disagreement about the accounting treatment in respect of FRS 17 based pension costs for the new Firefighters Pension Scheme.
- 1.1.2 Except for the financial effect of the FRS 17 based pension costs the financial statements give a true and fair view, in accordance with the legal and regulatory requirements and the 2008 SORP, of the financial position of the Tayside Fire and Rescue Board (the Board) and have been properly prepared in accordance with the Local Government (Scotland) Act 2003.
- 1.1.3 Our audit report no. 2009/03; ***“Report to those charged with Governance on the Audit of Tayside Fire and Rescue Board 2008/09”*** was discussed with the Treasurer and finalised on 19 September 2009. 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.
- 1.1.4 The Board’s Income and Expenditure Account shows a deficit for the year of £8.538 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 £0.017 million for the year.
- 1.1.5 Our follow-up of the financial improvement actions of Audit Scotland’s 2006 national study notes that only one outstanding action remains to be fully completed, development of an asset management strategy.

## 1.2 Governance

- 1.2.1 The Board is responsible for a number of key aspects including budget setting, appointment of chief officers and scrutiny and challenge of Board performance. Officers provide the Board and the Performance Monitoring Sub-Committee with reports and statistical data to enable Members to make informed decisions and to raise challenges where appropriate.
- 1.2.2 In January 2009, together with Internal Audit, we held a training session for Performance Monitoring Sub-Committee members. On the 30 March 2009 Dundee City Council changed its membership and appointed new members, including the Vice Convener. A further training day was held for new members to the Board, including some existing members on 31 August 2009.
- 1.2.3 The Board’s Scheme of Administration, Standing Orders and Financial Regulations have still to be formally fully updated for updates reported to and agreed by committee. We recommend that the Board reviews and updates these on a regular basis to ensure that they remain fit for purpose.
- 1.2.4 During 2008/09 the Board began work on the 2008/09 National Fraud Initiative (NFI) exercise in Scotland. No frauds or errors have been found.



# Executive Summary

## 1.3 Performance

- 1.3.1 The Board's overall strategic document "*Towards a Safer Tayside*" includes the stated mission and aims covering the four areas of prevention, intervention, people and performance. Strategies for each of the four areas are currently monitored through the Service Delivery and Service Support fora.
- 1.3.2 The annual public performance report "*Towards a Safer Tayside 2008-09*" is published and available on the Board's website [www.taysidefire.gov.uk](http://www.taysidefire.gov.uk). The Chief Fire Officer submitted this report to the May 2009 Board meeting.
- 1.3.3 The Board has still to formally approve an overall risk management strategy.
- 1.3.4 The 2008/09 return to Audit Scotland for Statutory Performance Indicators (SPIs) was made by the 28 August 2009 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all indicators.
- 1.3.5 The three councils in Tayside have signed up to Single Outcome Agreements, which include their partners such as Tayside Fire and Rescue.
- 1.3.6 Best Value audits of fire and rescue boards are planned to take place in 2009/10. These audits will follow after the Best Value pilots have currently been carried out in two police authorities and boards.

## 1.4 Recommendations

- 1.4.1 We have made two recommendations in our report and these have been included in an action plan at Appendix II.

## 1.5 Acknowledgements

- 1.5.1 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 third annual report covering significant matters arising during the course of the Board for the year ended 31 March 2009.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in Section 2 of our ***“Risk Assessment, Annual Audit Plan and Fee Proposal for 2008/09”*** (Report 2009/01 issued on 24 February 2009). 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
  - 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 Audit Activity and Reporting

- 2.2.1 As part of our overall planning approach to the Board’s annual audit we carried out a review of the key risks, national and local, facing the Board and reported how we would continue to monitor them during the year through attendance at Board and sub-committee meetings, review of minutes and discussions with officers. The main risks were reported in our annual plan and where appropriate we have included an update on these risks in this report. 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.
- 2.2.2 In accordance with our annual plan we reviewed the Board’s key internal controls and have raised a number of issues during the course of our audit, including matters highlighted in our ***“Follow-up of the 2007/08 Review of Internal Controls”*** (Report 2009/02 issued on 5 June 2009) and our ***“Report to those charged with Governance on the Audit of Tayside Fire and Rescue Board”***; (Report 2009/03 issued on 19 September 2009).
- 2.2.3 We take this opportunity to remind you that 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.





## 3.1 Audit Completion

- 3.1.1 We are pleased to report that the target date of 30 September 2009 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 2008/2009”* (Report 2009/03 on 19 September 2009). 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 18 September 2009 we issued our audit report expressing a qualified opinion on the financial statements of the Board for the year ended 31 March 2009.
- 3.2.2 Proper accounting practice requires local authorities and boards make a charge to the income and expenditure account for pensions costs based on FRS17 Retirement Benefits. The Regulations which provide the statutory basis for local authorities and boards to remove FRS17 based costs from being a charge to the General Fund so that only the actual pension payments are charged to that fund, do not currently apply to the new Firefighters Pension Scheme established with effect from 6 April 2006. The adjustment required to comply with the legislation as it currently stands is £0.937 million for 2008/09 and £1.215 million for prior years.

- 3.2.3 The decision not to adjust gives rise to a disagreement about accounting treatment and a qualification in our audit opinion. In our view this is a technical qualification caused by an omission in the legislation. We have been advised that it is planned to amend the legislation before the 2009/10 financial statements will be finalised. The omission, and the resultant audit opinion qualification, is not caused by any error or control weakness on the part of the Board’s finance staff or financial systems.
- 3.2.4 Except for the financial effect on the General Fund and the Pension Reserve of the matter referred to in the preceding paragraphs:
- ❑ the financial statements give a true and fair view, in accordance with the relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Tayside Fire and Rescue Board as at 31 March 2009 and its income and expenditure during the year
  - ❑ the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973
  - ❑ 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 Audit Adjustments

- 3.3.1 Four material, three significant and one trivial audit adjustments were identified during the course of our audit of the financial statements. The Board agreed to adjust the accounts for these.
- 3.3.2 Overall only one of the audit adjustments, an increase to the constituent council requisitions of £0.088 million impacted on the General Fund Balance, changing the reduction of £0.077 million to an increase of £0.017 million. The other adjustments related mainly to book entries required for compliance with capital accounting requirements which result in changes to non-cash backed reserves.
- 3.3.3 Details of these adjustments were highlighted in our *“Report to those charged with governance on the Audit of Tayside Fire and Rescue Board 2008/09”*, which was issued on 19 September 2009. Definitions of material, significant and trivial are provided at Appendix IV.

## 3.4 Financial Position

- 3.4.1 The Board reported a deficit of £8.538 million in its Income and Expenditure Account for the year as the net operating expenditure of £38.181 million exceeded the income received from the constituent councils' contributions of £29.643 million.
- 3.4.2 This reported deficit is carried into the Statement of Movement on the General Fund Balance and is then adjusted by £8.555 million for items required by statute and non-statutory proper practices to be credited to the General Fund. The net effect of these adjustments is to increase the balance on the General Fund Balance by £0.017 million to £1.853 million as at 31 March 2009.

- 3.4.3 Details of the adjustments made are reported in the notes to the accounts on page 21 of the Audited Statement of Accounts. These adjustments are due to the Board being required to consider funding elements of expenditure on different accounting bases, including capital investment which is accounted for as it is financed rather than when fixed assets are consumed and retirement benefits that are charged as amounts become payable to pension funds and pensioners rather than as future benefits earned.

## 3.5 Financial Performance

- 3.5.1 Financial performance measured against the revenue budget set by the Board in November 2007 for 2008/09 shows a small overspend for the financial year of £0.282 million, comparing the budgeted expenditure on Net Cost of Services of £27.520 million against the actual expenditure on Net Cost of Services of £27.802 million.
- 3.5.2 The main reasons for this variance are due to overspends on running costs of £0.404 million, offset by under-spends on staff costs of £0.006 million and additional income of £0.116 million. Overspends on running costs include £0.123 million on property related matters, £0.084 million on operational equipment and hydrants and £0.101 million on transport and fuel expenditure. Additional income of £0.116 million was principally due to £0.108 million more of recharge income.
- 3.5.3 Higher than expected returns on pension assets, increased interest costs, together with lower investment income and gains on sale from asset disposals led to an adjusted surplus increasing the General Fund Balance by £0.017 million for the year. This positive outcome is achieved by close monitoring throughout the year.

## 3.6 Pensions

3.6.1 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. Estimated pension liabilities at 31 March 2009 exceeded the Board's share of assets in all three schemes.

**Table 1 – Pension liabilities**

<b>Estimated pension liabilities</b>	<b>2008/09</b>	<b>2007/08 (as restated)</b>	<b>Movement</b>
<b>Pension Scheme</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Local Government	2,773	1,138	1,635
Fire (the Old Scheme)	145,991	150,471	-4,480
Fire (the New Scheme)	1,158	1,022	136
<b>Pension liability at 31 March</b>	<b>149,922</b>	<b>152,631</b>	<b>-2,709</b>

3.6.2 The overall decrease in the Schemes' liabilities for the year to 31 March 2009 is primarily due to changes in the actuary's assumptions and discount rates applied underlying the present value of schemes' liabilities.

3.6.3 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 assessed the FRS 17 valuation as at 31 March 2009 for these schemes using the financial assumptions disclosed in note 6.4.7 on page 26 in the accounts.

3.6.4 The amendment to FRS 17 Retirement benefits, published in December 2006, was adopted within the 2008 SORP. This amendment required assets to be valued at their current bid price, whereas previously they were valued at mid market value. As a result the value of the net liability within the Tayside Superannuation Fund at 31 March 2008 was restated from £1.035 million to £1.138 million, an increase of £0.103 million. This adjustment was considered material and was brought in as a prior period adjustment. The total pension deficit brought forward at 1 April 2008 was restated as £152.631million and the comparative figures in the Balance Sheet and Notes to the Core Financial Statements were adjusted accordingly.

3.6.5 As the "Old Scheme" and the "New Scheme" have no attributable assets the change in accounting policy has no effect on the pension deficits for these schemes as reported at 31 March 2008.

3.6.6 The last full actuarial valuation of the Tayside Superannuation Fund was carried out as at 31 March 2008 and highlighted a deficit. Changes to the 2008 SORP have resulted in a number of disclosures no longer being required. One of these changes was to remove the need to include details of the most recent full actuarial valuation.



## 3.6 Pensions (cont'd)

- 3.6.7 The actuarial reports for the three defined benefit schemes as at 31 March 2009 recommend that the Employer produce its disclosures based on a full valuation approach at least once every three years, so that the effects of actual experience versus expectations are regularly accounted for.
- 3.6.8 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 (APB), 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.
- 3.6.9 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 for the preparation of the accounts.
- 3.6.10 In determining medium term financial plans and preparing budgets the Board considers pensions funding. The approved revenue budget for 2009/10 was set at a figure of £0.166 million above the level of requisitions from the constituent Councils. This amount is required to be funded by a combination of efficiency savings and transfers from the Board's reserves. Expenditure, particularly in relation to pensions and staff costs are closely monitored and the Board is advised as required.

- 3.6.11 The Scottish Government has given a commitment to centralising funding arrangements for Police and Fire pensions. It is hoped that these arrangements will be in place for 2010/11.

## 3.7 Pension Commutations

- 3.7.1 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. The Scottish Government underwrote the cost implications of the changes for Fire Authorities in Scotland.
- 3.7.2 After implementation the decision to apply the revised commutation factors retrospectively to only those pensions commencing on or after 1 October 2007 was revisited. Notice was received on 10 September 2009 that the Fire and Rescue Service in Scotland had adopted the changes but the date from which the new commutation factors would take effect from would be 22 August 2006.
- 3.7.3 The Board has nineteen pensions commencing between 22 August 2006 and 30 September 2007 and the increase to the commutation factors will result in backdated payments in the region of £0.460 million. It is hoped that funding arrangements will be put in place from the Scottish Government to fund these increases. These pension commutations have been reported as a contingent liability and the potential Government funding as a contingent asset in the Board's accounts.

## 3.8 Reserves and Balances

- 3.8.1 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 2009 the General Fund held by the Board totalled £1.853 million. The balance has increased by £0.017 million in 2008/09 as a result of the overall adjusted surplus for the year.
- 3.8.2 Commitments against the General Fund total £0.793 million, leaving an uncommitted balance of £1.060 million. A total of £0.773 million has been earmarked to pay pension commutations for those officers eligible to retire on or before 31 March 2009 who have continued in post. A further £0.020 million is earmarked to be utilised to fund the 2009/10 budget. The details for this are contained in Note 6.2 on page 21 of the accounts.
- 3.8.3 The Board agreed an updated strategy for managing its reserves on 11 May 2009. This strategy noted that Fire and Rescue Boards are permitted by statute to make a contribution to their reserves in-year of an amount not greater than 3% of the total requisitions from authorities received for that year, and retain a maximum cumulative uncommitted balance within their General Reserve of 5% of the total authorities' requisitions received for that year. This excludes the earmarked pensions reserve.
- 3.8.4 The uncommitted balance of £1.060 million on the General Fund as at 31 March 2009 represents 3.6% of the total requisitions received from the constituent authorities and is within the approved limits of 3% and 5% respectively.

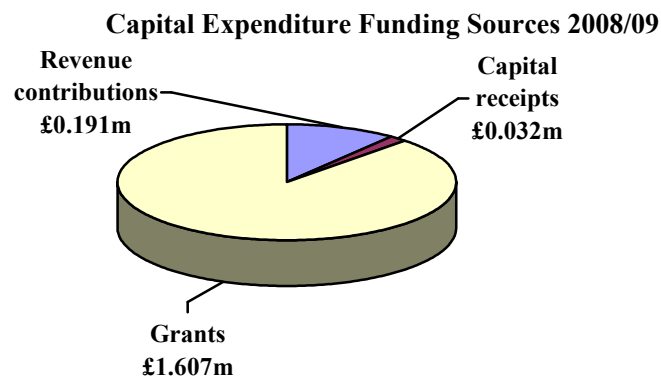
- 3.8.5 Single status has been introduced and agreed. The proposed new pay and grading structure is known and the resulting associated costs have been included in the support staff costs. As a result of the implementation of the Single Status agreement there are a number of appeals to be heard. No provision has been made for the settlement of equal pay claims or the backdated element of any successful Single Status appeals. If successful it is noted that these would be required to be settled from the Board's uncommitted reserves.

## 3.9 Capital Expenditure

- 3.9.1 Capital expenditure is determined by the Board, based on the specific Scottish Government (SG) grant, capital receipts and Prudential borrowing, if required.
- 3.9.2 The total available funding for the capital programme was £1.871 million, made up of the SG grant and capital contributions of £1.613 million, capital receipts of £0.032 million, 2007/08 capital grant brought forward from the previous year of £0.035 million and a significant contribution from revenue (CFCR) of £0.191 million. Unutilised funding of £0.041 million is available to help fund capital expenditure in 2009/10. No borrowing was required.
- 3.9.3 Gross capital expenditure for the year amounted to £1.830 million. Funding for the capital expenditure was made up as follows:

## 3.9 Capital Expenditure (cont'd)

### 3.9.3 (cont'd)



## 3.10 Capital Accounting

- 3.10.1 All of the Board's land and properties were re-valued, by Graham & Sibbald, Chartered Quantity Surveyors, on 31 March 2009. This resulted in £10.442 million being charged to the revaluation reserve. The Board's assets require to be professionally re-valued every 5 years. The next complete revaluation is due on or before 31 March 2014.
- 3.10.2 Other movements on fixed assets were additions of £1.830 million on tangible assets which included £0.556 million on land and buildings, £0.304 million on vehicles and equipment and £0.970 million on assets under construction.

- 3.10.3 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.
- 3.10.4 We were satisfied with the Board's capital accounting arrangements for 2008/09 and that the entries for additions and disposals were not materially misstated.

## 3.11 International Financial Reporting Standards

- 3.11.1 International Financial Reporting Standards (IFRS)-based financial instrument standards were adopted in the 2007 SORP. The 2009 SORP adopts the IFRS approach to accounting for PFI/PPP schemes from 2009/10.
- 3.11.2 An IFRS-based Code of Practice on Local Authority Accounting is currently being prepared which will replace the SORP from 2010/11, when local authorities and boards are required to fully adopt IFRS.
- 3.11.3 Boards will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based balance sheet. Once this work has been completed, we will review the restatement work and report our findings. We encourage early completion of the restatement.

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

- 3.12.1 Three outstanding actions from the 2006 national review by Audit Scotland have been followed up this year. There has been good progress with two of the three outstanding actions, and the Board has decided not to pursue the other remaining outstanding action.
- 3.12.2 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.
- 3.12.3 We have been informed that the Board has made annual cashable efficiency gains to the levels required to continue to deliver the service without the assistance of transitional funding. In addition substantial annual non-cashable efficiency gains have been achieved and efficiency savings have been identified and targeted within the recently agreed two year revenue budgets for 2009/10 and 2010/11. A common template for use by all of the Scottish Fire and Rescue services has been developed by Chief Fire Officers Association (CFOA) Scotland.
- 3.12.4 The second outstanding item was the devolvement of budgets to station level, ensuring training was put in place to support this. Consideration of this by Tayside's Fire and Rescue Management Team has led to a decision not to pursue the further devolvement of budgets.
- 3.12.5 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. We have been informed that the implementation process for the Asset Management System is continuing.

- 3.12.6 It was initially hoped that the first phase of the implementation would be complete by March 2009. The formulation of an Asset Management Strategy is currently being considered at national level by the CFOA in order that best practice in this area can be adopted by all 8 Fire and Rescue Services. We will continue to monitor progress with this outstanding action during 2009/10.

**R1 The Board should progress an asset management strategy and ensure relevant plans are put in place for this in 2009/10.**

## 3.13 Whole of Government Accounts (WGA)

- 3.13.1 WGA are aimed at developing a fully audited set of accounts covering virtually all of the UK public sector. WGA is based on generally accepted accounting practice in the UK (UK GAAP) and is intended to present a true and fair view of Government activities. WGA treats Government as if it were a single consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies.
- 3.13.2 The Board submitted their draft WGA return, based on the draft accounts, to the Scottish Government by the due date, 31 July 2009. No material or significant fundamental errors or data integrity warnings were noted in the return submitted.
- 3.13.3 The copy of the final WGA return, based on the audited accounts, was received for audit on 21 September. This return has been audited and was submitted to the Scottish Government on 29 October 2009.



# Governance

## 4.1 General

- 4.1.1 The Board and Performance Monitoring Sub-Committee met regularly during 2008/09 and both comprised members of the three constituent local authorities in Tayside. The Board is responsible for a number of key aspects of governance including budget setting, making arrangements to secure best value and participate in community planning, appointment of chief officers and scrutiny and challenge of Board performance.
- 4.1.2 Training for members of Board committees is on-going. In January 2009, together with Internal Audit, we undertook a training session for the Performance Monitoring Sub-Committee members. On the 30 March 2009 Dundee City Council (DCC) changed its membership and appointed new members, including the Vice Convener. A further training day was held for new members of the Board, and some existing members on 31 August 2009.
- 4.1.3 The Board's overall strategic document "*Towards a Safer Tayside*" sets out the Board's mission and the four aims of prevention, intervention, people and performance. The first two aims are the responsibility of Service Delivery and the second two are the responsibility of Service Support.
- 4.1.4 Our 2008/09 audit work has noted that although changes have been reported and agreed at Committee to the Board's Standing Orders, Scheme of Administration and Financial Regulations there is no complete document published for these governance arrangements. In addition it was noted that the latest version available on the network is the 2004 version.

- 4.1.5 In our "*Follow-up of the 2007/08 Review of Internal Controls*" issued on 5 June 2009 we suggested that the Board consider reviewing and updating these before the end of the 2009/10 financial year to reflect all the recent changes since the date of the last update and also consider making the updated version available on Tayside Fire and Rescue's website.

**R2 The Board should review and update the Standing Orders, Scheme of Administration and Financial Regulations before the end of the 2009/10 financial year, and thereafter update regularly to ensure they remain fit for purpose.**

## 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 2009 Firefighters Pay Settlement, Expenditure Monitoring 2009/10, Tayside Fire and Rescue Quarterly Activity Report to June 2009, Scottish Government National Resilience Strategy and Scottish Government Consultation Draft Fire and Rescue Framework for 2009.





## 4.3 Audit Committee

- 4.3.1 The Performance Monitoring Sub-Committee met three times over the last year. One of these meetings was a training session. At the other meetings members considered the outputs from both internal and external audit reviews and budget setting and monitoring information from management. Responsible officers and representatives from both external and internal audit attend the meetings to present the reports and answer questions.
- 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 Following changes in Dundee City Council's members earlier this year representation on Committees has changed. At the June Performance Monitoring Sub-Committee we noted a lack of clarity regarding which Dundee City Council members were to be formally appointed to this Committee. We have been informed that these appointments have still to be formalised by Dundee City.

## 4.4 Annual Governance Statement

- 4.4.1 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 recommended that the annual review of internal controls should be reported in an Annual Governance Statement (AGS). Although it was not required by legislation in 2008/09 to conduct an annual review, authorities and boards were encouraged to do so voluntarily.

- 4.4.2 It was the Board's intention to produce an AGS for inclusion in the 2008/09 accounts. For 2008/09 the Board produced a Statement on the System of Internal Financial Control, in compliance with the 2008 SORP. We have been advised that an AGS is to be produced for 2009/10.

## 4.5 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 2008/09 we agreed to rely on work for the following areas from the internal audit's plan:
- Payroll
  - Pensions
  - Insurance
  - Single Status
  - Rank to Role
  - Assets and Inventories
  - Information Security
- 4.5.2 The Rank to Role project was cancelled and Assets and Inventories review has still to be completed and reported. Following our review of the files, we concluded that we could place reliance on the work and findings of internal audit.

## 4.5 Internal Audit (Cont'd)

- 4.5.3 During 2008/09 the Board's internal audit arrangements were provided by the internal audit section of Perth & Kinross Council through a formal Service Level Agreement (SLA). A SLA is in place covering the three-year period from 2007/08 to 2009/10.
- 4.5.4 In 2008/09 the acting Chief Internal Auditor produced an Annual Statement as required by the SLA to feed into the Statement of Internal Financial Control before the draft accounts were submitted to the Controller of Audit.

## 4.6 National Fraud Initiative

- 4.6.1 During 2008/09 the latest National Fraud Initiative (NFI) in Scotland began and we monitored the Board's participation in it. 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.
- 4.6.2 This exercise is 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.
- 4.6.3 The NFI has generated significant savings for Scottish public bodies (£13.8 million from the 2006/07 exercise and £41 million including previous exercises). Where fraud or overpayments are not identified by the exercise, assurances may be taken about internal arrangements for preventing and detecting fraud.

- 4.6.4 Data was uploaded by the Board via the new secure upload facility within the required timescale. Matches were available on the secure NFI web application from 11 February 2009. Work on the matches is almost complete, and no fraud or error has been found to date.

## 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 for each of the four areas are currently monitored through the Service Delivery and Service Support internal Fire and Rescue meetings on a quarterly basis. The process for formalising the four strategies, channelling them through the Service Delivery and Service Support forums of the Board and establishing these as a source for annual action plans has still to be completed.
- 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.
- 5.1.3 The Action Plan 2009-10 is on the Board's website. The 2009-10 "*Towards a Safer Tayside*" action plan is the first to be produced following the introduction of the Concordat and the development of Single Outcome Agreements.
- 5.1.4 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.

- 5.1.5 Budget Holders prepare annual Business Plans for their areas which include the budget requirements in line with the work priorities and objectives. Each area will consider how to gain Best Value from the Board's activities and submit requirements for increases / reductions in budgets. With tight funding constraints budget holders use their knowledge to decide which projects should be progressed.
- 5.1.6 An August 2009 Board report informed members of a public consultation on the draft Fire and Rescue Framework for Scotland 2009. This framework follows the new partnership approach described in the concordat and together with the National Performance Framework is aimed to bring into focus the major challenges facing Scotland's Fire and Rescue Services.

## 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.
- 5.2.2 The annual public performance report "*Towards a Safer Tayside 2008-09*" was submitted to the Board meeting on 11 May 2009 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).
- 5.2.3 The Board has introduced a quarterly activity report to enable members to more regularly monitor the work of the service. The first report for the quarter to June 2009 was reported to the August Board meeting.



## 5.3 Single Outcome Agreements

- 5.3.1 In 2007 national and local government leaders signed a concordat which requires each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return the Scottish Government pledged to allow local councils greater freedom, for example, by removing ring-fencing of funds.
- 5.3.2 A report was submitted to the Board in May which advised members that the role of fire and rescue authorities in the achievement of National Outcomes is incorporated within each of the constituent Council's SOAs. This report also noted that as the future level of funding of Tayside Fire and Rescue is likely to be dependent on the contribution made by the service to the achievement of constituent Council outcomes it is important that the full role of the service is recognised.
- 5.3.3 From our attendance at meetings of Perth & Kinross Council's Community Planning Partnership (CPP) we have noted that Tayside Fire and Rescue are a participative and inclusive partner.
- 5.3.4 At a Perth & Kinross Council CPP meeting of 8 May 2009 it was noted that Tayside Fire and Rescue had played an integral role in a "multi agency group" study on seasonal workers. This demonstrates a good example of multi agency cooperation and participation in the CPP by Tayside Fire and Rescue.

## 5.4 Efficient Government

- 5.4.1 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 through elimination of waste, bureaucracy and duplication.
- 5.4.2 From 2008/09 there is a requirement to report formally on efficiency savings. To assist with this the Chief Fire Officers Association (CFOA) has developed an efficiency template for use by all Fire and Rescue Authorities from 2008/09.
- 5.4.3 For 2008/09 to 2010/11, the emphasis has moved from non-cash to cash efficiency savings. A cash efficiency target of 2% cumulative per annum has been set for the public sector. While there is no specific target for Fire, there is an expectation that the service will deliver cash efficiencies of 2% cumulative per annum against a baseline of the GAE figures for 2007/08.
- 5.4.4 The Board considers savings within the budget setting processes. Cash savings and non-cash savings are identified once the Board is aware of their funding parameters.
- 5.4.5 We have been informed that Tayside Fire and Rescue has made annual cashable efficiency gains to the levels required to continue to deliver the service without the assistance of transitional funding. The savings for 2008/09 as detailed on the efficiency template used by all Fire and Rescue Authorities are detailed in Table 2 below.

# Performance

## 5.4 Efficient Government (cont'd)

5.4.5 cont'd

**Table 2 – Efficiency Savings**

	Cash recurring  £m	Cash non- recurring  £m	Total   £m
<b>Workforce Planning</b>			
Reduction 8 Whole-time Uniformed Personnel (crewing the Prime Mover using Retained & Salvation Army)	0.240	0	0.240
Reduction Support Staff Posts	0.108	0	0.108
Reduction Support Staff Posts (slippage)	0	0.051	0.051
Reduction Crew Manager Posts (various stations), replaced by Fire-fighter Posts	0.048	0	0.048
<b>Total Savings</b>	<u>0.396</u>	<u>0.051</u>	<u>0.447</u>

5.4.6 In addition to the above, substantial annual non-cashable efficiency gains have been achieved and efficiency savings have been identified and targeted within the recently agreed two year revenue budgets for 2009/10 and 2010/11.

5.4.7 Combined aerial and rescue pumps (ARP) are fire engines which provide the capabilities currently provided by two types of fire engine and it is forecast that they will deliver significant efficiency savings.

5.4.8 The Board's first ARP is planned to be operational at Blackness Road Fire Station in December 2009. This ARP is still in its testing and training phase. When testing and training are complete the ARP will be passed as fit to "go on the run" and opportunities should arise for efficiency savings.

5.4.9 In addition there is a second ARP currently being built which is planned to be ready to hand over in February / March 2010. This ARP is a proposed resource allocation for Perth Fire Station. Efficiencies arising from this machine will therefore not materialise until 2010/11 at the earliest.

5.4.10 As detailed in an August Board report the ARPs are related to the achievement of one of the SOA National Outcomes and also the Board's Strategic Objectives.

## 5.5 Procurement

5.5.1 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.

5.5.2 The retiral of the responsible officer and reorganisation of activities within the Board has delayed progress with this strategy, looking at consortia, joint negotiations and framework agreements.





# Performance

## 5.5 Procurement (cont'd)

5.5.3 We have been informed that an updated Procurement Strategy and Action Plan were approved at the July Management Team meeting.

## 5.6 Risk Management

5.6.1 Development of an overall Risk Management Strategy was identified as an improvement area by Audit Scotland in their study in 2006 which was planned to be addressed as part of the 2008/09 service planning process.

5.6.2 In addition a risk management workshop was planned for 2008/09 in order to assess the Board's business risks. However due to conflicting commitments this workshop was postponed and has still to be rescheduled.

5.6.3 Although the Board has still to formally approve an overall risk management strategy, developments continue to be made with operational risk information. A working group has been formed to develop and implement robust systems and processes that will deliver relevant, timely and accurate premises /site operational risk information to responding operational crews.

5.6.4 In August 2009 members were advised of the Scottish Government's National Resilience Strategy "*Scotland Resilience: The Contribution of the Fire and Rescue Service*". This strategy is informed by the UK National Risk Assessment and specifies a need for a collective response to three national risks and seeks a single Scotland wide Delivery Plan from all eight fire and rescue authorities.

5.6.5 It is noted that Tayside Fire and Rescue intend to fulfil their responsibilities in relation to the Delivery Plan.

## 5.7 Statutory Performance Indicators (SPIs)

5.7.1 The 2008/09 return to Audit Scotland for SPIs was made by the 28 August 2009 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all indicators.

5.7.2 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 decreased from 2.5 in the previous year to 2.0.

The number of fatal and non-fatal casualties per 10,000 population has decreased from 3.1 in the previous year to 2.4.

The number of accidental dwelling fires per 10,000 population has increased from 11.6 in the previous year to 12.

The reported decrease in the rate of casualties is due to increased fire safety initiatives and the increase of fire safety visits to vulnerable people in the community.



## 5.7 Statutory Performance Indicators (SPIs) (cont'd)

### 5.7.2 (cont'd)

#### *Sickness Absence*

The indicator relating to Sickness Absence has been changed slightly per the 2007 Direction. Reporting is now measured on the number of days lost per employee as opposed to a percentage of days lost. As a result, year on year comparisons were difficult to analyse. Public performance information for 2008/09 shows the number of days lost due to sickness and light duties per fire officer was 6.7 days and for all other staff, 6.1 days.

Our audit work concluded that there had been a decrease in sickness absence. This was confirmed in the Tayside Fire & Rescue Annual Public Performance report.

Rider shift lost due to sickness absence reduced 0.13% from 4.13% to 4% and rider shifts lost due to light duties increased slightly from 0.37% to 0.50%. The most significant improvement arose in the absence for all other staff directly employed where absence fell from 6.38% to 3.0%.

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.

Improvement in the sickness absence rate is attributed to health initiatives being setup in the form of exercise programmes, awareness days, access to private health care and medical and fitness checks being carried out.

#### *Call Response Time*

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

- handled within one minute has increased from 52.6% to 55.5%; and
- handled in less than two minutes has increased from 85.9% to 88.7%.

The Board's performance has improved this year, in line with expectation, now that the new call handling system becomes more familiar to staff.

- 5.7.3 For 2009/10 the fire and rescue service SPIs are set out in the 2008 direction. The SPI information required by fire and rescue services will include information on three specified indicators from previous directions. It is however noted that those specified in the 2008 direction are a starting point for future development and change.

## 5.8 National Studies

#### *Improving Public Sector Purchasing*

- 5.8.1 The national report was published in July 2009. It provides a position statement on the progress and impact of the Public Procurement Reform Programme (the Programme), which aimed at improving purchasing practice and making savings of about three per cent a year.

## 5.8 National Studies (cont'd)

- 5.8.2 The report finds that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.
- 5.8.3 The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality. With the public sector's size and combined purchasing power, there is still potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.
- 5.8.4 The report recommends that the public sector should increase the use of collaborative contracts. These are a key feature of the Programme, but are being developed more slowly than expected. Other high level recommendations were made which highlight the good purchasing practice that public bodies should adopt to demonstrate Best Value.
- 5.8.5 The Board has entered into collaborative contracts such as the 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. In addition the planned use of ARPs also demonstrate how the Board aims to find cash savings without cutting services or quality (Refer to paragraphs at 5.4)
- 5.8.6 There is also substantial work currently under way to examine collaborative procurement for fire specific commodities. A working group has been set up through the Chief Fire Officers Association (Scotland) to establish the Centre of Expertise for Fire Specific Procurement. Tayside Fire and Rescue have representatives on that group. The Centres of Expertise are responsible for representing sector specific interests in the development of national policy and for the development and dissemination of policy and guidance on issues unique to the sector.
- 5.8.7 A recent report to Fife Councillors noted that Tayside, Central Scotland and Fife fire and rescue services have entered into discussions about the sharing of equipment and specialist staff. These plans are noted to be at early stages and will be subject to forthcoming consultations.
- Improving Civil Contingencies Planning***
- 5.8.8 The national report was issued in August 2009. The study looked at the progress made since the Civil Contingencies Act 2004 was passed, assessing the pace of change and identifying ways in which improvements can be made. The report made 16 detailed recommendations where further improvements can be made.
- 5.8.9 We will review the Board's progress in addressing the issues raised in the report as part of our 2009/10 audit.

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## 5.9 Best Value Audits

- 5.9.1 Best Value audits of fire and rescue boards are to be introduced. It is planned that these will follow the Best Value pilots which have currently been carried out in two police authorities and boards. Further details will be provided in our *“Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10”*.
- 5.9.2 The performance report *“Towards a Safer Tayside 2008-09”* notes that planning has commenced for the Best Value audits which are due to be carried out during 2009/10.



## 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 2008/09

	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date
1	<p><b>Finance</b></p> <p>3.12 The Board should progress an asset management strategy and ensure relevant plans are put in place to deliver this in 2009/10.</p>	A draft asset management strategy is currently being considered for presentation to Tayside Fire and Rescue Management Team prior to the year end.	Yes	Head of Corporate Services	March 2010
2	<p><b>Governance</b></p> <p>4.1 The Board should review and update the Standing Orders, Scheme of Administration and Financial Regulations before the end of the 2009/10 financial year, and thereafter update regularly to ensure they remain fit for purpose.</p>	This work is currently ongoing however the proposed updates should be completed prior to the year end.	Yes	Clerk to the Board/Head of Corporate services	March 2010



## Appendix III – Updated Action Plan for 2007/08

	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2009
1	<p><b>Financial</b></p> <p>3.11 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, 2007/2008 Report to Members)</b></p>	<p>The most recent progress report from Audit Scotland on Scottish Fire and Rescue Authorities (July 2008) has been examined in detail and where it was felt that Tayside Fire and Rescue had action points to comply with, which were not included in 2008/09 action plan, these have been included in the strategic action plan for 2009/10.</p>	Yes	<p>The outstanding action points have been allocated to a number of responsible officers for completion.</p>	March 2010	<p>There will be varying progress against the action points allocated as they will be included in the plans of the responsible officers and progressed throughout the year.</p> <p>The remaining outstanding action, an asset management strategy is in our 2008/09 Action Plan. Progress will continue to be monitored during 2009/10.  <b>On-going</b></p>



## Appendix III – Updated Action Plan for 2007/08

	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2009
2	<p><b>Governance</b></p> <p>4.4 We recommend that the Board considers producing an Annual Governance Statement for inclusion in next year's accounts. <b>(R.2 on page 13, 2007/2008 Report to Members)</b></p>	Agreed	Yes	Head of Corporate Services	March 2009	<p>An Annual Governance Statement was not produced for the 2008/09 accounts, although a full Statement on the System of Internal Financial Control was produced.</p> <p>A Governance Statement will be developed for the 2009/10 accounts. This action is repeated in our 2008/09 Action Plan. <b>On-going</b></p>
3	<p><b>Governance</b></p> <p>4.5 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, 2007/2008 Report to Members)</b></p>	The Chief Internal Auditor will produce a draft annual statement in accordance with the timetable.	Yes	Chief Internal Auditor, Perth & Kinross Council	June 2009	<p>This was included in the 2008/09 accounts. <b>Complete</b></p>



## Appendix III – Updated Action Plan for 2007/08

	Issue and Risk	Board's Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2009
4	<p><b>Performance</b></p> <p>5.4 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. (R.4 on page 17, 2007/2008 Report to Members)</p>	Agreed, this is currently being considered by the newly appointed Procurement Manager	Yes	Procurement Manager	March 2009	An updated Procurement Strategy and Action Plan was approved at the July Management Team. <i>Complete</i>



## Appendix IV – Definition of Material, Significant and Trivial

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Board. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

### Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

### Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Board has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

### Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Board agrees to adjust the errors.

