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Chartered Accountants

Tayside Fire and Rescue Board

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

2010/11

External Audit Report No: 2011-04

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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; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



1. Executive Summary

Finance

1. Our opinion on the financial statements is unqualified. The financial statements give a true and fair view, in accordance with applicable law and the 2010/11 International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (The Code), of the state of affairs of the Board and have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
2. An IFRS-based Code of Practice on Local Authority Accounting replaced the Statement of Recommended Practice (SORP) from 2010/11. As required by the Code, the Board has restated 2009/10 comparative information onto an IFRS basis, and has disclosed a restated 1 April 2009 IFRS-based Balance Sheet.
3. The Board's Comprehensive Income and Expenditure Account shows a surplus position for the year of £7.155 million for the provision of services. This is mainly due to a material gain as a result of pension changes. After making adjustments for amounts required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance, the Board reported an increase in the General Fund balance of £0.032 million.
4. For 2010/11 the Board reported an actual surplus of £0.351 million against a budgeted net cost of services of £24.783 million. Further details are provided in Note 8 to the accounts. One of the main components of this variance was an under spend on employee costs which the constituent authorities have agreed would be retained within the Board's General Fund.
5. The key risk for the Board for future years will be to manage within the budget available. For 2011/12 the Board set a budget which represents a 2.6% reduction on the approved revenue budget for 2010/11. This is noted to be in line with the national reduction in funding for Scottish Local Authorities and was reached in collaboration with the constituent Councils to the Board.

Governance

6. We have been advised by Audit Scotland that Best Value reviews commenced in September 2011 and that all eight Fire Services will be reviewed. This will be a limited review and will not cover equalities, sustainability or procurement. A local audit report is due to go to the Accounts Commission in February 2012 and all of the Fire Service reviews will inform a national overview report due to be published around April 2012.
7. The Board has produced a Statement on the System of Internal Financial Control (SSIFC), in compliance with the 2010/11 Code. Last year in our 2009/10 Report to Members we recommended that consideration was given to moving to an Annual Governance Statement. We have been advised that it has been recommended by the Board that the current practice of producing a SSIFC will continue. Whilst this is not a statutory requirement we have been advised by Audit Scotland that it is considered to be good practice.
8. The internal audit service is provided by Perth & Kinross's internal audit department. Due to issues with the provision of this service we agreed that for 2010/11 we would not place reliance on the work of internal audit and this was reported in our Annual Plan.
9. Service Level Agreements (SLA) covering the internal audit provision provided to the Board by Perth & Kinross Council have been finalised for both 2010/11 and 2011/12 but have still to be signed. Going forward we have recommended that the Board and management review these SLAs and all other services provided by the Council to ensure that SLAs are signed and agreed prior to the period covered by the agreement and that the Board receives good value for money from the services provided. Refer to the Action Plan at Section 6.



1. Executive Summary

10. The Board's arrangements to prevent and detect fraud and other irregularities were found to be generally satisfactory, with no frauds to report again this year. There were also no frauds found arising from the current NFI exercise. We are pleased to report that no frauds have been reported over the five years of our audit appointment.
11. The Board's Scheme of Administration, Standing Orders and Financial Regulations have been revised and the amendments were approved at the August 2011 Board meeting.

Performance

12. 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 monitored through the Service Delivery and Service Support fora.
13. The annual public performance report "***Towards a Safer Tayside 2010-11***" is published and available on the Board's website www.taysidefire.gov.uk. The Chief Fire Officer submitted this report to the May 2011 Board meeting.
14. The prescribed Statutory Performance Indicators (SPIs) contained in the Accounts Commission's 2008 Direction were submitted to Audit Scotland by the 31 August 2011 deadline. We concluded that in general the arrangements in place for the collation and checking of data for these specified indicators were adequate. Given the errors identified during our 2009/10 audit, our audit focus was on the calculation of the Sickness Absence indicators. New checking procedures were introduced for 2010/11 and these processes have resolved the previous issues with source information. We have obtained evidence to support the figures included in the SPI return.
15. Our review of the supporting documentation for the SPIs identified minor errors in the data reported in the annual public performance report "***Towards a Safer Tayside 2010-11***" again this year. We have included two recommendations in the Action Plan at Section 6.
16. The Board has made some progress with embedding risk management which forms part of the Corporate Governance arrangements for the service by developing a Corporate Risk register.

Acknowledgements

17. This is the final year of our appointment as the Board's external auditors. Our audit has brought us in contact with a wide range of staff within the Board. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.
18. We will liaise with the Board's incoming auditors throughout the handover period, to achieve a coordinated handover of the audit and to ensure that the incoming auditors are fully briefed on all relevant matters.



2. Introduction

Introduction

19. We are pleased to submit our final annual report, covering significant matters arising during the course of our audit of the Board for the year ended 31 March 2011.
20. The framework under which we operate under appointment by Audit Scotland is outlined in Section 2 of our **Risk Assessment, Annual Audit Plan and Fee Proposal for 2010/11** (Annual Plan), Report 2011-01 issued on 15 March 2011. The respective responsibilities of members, officer and auditors are set out in Appendix 1 of this report.
21. 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 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
22. Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Board.
23. 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. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
24. From 2010/11, local authority and joint board accounts must be prepared in accordance with International Financial Reporting Standards (IFRS). Authorities are required to disclose a restated 1 April 2009 IFRS-based Balance Sheet and restate the 2009/10 comparative information onto an IFRS basis. We reviewed the opening balance sheet and 2009/10 restatement templates and reported our findings in our **Opening IFRS Balance Sheet and 2009/10 Shadow Accounts Templates Review** Report 2011-02, issued on 13 April 2011.
25. We are satisfied that the comparative information has been accurately restated and that the 2010/11 financial statements have been prepared in accordance with IFRS.
26. In accordance with our Annual Plan we reviewed the Board's key internal controls and have raised some minor issues with officers during the course of our audit. Where action is required to improve controls going forward we have included a recommendation in our Action Plan at Section 6 of this report.
27. 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. Finance

Financial Statements Audit

28. We have given an unqualified opinion on the financial statements of the Board for the year ended 31 March 2011.

29. We set out below a summary of the audit certification issues:

- the financial statements give a true and fair view, in accordance with applicable law and the 2010/11 Code of Audit Practice on Local Authority Accounting of the state of affairs of the Board as at 31 March 2011 and of the income and expenditure for the year then ended
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code
- the financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements
- The Statement on the System of Internal Financial Control complies with the 2010/11 Code.

30. We are also required to report if in our opinion:

- adequate accounting records have not been kept
- the financial statements are not in agreement with the accounting records
- we have not received all the information and explanations we require for our audit

We have nothing to report in respect of these matters.

31. Non-compliance with statute or regulations may materially affect the financial statements. Our audit procedures include the following:

- reviewing minutes of relevant meetings
- enquiring of senior management the position in relation to litigation, claims and assessments
- detailed testing of transactions and balances

We confirm that we did not identify any instances of concern with regard to the legality of transactions or events.

32. We also request written confirmation from the Treasurer and the Head of Corporate Services that the Board's financial transactions accord with relevant legislation and regulations. They have confirmed that they are not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Board to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2011.

3. Finance

33. Under International Standard on Auditing (ISA) 260, we are required to communicate certain matters arising from the audit to those charged with governance. The Board previously agreed that the Treasurer was the person we should report to. The areas considered are summarised in Appendix II.
34. The main issues of note in relation to the accounts are:
- There were four material adjustments to the draft accounts figures relating to the pensions costs and the new pensions account identified during the course of our audit. Management agreed to adjust the figures in the accounts for these. There was no impact on the total General Fund balance for these adjustments.
 - On 25 August, we were advised by Audit Scotland that in 2010/11, the actuaries changed the basis on which they calculate the liability associated with injury benefits. This represents a change in accounting policy, which requires a prior year adjustment. The accounts were revised to reflect this.
35. One other issue to note is that the above adjustments meant that there were significant amendments required to the draft Whole of Government Accounts (WGA) return that has been submitted to the Scottish Government. This work has now been finalised. The final return, which we certified, was submitted to the Scottish Government by the deadline of 30 September 2011.

Financial Position and Performance

36. The first two sections of the Comprehensive Income and Expenditure Account (CIES) record the net cost of services and the surplus / deficit on provision of services. These are similar to the net cost of services and the surplus / deficit for the year that would have been disclosed in the UK GAAP Income and Expenditure Account. The Board's income from requisitions and non-specific grants of £26.653 million exceeded its net operating expenditure of £19.498 million, resulting in a surplus on provision of services for the year of £7.155 million. This is mainly due to a material gain as a result of pension changes.
37. The final section of the CIES is similar to the Statement of Total Recognised Gains and Losses (STRGL) under UKGAAP. The surplus on provision of services is adjusted for other comprehensive income and expenditure (the surplus / deficit on revaluation of fixed assets and the actuarial gains / losses on pension assets / liabilities) to arrive at the total comprehensive income / expenditure for the year. For 2010/11, the CIES shows a surplus of £28.774 million on total comprehensive income / expenditure.
38. This reported surplus is carried into the Movement in Reserves Statement and is then adjusted by £7.123 million for items required by statute and non-statutory proper practices to be credited to the General Fund Balance. The net impact of these adjustments is an increase in the General Fund Balance of £0.032 million for the year, increasing the General Fund Balance carried forward to £1.306 million as at 31 March 2011. The Board has maintained the balance on the General Fund despite transferring the earmarked sum for commutations of £0.319 million to the new pension fund account at the start of the year. Further detail is provided in notes 7a and 40 in the accounts.
39. Details of the adjustments made are reported in Note 11 to the accounts on pages 46 to 48 of the Audited Statement of Accounts. These adjustments are due to the Board being required to consider funding elements of expenditure on a different accounting basis, including capital investment which is accounted for as it is financed rather than when the fixed assets are consumed, and retirement benefits that are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

3. Finance

40. Financial performance can be measured against the revenue budget set by the Board in January and February 2010 for 2010/11. For 2010/11 the Board reported an actual surplus of £0.351 million against a budgeted net cost of services of £24.783 million. A detailed variance analysis and summary of actual costs against the budget set are provided in the Explanatory Foreword and Note 8 to the Accounts.
41. One of the main components of this variance was an under spend on employee costs which was due to the public sector pay freeze and management of attendance and vacancies during the year. The constituent authorities have agreed that this under spend would be retained within the Board's General Fund.
42. A key risk for the Board in future years will be to manage within the budget available. In response to anticipated budget cuts the Board obtained approval for a Voluntary Early Retirement Strategy / Voluntary Redundancy Scheme for support staff aimed at facilitating rationalisation and restructuring of service delivery. Approval was also received for a revised redundancy policy and procedure. For 2011/12 the Board set a budget which represents a 2.6% reduction on the approved revenue budget for 2010/11. This is noted to be in line with the national reduction in funding for Scottish Local Authorities and was reached in collaboration with the constituent Councils to the Board.
43. The Scottish Fire and Rescue Services produced a National Strategy to inform fire and rescue authorities of work at a national level to address the future funding challenges. This was reported to a Special Fire Board meeting on 4 October 2010. Working in partnership at local and national level are seen by the Board as a means to achieving savings.
44. To inform a review being carried out by Audit Scotland of Scotland's public finances: planning for challenges ahead, to look at how well significant public bodies are planning for potential budget reductions a data return on arrangements within the Board was completed and submitted to Audit Scotland in January 2011.

Efficient Government

45. 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.
46. 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. To assist with this the Chief Fire Officers Association (CFOA) developed an efficiency template for use by all Fire and Rescue Authorities from 2008/09.
47. 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.
48. We have been informed that Tayside Fire and Rescue has made annual cashable efficiency gains of 1.84%, without impacting on service delivery or performance. The planned use of combined aerial and rescue pumps (ARPs) which provide the capabilities currently provided by two types of fire engine are forecast to provide significant efficiency savings. The savings for 2010/11, as detailed on the efficiency template used by all Fire and Rescue Authorities, are outlined in Table 1 below.

3. Finance

Table 1 – Efficiency Savings

	Cash recurring £m	Cash non- recurring £m	Total £m
Workforce Planning			
Reduction in overtime costs for operational Firefighters & Control Staff	0.173	0	0.173
Staff slippage	0.121	0	0.121
Asset Management			
Termination of Radio Transmitter Station Leases (now Airwave)	0.053	0	0.053
Shared Services			
Sharing agreement with SAS Montrose Fire & Ambulance Service	0.020	0	0.020
Workshop income from vehicle servicing	0.020	0	0.020
Procurement			
Total saving through Efficient procurement Processes	0.033	0	0.033
Other			
Energy Saving measures Included in Perth legislative Fire Safety HQ & Fire Station refurbishment	0.035	0	0.035
Total Savings	0.455	0	0.455

Reserves and Balances

49. At 31 March 2011 the General Fund held by the Board totalled £1.306 million. The balance has increased by £0.032 million in 2010/11 from £1.274 million to £1.306 million as a result of the overall adjusted surplus for the year. As detailed in note 7a to the Accounts £0.085 million of the General Fund has been earmarked, made up of £0.020 million Community Safety Partnership monies and £0.065 million of Aerial Rescue Pump Boom package monies.
50. The Board agreed an updated strategy for managing its reserves on 31 January 2011. 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 authorities’ requisition received for that year”* and retain a maximum cumulative uncommitted balance within their General Fund of 5% of the total authorities’ requisitions received for that year. This excluded the amount earmarked in the General Fund against future pension commutations, which from 1 April 2010 is no longer required under the new firefighters pension account regulations.
51. A request was made to the Scottish Government for this restriction to be relaxed in the light of proposed funding cuts in future years as it was felt that any monies which can be saved during the financial year should be available to be added to the Board’s reserves to alleviate these cuts.

3. Finance

52. Ministerial approval to carry forward unspent resources of up to £1.396m from 2010-11 into 2011-12 was received by letter on 16 February 2011.
53. The total carried forward to 2011/12 was £1.306 million which is within the ministerial approval of £1.396 million. After commitments of £0.085 million to meet future liabilities, uncommitted balances of £1.221 million on the General Fund represent 4.9% of the total requisitions received from the constituent authorities. Further detail of the carry forward limits is provided in the Explanatory Foreword on page 10 of the Accounts.

Pensions

54. The Board participates in four post employment schemes, a funded occupational pension scheme, two unfunded occupational pension schemes and an injury benefit scheme. All are administered by Dundee City Council. The funded occupational pension scheme is the Local Government Pension Scheme (Tayside Superannuation Fund) and the two unfunded occupational pension schemes are both Firefighters' Pension Schemes, the old Firefighters' Pension Scheme ("the Old Scheme") and the new Firefighters' Pension Scheme ("the New Scheme"). The Injury Benefits Scheme is a retirement benefit scheme available to all uniformed staff irrespective of pension scheme membership. Injury pensions are payable to personnel forced to retire due to injury incurred while undertaking occupational duties and from 2009/10 have been disclosed separately in the pension scheme liabilities.

IAS 19 Pension Costs

55. All costs associated with IAS 19 Pension Costs have been correctly accounted for and disclosed in the financial statements and associated notes.

Table 2 – Pension liabilities

Estimated pension liabilities	2010/11	2009/10	Movement
Pension Scheme	£'000	£'000	£'000
Local Government	3,673	6,582	(2,909)
Fire (the Old Scheme)	187,605	213,008	(25,403)
Fire (the New Scheme)	3,812	3,307	0,505
Injury Benefits Scheme	3,886	3,307	0,579
Pension liability at 31 March	198,976	226,204	(27,228)
	=====	=====	=====

56. The overall decrease in the schemes' liabilities for the year to 31 March 2011 has arisen due to the change from the retail to consumer price index as a basis for future public pension increases. This has contributed to a significant decrease in the estimated current value of the pension liability.

Fire Pension Account

57. In October 2008 the Scottish Government (SG) and COSLA (Convention of Scottish Local Authorities) agreed to progress the centralising of funding arrangements for Police and Fire pensions. The changes have been phased in over two stages; the first stage "Transition Arrangements" applied to 2009/10 only and the Board complied with these for 2009/10.
58. The second stage, a complete set of new arrangements, involving the introduction of pension accounts came into effect from 1 April 2010. The pension account (within the audited financial statements of the authorities) will determine the future funding of pension contributions and any top up from the Scottish Government. Key aspects of these arrangements are as follows:
- The current funding arrangements in respect of employers liabilities for pensions and commutation lump sums will cease

3. Finance

- Pension funding flows will be separated from fire services income and expenditure and will be managed independently from the main revenue account
- Pension accounts will be set up for each service and an agreed level of budget provision will be transferred at 1 April 2010 from the local government settlement
- Fire pension reserves to be transferred into these ring fenced pension accounts
- “Pooling of risk” will be adopted, surpluses arising in the individual pension accounts at the end of the year will be transferred to the Scottish Government and deficits should they arise will be made good by the Scottish Government
- Introduction of a fixed percentage employer’s contribution reflecting scheme costs and based on an agreed percentage of pensionable pay set as a result of regular actuarial valuation of the schemes

We can confirm that the Board has complied with the second stage arrangements and has complied with the Scottish Government’s Statutory guidance.

59. As part of the above transitional arrangements the Board transferred £0.319 million into the pensions account on 1 April 2010. In addition a grant is paid by the Scottish Government to “top-up” any pension shortfall arising due to its expectations that the costs of pensions being paid from the account are greater than the contributions paid in. As at 31 March 2011 the Scottish Government overpaid £0.352 million in “top-up” grant and this has been charged to the cost of services within the Comprehensive Income and Expenditure (CIES), matched with a creditor in the Balance Sheet to recognise the reduced grant due from the Scottish Government in the forthcoming year.

Pension Commutations

60. In 2010/11 the Board has included a current provision of £0.187 million (2009/10 - £0.190 million) in the accounts for the expected cost of the compensation package for Retained Duty System employees who were treated less favourably in respect of access to pension rights and payment for sickness absence. Agreement to the grievance was reached in 2010/11 and amendments made to the compensation package as part of this agreement have resulted in a small reduction in the amount the Board had provided for in 2009/10. Payments are expected to be made to qualifying members of the Board once the Employment Tribunal working through all the cases have given their permission.

International Financial Reporting Standards (IFRS)

61. We reported in our **Opening IFRS Balance Sheet and 2009/10 Shadow Accounts Templates Review**, Report 2011-02, that the introduction of IFRS for public sector financial reporting is perhaps the biggest challenge that accountants and auditors have had to face in recent years with a series of complex and resource intensive changes in accounting policy required. Full IFRS compliance is required for the 2010/11 accounts.
62. We are pleased to report that the comparative information has been accurately restated and that the 2010/11 financial statements have been prepared in accordance with IFRS.

Remuneration Report

63. The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No. 2011/64) require local authorities and boards in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.
64. The Remuneration Report is included on pages 12 to 16 of the accounts. We have audited the information in the tables within the report and are satisfied that the information has been properly prepared in accordance with the Regulations. We are also satisfied that the other sections of the Remuneration Report are consistent with the financial statements.

3. Finance

Whole of Government Accounts (WGA)

65. The legislative authority for WGA is contained in the Government Resources and Accounts Act 2000, which sets out a formal designation process. The Commencement Order for the publication of the WGA was laid before parliament and 2009/10 was the first year that a full set of WGA accounts was published. Although the Act is not applicable in Scotland, the Scottish Government has agreed to provide the Treasury with equivalent information.
66. The UK Government's aim in respect of WGA is to develop a fully audited set of accounts covering virtually all of the UK public sector. WGA treats Government as if it were a single consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies and harmonising accounting policies. WGA is intended to present a true and fair view of Government activities.
67. The Board submitted their draft WGA return, based on the draft accounts, to the Scottish Government by the due date, 31 July 2011. The Scottish Government noted some data integrity issues with the submission that required resolution.
68. As reported at paragraph 35 the audit adjustments to the draft accounts, including changes to prior years, meant significant additional work to revise the draft WGA return submitted. We carried out an initial review and discussed ways to eliminate the data integrity issues highlighted by the Scottish Government with the Finance Team. This work to update the return has been finalised and we achieved the audit certification deadline of 30 September 2011.

Financial Control Evaluation

69. The financial control environment was considered prior to commencing our year-end audit to identify controls that can be relied upon for the production of figures for the financial statements. We are pleased to report that for the main financial systems the majority of the expected key controls are in place. Minor issues relating to completing, signing and dating all key control account reconciliations were discussed with management at the completion of this work.
70. We issued our action plan from our 2009/10 Follow-up Review of Internal Controls to the Finance team for an update and followed up progress during our year-end audit. The title deeds are all held by Perth & Kinross Council's legal section and a new procedure has been put in place to ensure that an audit trail is kept of any removal from the section. Management have agreed to update the payroll procedures and the procedures manual for any changes and ensure these are made available to the relevant staff.
71. We have also followed up progress with recommendations from our 2009/10 Report to Members and are pleased to report that most recommendations have been implemented or are no longer relevant as follows;
- The Board's Reserves Strategy was updated and submitted to the Board in January 2011 (Recommendation 1)
 - IFRS compliant accounts have been completed (Recommendation 2)
 - WGA return- refer to paragraph 67 above (Recommendation 3)
 - The Internal Audit Plan for 2011/12 was submitted to the June Performance Monitoring Sub- Committee, however the Service Level Agreement (SLA) has not yet been signed and this features in the 2010/11 Action Plan. (Recommendation 4)
 - The Board has agreed not to move to an Annual Governance Statement (Recommendation 5 - refer to paragraph 86)

3. Finance

- Internal audit projects from the 2009/10 Plan were reported to the January 2011 committee. (Recommendation 6 – refer to paragraph 89 to 93 re slippage in the Plans)
- The Board's Investment Strategy was approved at the January 2011 Board. (Recommendation 8– refer to paragraphs 103 to 105)
- A process was put in place to ensure the Rider Shift figures for the SPI are accurate. (Recommendation 9 and 10 – however see paragraphs 109 and 110 re issues in 2010/11)
- A Corporate Risk Register has been developed and is to be reviewed annually and feed into the service planning process. (Recommendation 11 – see further commentary at paragraphs 113 to 116)
- The Board's Scheme of Administration, Standing Orders and Financial Regulations have been updated and a report was submitted and approved at the August 2011 Board meeting (Recommendation 12 – refer to paragraph 84)

72. Outstanding actions or those not fully implemented are as follows;

- Recommendation 4 - The Service Level Agreement (SLA) for internal audit provision has not yet been signed and this features again in the 2010/11 Action Plan.

R1 We recommend that in future the Board and management review these SLAs and all other services provided by the Council to ensure that SLAs are signed and agreed prior to the period covered by the agreement and that the Board receives good value for money from the services provided.

- Recommendation 7 – We have been advised that the Chief Internal Auditor's Annual Statement has been finalised. The draft report was made available for our audit however it was not finalised at that time. The report has still to be submitted and approved by the Board or the Performance Monitoring Sub-committee. We have included a recommendation again in this year's Action Plan at Section 6.

R2 Going forward the Chief Internal Auditor's Annual Report should be finalised and submitted to the Performance Monitoring Sub-Committee prior to the accounts being submitted for audit.

73. In our Annual Plan we reported that a number of financial systems and services are provided to the Board under Service Level Agreements with other Councils within Tayside. For 2010/11 there are current Service Level Agreements (SLAs) in place for the provision of payroll and pensions services, banking and treasury services and for insurance and risk management services.

74. The Board's internal audit arrangements are provided by the internal audit section of Perth & Kinross Council and for the three years from 2007/08 to 2009/10 these services were provided under a SLA. Our 2009/10 Report to Members recommended that going forward the Board should consider the provision of internal audit services for 2010/11 and beyond and should put in place "formal arrangements"; an SLA for the provision of internal audit for 2010/11 and beyond. For 2010/11 an agreed and signed SLA was not in place. The 2011/12 SLA has also been drafted but was not in place prior to 1 April 2011. We have been advised that the SLAs have now been finalised but have still to be signed by both Tayside Fire & Rescue and Perth & Kinross Council. Going forward SLA's for the provision of internal audit services should be in place prior to commencement of the internal audit year.

4. Governance

Best Value

75. In our Annual Plan we reported a consultation on the approach to introducing Best Value audits of Fire and Rescue Services and Authorities was underway and that once feedback from the consultation had been considered by the Accounts Commission, details of any new arrangements would be published.
76. We have been advised that the Best Value reviews will commence in September 2011 and all eight Fire Services will be reviewed. This will be a limited review and will not cover equalities, sustainability or procurement. We believe that there will be a strong focus on managing finances and reserves. It may also look at efficiencies and how the Board ensures that it is getting good value for money.
77. A local audit report is due to go to the Accounts Commission in February 2012 and all of the Fire Service reviews will inform a national overview report due to be published around April 2012.

Board Membership , Meetings and Committees

78. The 18 Councillor Members of the Board are drawn from the three constituent Councils. There were no changes to membership during 2010/11. At a meeting of the Performance Monitoring Sub-Committee it was reported that a new Convener of the Board will be appointed, due to the retiral of the current Convener, a Councillor from Perth & Kinross. This was considered by the Board at the August 2011 meeting and Councillor Robert Band was appointed Convener.
79. The Board met five times during 2010/11 considering and approving **“Towards a Safer Tayside”** consultations, action plan and public performance report, quarterly activity reports, budget setting, expenditure monitoring, reserves strategy, prudential indicators and reports on other matters of relevance to the role and work of the Board. In 2010/11 these other matters have included the Tayside Fire and Rescue’s response to the Scottish Government’s consultation on the future of the fire service in Scotland.
80. The Performance Monitoring Sub-Committee met three times during 2010/11. At these meetings members consider 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 attended the meetings to present the reports and answer questions.
81. 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. Throughout 2010/11 a number of papers were reported to both committees covering the funding challenges being faced by fire and rescue authorities on a local and national level, including details of the Scottish Fire and Rescue Services National Strategy.
82. 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. Governance

Governance Framework

83. 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.
84. The Board's Scheme of Administration, Standing Orders and Financial Regulations were formally fully updated for changes previously reported to the Board and agreed at the August Board meeting.
85. 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 to conduct an annual review, authorities and boards were encouraged to do so voluntarily.
86. The Board originally considered producing an AGS for inclusion in the 2008/09 accounts. To date the Board has produced a Statement on the System of Internal Financial Control (SSIFC), in compliance with the 2010/11 Code. We have been advised that it has been recommended by the Board that the current practice of producing a SSIFC will continue (refer to paragraph 71, Recommendation 5, page 10).

Internal Audit

87. Audit Scotland's Code directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. In accordance with ISA 610 – Considering the Work of Internal Audit, we have reviewed the framework for the provision of internal audit services. Our review included consideration of compliance with CIPFA's 2006 Code of Practice for Internal Audit in Local Government in the United Kingdom.
88. For 2010/11 we agreed that we will not place reliance on the work of internal audit and this was reported in our Annual Plan. To allow the internal audit section to continue to embed their current review of working practices and to continue to implement improvements we reported that we would test the operation of the Board's key controls in all the main financial systems or carry out substantive testing as part of our year-end audit.
89. Due to the continued absence of some members of staff, re-scheduling of work was reported to the January 2011 Performance Monitoring Sub-Committee meeting. It was agreed to remove three of the outstanding projects from the 2009/10 plan and carry forward one project; Partnership Working, into the 2010/11 plan. In addition the internal audit plan for 2010/11 was presented and approved at this meeting. It covers the four month period December 2010 to March 2011 and includes three reviews, including the one brought forward from 2009/10. This reduced plan was agreed to allow internal audit time to catch up and to ensure subsequent plans to be presented to the Sub-Committee cover complete financial years.
90. Internal audit's role is to "perform an independent assurance function within the Board" and "to provide an opinion on the effectiveness of the controls put in place by management in order to ensure that the Board achieves its objectives." Internal Audit is a key part of the process by which the Board manages the risks that threaten the achievement of its objectives. Should internal audit not fulfil their agreed audit plan their role is at risk and the Board will be operating without an effective independent assurance function.
91. Some improvement has been made in the provision of internal audit services since January 2011. Additional resource was brought in and all three reviews from the 2010/11 internal audit plan have recently been completed and reported to the Performance Monitoring Sub-Committee.

4. Governance

92. In addition all remaining outstanding 2009/10 internal audit reviews have now been completed. Only one outstanding internal audit assignment has still to be reported, the 2008/09 internal audit assignment; Assets and Inventories.
93. The 2011/12 plan was approved at the June 2011 Performance Monitoring Sub-Committee. To date none of the reviews have been started/or reports drafted. We have been advised that the work on these assignments will start next month. The findings of these reviews should be finalised earlier so that they can feed into the Chief Internal Auditor's Annual Report and need to be reported prior to the draft accounts being submitted for audit.
- R3 The internal audit reviews for 2011/12 should be completed earlier within the internal audit year so that the findings can feed into the Chief Internal Auditor's Annual Report.**
94. In our 2009/10 Annual Report we noted that the Board had paid in full for their 2009/10 internal audit services, although only one assignment was formally reported by the end of June 2010 from an agreed plan of seven assignments. For 2010/11 the internal audit plan covers a four month period, December to March. The internal audit fee reported in the accounts for 2010/11 for a four month internal audit plan and paid by the Board was £15,000; the same as for a full year internal audit plan. The Board should consider whether fees paid for internal audit services reflect Best Value. Refer to Recommendation 1, page 11.
95. In 2009/10 we recommended that the Chief Internal Auditor should produce an annual statement of assurance as required by the SLA to feed into the SSIFC. We were informed that this would be provided to the next Performance & Monitoring Sub-Committee (November 2010) and that for future years there would be an annual statement of assurance provided by May in time to feed into the SSIFC.
96. The annual statement of assurance for 2009/10 was provided to the next meeting of the Performance Monitoring Sub-Committee on 29 November 2010. The final 2010/11 annual statement of assurance was not available for May 2011 or reported to the 27 June 2011 meeting of the Performance Monitoring Sub-Committee. As at 24 June 2011 the Chief Internal Auditor informed us that a draft copy of the report containing the annual opinion had been forwarded to the Finance Manager to feed into the SSIFC and that the annual statement of assurance for 2010/11 was in the process of finalisation. As reported in paragraph 72 we have been advised that this report has now been finalised and will be submitted to the November Performance Monitoring Sub-Committee.
97. Going forward the annual statement of assurance should feed into the SSIFC before the draft accounts are submitted for audit and be reported to the June meetings of the Performance Monitoring Sub-Committee. Refer to Recommendation 2, page 11.

Prevention and Detection of Fraud

98. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
99. At a corporate level, the Board has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members and staff. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
100. We are required to have arrangements in place to be notified of all frauds over £5,000 and submit reports to Audit Scotland. No frauds were notified during 2010/11.

4. Governance

National Fraud Initiative

101. During 2010/11 we continued to monitor the Board's participation in the National Fraud Initiative (NFI) 2010/11. 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, including occupational pension fraud and payroll fraud.
102. Work to investigate the data matches uploaded to the NFI secure website in January 2011 is ongoing and a number of matches have been investigated and the outcomes recorded on the NFI web application. In common with the previous four years of our current audit appointment no fraud or error has been identified to date in 2010/11. Responsibility for investigating the remaining open matches is clearly defined and work will continue until all matches are fully investigated and closed off. We will continue to monitor the steps taken by the Board as the 2010/11 NFI exercise develops and will submit a report to Audit Scotland later this year summarising the arrangements in place.

Treasury Management

103. The Local Government Investments (Scotland) Regulations 2010 were approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. The Regulations permit local authorities and boards to make investments subject to them obtaining the consent of Scottish Ministers. Finance Circular 5/2010, issued by the Scottish Government on 1 April 2010, provides the general consent of Scottish Ministers and sets out the requirements attached to the consent:
- requires authorities and Boards to invest in a way that minimises the risk to the capital sum and optimises the return on the investment consistent with those risks.
 - authorities are required to prepare an Annual Investment Strategy (the Strategy) before the start of the financial year and an Annual Investment Report (the Report) within six months of the financial year end. It also specifies the minimum requirements for these two documents and that there should also be a mid-year review.
 - in the event that an authority makes an investment which is not listed as a permitted investment in their annual Investment Strategy, that investment will not be made in accordance with the Consent and as such will be *ultra vires*.
 - under the Local Government (Scotland) Act 1973, an authority is permitted to delegate functions to committees, with the exception of setting the council tax and borrowing money. The Investment Regulations extend these exemptions to include the approval of the Strategy and Report.
104. The Board currently has an SLA with Perth & Kinross Council for Treasury Management and only invests with Perth and Kinross Council. The Board reported their Investment Strategy for 2010/11 to the November 2010 Board meeting and proposed that future Investment Strategies would be included with the Board's annual budget proposals and that mid-year and end of year performance reports would be incorporated into budget monitoring reports.
105. Investment and treasury strategies for 2011/12 were reported to the January 2011 Board meeting, together with prudential indicators for 2011/12 – 2013/14. In addition the January 2011 Board revenue monitoring report also provided a performance report on the 2010/11 Investment Strategy. Updates on performance and compliance with the Investment Strategy are to be provided in all future revenue reports and the end of year performance report is to be provided within six months of the end of the financial year. We are pleased to report that the Board's Investment Strategy and performance reports to date now meet the requirements as described in the Investment Regulations.

5. Performance

Arrangements for Performance Management

106. 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 monitored through the Service Delivery and Service Support fora.
107. The annual public performance report "*Towards a Safer Tayside 2010-11*" is published and available on the Board's website www.taysidefire.gov.uk. The Chief Fire Officer submitted this report to the May 2011 Board meeting.
108. The prescribed Statutory Performance Indicators (SPIs) contained in the Accounts Commission's 2008 Direction were submitted to Audit Scotland by the 31 August 2011 deadline. We concluded that in general the arrangements in place for the collation and checking of data for these specified indicators were adequate. Given the errors identified during our 2009/10 audit, our audit focus was on the calculation of the Sickness Absence indicators. New checking procedures were introduced for 2010/11 and these processes have resolved the previous issues with source information. We have obtained evidence to support the figures included in the SPI return.
109. However our review of the public performance reporting of the performance data collected identified a significant error in the Sickness Absence data reported in the annual public performance report "*Towards a Safer Tayside 2010-11*". While the underlying source data agrees with the figures included in the SPI return the end calculation is incorrect. This has been discussed with the Station Manager and arrangements will be put in place to ensure that an addendum to the annual public performance report is made available online showing the correct figures. This will ensure that the Board complies with the statutory requirement to accurately report all SPI information, including the information required to demonstrate delivery of Best Value against the headings set out under SPI 3 in the 2008 Direction, by 30 September 2011.
- R4: The figures for 'Rider shifts lost due to sickness absence', 'Rider shifts lost due to light duties' and 'Absence for all other staff directly employed' should be amended, to comply with SPI guidance, in an addendum to the annual performance report 2010/11 published online.**
110. Our comparison of the SPI figures against the equivalent figures in the annual public performance report for Accidental Dwelling Fires highlighted a minor difference in the reported figures. On examination this difference has come about because a different population estimate figure has been used in the calculation of each figure. In future we recommend that the population estimate figure stipulated by Audit Scotland is used in the calculations for both documents in order to achieve consistency.
- R5: In future the population estimate figure used in the calculation of performance indicators should be consistent with the population estimate figure stipulated each year by Audit Scotland for use in the calculation of Fire Casualties, Accidental Dwelling Fires and Sickness Absence SPIs.**

5. Performance

Arrangements for Achieving Continuous Improvement

111. At the Board meeting on 23 August 2010 Tayside Fire and Rescue committed to implementing the Public Service Improvement Framework (PSIF). PSIF is a self-assessment framework which encourages organisations to conduct a comprehensive review of their own activities and results. In 2009/10 we reported that the Board aimed to systematically roll-out a programme of self-assessments across the organisation through a programme of training, awareness raising and support from the PSIF Implementation Team and that this would commence with the training of six members of staff to become qualified assessors. We also noted that it is the Board's intention that the PSIF will include Board members within the self-assessment framework.
112. In 2010/11 six members of Tayside Fire & Rescue have been trained to accredited assessor level and a strategy for assessment on a continuous cycle has been put together, together with an awareness raising programme. Shadowing opportunities and shared learning events with other PSIF organisations have also been used to improve knowledge. Following a pilot assessment in 2010 a structure was developed and agreed to allow all departments within Tayside Fire & Rescue to participate in the self-assessment schedule on an annual, rolling basis. In 2011 we have been informed that two assessments have been completed and a further eleven are planned over the coming nine months. Going forward agreed plans are to be assessed and refined to ensure they remain effective.

Risk Management

113. In our Annual Plan we reported that a Risk Management Strategy was developed by the Board as part of the Corporate Governance arrangements and that this was tabled at the March 2010 Management Team meeting.
114. We also reported as at 1 February 2011 the Board had still to commence the process of capturing Strategic Organisational risks and that a template had been developed for the capture of information and also that a workshop session to commence this process had been facilitated. Thereafter it was proposed that all Head of Departments would be circulated for their input. Once the Strategic Organisational risks were identified it was proposed that these would be monitored as part of the Board's governance procedures. We were informed that completion of this would take a few months.
115. We have now been informed that a Corporate Risk register has been developed and that processes will be put in place for an annual review by the Tayside Fire and Rescue Management Team, once the risk register has been populated. For risk management to work effectively it needs to be embedded within the organisation complementing the service planning process. It would seem that management has made some progress in this area.
116. Risk Management, as part of the Board's Corporate Governance arrangements, is currently being embedded into the organisation. We have been informed that the Board is aware of the importance of managing risk information and the risks associated with not getting the process right and arrangements are being made to meet and agree a suitable way forward.

Strategic Planning

117. 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 internal Fire and Rescue meetings on a quarterly basis. Annual plans are developed based on the Board's overall strategies. These are subject to wide consultation. The Action Plan 2010-11 is on the Board's website.

5. Performance

118. 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.
119. 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 will require to use their knowledge to decide which projects should be progressed.
120. In addition Tayside Fire and Rescue are key partners with all three councils in the Tayside area and have some responsibility for delivering agreed outcomes within their Single Outcome Agreements (SOAs). In January 2011, as statutory partners of the SOA for Perth & Kinross the Board agreed enhanced governance arrangements for the Perth & Kinross Community Planning Partnership (CPP). These enhanced governance arrangements aim to provide clear lines of accountability and to ensure the CPP framework is robust and appropriate for the effective delivery of the SOA.

Fire Consultation

121. A consultation process regarding the future structure of the fire and rescue services in Scotland is underway. It commenced on 10 February 2011 and was open until 5 May 2011. Tayside Fire and Rescue's response was approved by the Board for submission on 28 March 2011.
122. The pressing challenges facing Fire & Rescue Services, requiring constructive reform of the service are noted in the Explanatory Foreword to the Board's accounts. Currently it is not known how this reform will affect Tayside Fire & Rescue Service.

Audit Scotland National Studies

123. As noted in our 2010/11 Annual Plan, Audit Scotland undertakes a number of centrally directed performance audits each year. The Code of Audit Practice directs us to participate in these at a local level, if required. Audit Scotland planning guidance directs us to provide core information on how the Board has responded to national reports, with the nature and level of information required varying across different studies and different bodies. To promote impact at a local level, one or two national performance audit reports were subject to a more targeted follow-up and for 2010/11 *Improving public sector purchasing* (published in July 2009) was selected for follow-up.

Improving Public Sector Purchasing

124. The national report *Improving Public Sector Purchasing* was published in July 2009. The report found 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.
125. 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. Performance

126. 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.
127. Our Report **Improving Public Sector Purchasing Follow-up Report**, Report 2011-03, issued on 14 July 2011, assessed how well the Board is doing to ensure that they can demonstrate value for money when purchasing goods and services by assessing responses to three key questions designed by Audit Scotland. The key findings from this report were:
- the Board's overall compliance score for the Procurement Capability Assessment (PCA) rose from 23% in 2009 to 34% in 2010 and the overall procurement status for the organisation moved from "developing" to "conformance."
 - in agreeing the budget for 2011/12, the Board did not set any specific savings targets for procurement. As a high proportion of Tayside Fire & Rescue costs relate to people, procurement has been identified as an area for future consideration and this was noted in Board's Scotland's Public Finances return, submitted on 17 January 2011.
 - the current purchase ordering system designates budget holders who can place orders. Orders that exceed the tender minimum requirements can only be approved by the budget holder or line manager. Specific delegation limits for ordering and approval have still to be established. We have been informed that development of the use of Tayside Fire and Rescue Board's MAXIMO system should address this.
 - the Board's Standing Orders relating to Contracts were last updated in August 2004. The Board is currently progressing the updating of Standing Orders, Scheme of Administration and Financial Regulations (refer Recommendation 12, Section 7)
 - internal audit have not reviewed purchasing activity in all areas of significant spending on goods and services in the last two years.
 - the Board actively pursues collaborative procurement both with other Forces and with other public bodies. Tayside Fire & Rescue work in partnership as part of a group called TOPIC (Tayside Opportunities for Procurement in Collaboration) which focuses on identifying opportunities for collaborative procurement.
- R6 Specific delegation limits for ordering and approval should be progressed with the development of the Board's Maximo system.**
- R7 Internal audit should consider including in their internal audit plan every two years reviews of purchasing activity in all areas of significant spending.**
128. The PCA process has provided a method of documenting progress and identifying areas of improvement. With the appointment of a Procurement Manager in 2009, the development of a Procurement Strategy for 2009/2012, the development of an updated Procurement Strategy and the continuing development of a robust purchasing system as a result, the Brigade has shown a commitment to improving its purchasing processes.



6. Action Plan

Page & Para Ref	Observation and Risk	Recommendation	Management Response	
Page 11, Para 72	Our 2009/10 Report to Members recommended that going forward the Board should consider the provision of internal audit services for 2010/11 and beyond and should put in place "formal arrangements," a SLA for the provision of internal audit for 2010/11 and beyond. For 2010/11 the SLA was not in place although we have been advised that it has been drafted. The 2011/12 SLA has also been drafted but was not in place prior to 1 April 2011. As at 11 July the new SLA covering both years has still to be finalised and signed by both Tayside Fire & Rescue and Perth & Kinross Council.	R1 We recommend that in future the Board and management review these SLAs and all other services provided by the Council to ensure that SLAs are signed and agreed prior to the period covered by the agreement and that the Board receives good value for money from the services provided.	<p>To be actioned by: Chief Internal Auditor and the Head of Corporate Services</p> <p>No later than: 31 March 2012</p>	
			Grade	A
Page 11, Para 72	We have been advised that the Chief Internal Auditor's Annual Statement has now been finalised. The draft was made available for our audit. However the report has not yet been submitted and approved by the Board or the Performance Monitoring Sub-committee.	R2 Going Forward the Chief Internal Auditor's Annual Report should be drafted and submitted to the Performance Monitoring Sub-Committee prior to the accounts being submitted for audit.	<p>To be actioned by: Chief Internal Auditor</p> <p>No later than: 31 May 2012</p>	
			Grade	B
Page 12, Para 93	The 2011/12 plan was approved at the June 2011 Performance Monitoring Sub-Committee. To date none of the reviews have been started/or reports drafted. We have been advised that the work is due to start next month. The findings of these reviews should feed into the CIA's Annual Report and need to be completed prior to the draft accounts being submitted for audit.	R3 The internal audit reviews for 2011/12 should be completed earlier within the year so that the findings can feed into the Chief Internal Auditor's Annual Report.	<p>To be actioned by: Chief Internal Auditor</p> <p>No later than: 31 March 2012</p>	
			Grade	B



6. Action Plan

Page & Para Ref	Observation and Risk	Recommendation	Management Response	
Page 16, Para 109	<p>Our review of the public performance reporting of the performance data collected identified a significant error in the Sickness Absence data reported in the annual public performance report “Towards a Safer Tayside 2010-11”. While the underlying source data agrees with the figures included in the SPI return the end calculation is incorrect. This has been discussed with the Station Manager and arrangements will be put in place to ensure that an addendum to the annual public performance report is made available online showing the correct figures.</p>	<p>R4 The figures for ‘Rider shifts lost due to sickness absence’, ‘Rider shifts lost due to light duties’ and ‘Absence for all other staff directly employed’ should be amended, to comply with SPI guidance, in an addendum to the annual performance report 2010/11 published online.</p>	<p>To be actioned by: Head of Risk Management</p> <p>No later than: 31 December 2011</p>	
			Grade	B
Page 16, Para 110	<p>Our comparison of the SPI figures against the equivalent figures in the annual public performance report for Accidental Dwelling Fires highlighted a minor difference in the reported figures. On examination this difference has come about because a different population estimate figure has been used in the calculation of each figure. In future we recommend that the population estimate figure stipulated by Audit Scotland is used in the calculations for both documents in order to achieve consistency.</p>	<p>R5 In future the population estimate figure used in the calculation of performance indicators should be consistent with the population estimate figure stipulated each year by Audit Scotland for use in the calculation of Fire Casualties, Accidental Dwelling Fires and Sickness Absence SPIs.</p>	<p>To be actioned by: Head of Risk Management</p> <p>No later than: 31 December 2011</p>	
			Grade	B



6. Action Plan

Page & Para Ref	Observation and Risk	Recommendation	Management Response	
Page 19, para 127	<p>Work carried out for our Improving Public Sector Purchasing Follow-up report noted that although the Purchase ordering system has designated budget holders who can place orders, delegation limits for ordering and approval by General ledger codes / value / individual have still to be established. Without a clear system of delegation and authority there is a risk that inappropriate orders may be placed by individuals who do not have the authority to make a purchase.</p>	<p>R6 Specific delegation limits for ordering and approval should be progressed with the development of the Board's Maximo system.</p>	<p>This is part of the overall implementation and will be considered as part of this implementation.</p> <p>To be actioned by: Head of Corporate Services</p> <p>No later than: 31 March 2012</p>	
Page 19, para 127	<p>The Audit Scotland's Purchasing Checklist for the Improving Public Sector Purchasing Follow-up asked if internal audit had completed work in the last two years to scrutinise purchasing activity in all areas of significant spending.</p> <p>One Creditors / Purchasing internal audit assignment has been completed in the last two years; from a review of the assignment report a review of purchasing activity in all areas of significant spending on goods and services has not been carried out. No internal audit assignment proposed for inclusion in the 2011/12 internal audit plan.</p> <p>Outwith payroll expenditure, purchasing activity is a major area of Board expenditure, both capital and revenue. There is a risk that a significant area of expenditure, including delegation and authority that is not considered on a regular basis for audit.</p>	<p>R7 Internal audit should consider including in their internal audit plan every two years reviews of purchasing activity in all areas of significant spending.</p>	<p>To be actioned by: Chief Internal Auditor</p> <p>No later than: 31 December 2011</p>	
			Grade	B
			Grade	B



6. Action Plan

The priority ranking helps management assess the significance of the issues raised and prioritise the action required to address them. The ranking structure is summarised as follows:

Ranking	Definition
A	Fundamental issues which require the urgent consideration of senior management
B	Significant matters which require the attention of line management
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale



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.

That 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 17 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the financial statements and to report that opinion to you.

We are required to review whether Tayside Fire and Rescue Board's Statement on the System of Internal Financial Control reflects the Board's compliance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, 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

ISA 260 Reporting to those charged with Governance

Area	Key Messages
Nature and scope of audit	We have planned our audit in accordance with International Auditing Standards and the Code of Audit Practice. Information on our audit appointment and details of the engagement partner and audit staff were outlined in our Annual Plan.
Integrity and objectivity of the audit engagement partner and audit staff-	As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy or non audit services to Tayside Fire and Rescue Board during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.
Accounting policies and practices	<p>In our opinion there are no issues that require to be brought to your attention regarding the appropriateness of the Board's accounting policies and practices.</p> <p>On 25 August, we were advised by Audit Scotland that in 2010/11, the actuaries changed the basis on which they calculate the liability associated with injury benefits. This represents a change in accounting policy, which requires a prior year adjustment. The accounts were revised to reflect this.</p>
Material Risk and exposure	<p>Our Annual Plan considered the financial and business risks facing the Board that we assessed might impact on the Board's accounts.</p> <p>We have included some minor weaknesses and issues identified during the audit in the action plan at section 6. We have also continued to follow-up the outstanding recommendations from our earlier years' reports. All outstanding actions that are still relevant have been included in the action plan at section 6. Progress has been made and a number of recommendations from earlier years' reports. We took cognisance of this progress during our audit.</p> <p>There are no other issues relating to these risk areas that require to be brought to your attention.</p> <p>The Board has confirmed that it has no material risks and exposures which should be reflected in the Financial Statements and the Treasurer has confirmed this in the Letter of Representation.</p>



Appendix II ISA 260 Reporting to those charged with Governance

Audit Adjustments	<p>There were four material adjustments to the draft accounts figures relating to the pensions costs and the new pensions account identified during the course of our audit. Management agreed to adjust the figures in the accounts for these. The impact of these adjustments was to change a number of figures within the MIRS and the CIES including the surplus on the provision of services. There was however no impact on the total amount reported on the Comprehensive Income and Expenditure Statement for 2010/11 as the adjustments to the expenditure, income, gains and losses reported in the CIES had compensating adjustments to the Other CIES and adjustments between accounting basis and funding basis included in the MIRS. As the income and expenditure adjustments related to entries which are then cancelled in the movements on the MIRS there was no impact on the total General Fund balance which remained at £0.032 million increase on the General Fund balance brought forward for the year.</p> <p>Prior year adjustments were made in respect of the change in accounting policy for injury benefits and a prior year adjustment note was added to the accounts for the change in the liability associated with injury benefits. These adjustments did not change the General Fund balance.</p> <p>Other adjustments were made on the face of the Balance Sheet and in the relevant notes to include the bank overdraft and overnight borrowing from Perth & Kinross Council in the cash and cash equivalents figures.</p> <p>The in year pension contributions figures for senior employees of the Board included in the Remuneration Report in the accounts for the year to 31 March 2011 were adjusted as they included the employees' contributions in error.</p> <p>Other presentational amendments were made to the accounts to ensure factual accuracy and full compliance with the Code.</p> <p>Further details are included at Appendix III. Definitions of material, significant and trivial are provided at Appendix IV.</p>
Unadjusted Misstatements	There were no further unadjusted misstatements (other than those which are trivial).



Appendix II

ISA 260 Reporting to those charged with Governance

Material Uncertainties	<p>There are no material uncertainties related to events and conditions that cast significant doubt on the Board's ability to continue as a going concern.</p> <p>The Board's Balance Sheet at 31 March 2011 has an excess of liabilities over assets of £169.881 million (31/03/10 £198.654 million) due to the accrual of pension liabilities in accordance with Financial Reporting Standard 17 (IAS 19/FRS 17) Retirement Benefits. The Board has adopted a 'going concern' basis for the preparation of the financial statements as constituent authorities of the Board are required to meet all liabilities of the Board as they fall due.</p> <p>The Board has confirmed its ability to continue as a going concern in the Letter of Representation and we agree with the basis of preparation of the accounts.</p>
Fundamental Disagreements	<p>There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the financial statements and our audit report.</p>
Modifications to our audit report	<p>There are no modifications to our audit report.</p>
Material Weaknesses	<p>No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. Some opportunities to improve internal control are included at Section 6.</p>
Other matters relevant to the audit	<p>There are no other matters specifically required by other auditing standards which need to be communicated. However there are significant accounting issues in relation to the pension costs and pension account entries that gave rise to considerable changes to the accounts which will also impact on the adjustments required for the Whole of Government Accounts (WGA) return. There are also some governance issues with the provision of Internal Audit services and performance reporting issues which have been discussed in other sections of this report.</p>



Appendix III

Audit Adjustments

Material audit adjustments

1. Overstatement of current service costs on Fire Fighters Pensions Schemes

The current service costs for the Fire Fighters Pension Schemes were overstated by £1.413 million for 2010/11 as the Actuary's figures for the estimated contributions had been incorrectly included. This necessitated a change in the pension costs allocations to all of the figures for the three main areas of business above the Net Cost of Services figures in the CIES and the employee costs included in note 8 to the accounts.

2&3 Calculation of the other unrealised Gain/Loss on pensions arising from the difference between the amounts paid through the Board's ledger and the Actuary's estimated figures

An incorrect figure was picked up from the ledger for the removal of actual pension costs incurred of £0.227 million. The correct figure was a credit of £0.267 million giving rise to an adjustment of £0.494 million.

The wrong figures had also been picked up both from the ledger and the actuary's reports for the employer's contributions and benefits paid and estimated. The total adjustment arising from the amended figures was to turn the reported 'other gains' of £4.171 million into a loss of £0.004 million.

4 New Accounting requirements for the Fire Fighters Pension Costs.

The new requirements relating to the pension account had not been fully adhered to and the costs had been netted off the grants/contributions received in the ledger. These figures were not in the CIES within the draft accounts received for audit. However the CODE requires that the all costs and grant and income are included in the CIES gross. A line has been introduced in the CIES to show both the costs and the income above the line for Net Cost of Services. These net off to nil and therefore have no impact on the balances carried forward in the General Fund.

Prior Year Adjustment

1. Change in accounting policy for Injury Benefits

We were advised by Audit Scotland on 25 August that the actuary had changed the way they account for injury benefits. Prior to 2010/11, calculation of the liability was based on benefits currently in payment. In 2010/11 the calculation was changed to include an estimate of active members who may be paid injury benefits in the future. A change in measurement basis is a change in accounting policy, which must be applied retrospectively. The Actuary provided a revised report that included the changes to the prior years' liability at 31 March 2009 and 2010 and the associated costs for 2009/10 and 2010/11. This amended report was used to put through the prior year adjustments. There was no impact on the General Fund balance at 31 March 2011 for these adjustments.



Appendix III Audit Adjustments

Other adjustments

1. In the draft accounts the bank overdraft figures for each of the three years was shown on the face of the Balance Sheet and a loan facilitating overnight borrowing from Perth & Kinross Council of £70,300 at 31 March 2011 was included in Short Term Borrowing. Following discussion with management it was agreed that these should be shown on the Balance Sheet as Cash and Cash equivalents and the relevant notes updated.
2. In the table 'Pension Contributions and Entitlements of Senior Employees of the Board' within Remuneration Report in draft accounts the in year pension contributions figures for senior employees of the Board included both employers and employees contributions for the year to 31 March 2011. This has now been amended to only include the employers' contributions.
3. Additional information was also added to this report to provide details of the full time equivalent salary for the posts where there had been changes in the officers holding the posts in the two years to 31 March 2011.
4. There was no note detailing the new pension account transactions included in the draft accounts as required. A note has now been included in the audited accounts.
5. Other presentational amendments were made to the accounts to ensure factual accuracy and full compliance with the Code.



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.



Appendix V Acronyms

AGS	Annual Governance Statement	RTM	Report to Members
APB	Accounting Practices Board	SLA	Service Level Agreement
ARP	Aerial Rescue Pumps	SFRAU	Scottish Fire and Rescue Advisory Unit
CIES	Comprehensive Income and Expenditure Statement	SG	Scottish Government
CIPFA	Chartered Institute of Public Finance Accountants	SOLACE	Society of Local Authority Chief Executives
CFO / CFOA	Chief Fire Officer / Chief Fire Officer's Association	SOA	Single Outcome Agreement
CODE	Code of Practice on Local Authority Accounting	SORP	Statement of Recommended Practice
COSLA	Convention of Scottish Local Authorities	SPI	Statutory Performance Indicator
CPP	Community Planning Partnership	SSIFC	Statement on the System of Internal Financial Control
FCE	Financial Control Evaluation	STRGL	Statement of Total Recognised Gains and Losses
FRS	Financial Reporting Standards	WGA	Whole of Government Accounts
GAAP	Generally Accepted Accounting Principles	UK	United Kingdom
GAE	Grant-Aided Expenditure		
IAS	International Accounting Standards		
IFRS	International Financial Reporting Standards		
ISA	International Standard on Auditing		
LGPS	Local Government Pension Scheme		
MIRS	Movement in Reserves Statement		
NFI	National Fraud Initiative		
PCA	Procurement Capability Assessment		
PSIF	Public Service Improvement Framework		