

# Tayside Fire and Rescue Board

## Annual report on the 2012/13 audit



Prepared for Members of Perth & Kinross Council and the Controller of Audit for Scotland  
September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key Messages

We have given an unqualified opinion that the financial statements of Tayside Fire and Rescue Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The Police and Fire Reform (Scotland) Act 2012 wound up Tayside Fire and Rescue Board on 31 March 2013 and transferred the Board's functions to the Scottish Fire and Rescue Service. The Board therefore ceased to exist as a separate legal entity at midnight on 31 March 2013 and all assets, liabilities, interests and obligations transferred to the Scottish Fire and Rescue Service (classified as a machinery of government change).

The Board's Balance Sheet at 31 March 2013 had an excess of liabilities over assets largely due to pension commitments. However we are satisfied that the process which the Board has undertaken to consider the organisation's ability to continue as a going concern is reasonable as the Scottish Government has a legal obligation to provide the service with the funding it needs in the future to meet all pension liabilities as and when they fall due.

An annual report giving the Chief Internal Auditor's overall opinion on the systems of internal financial control was not considered by those charged with governance. Our review of the key financial systems used by the Board found that overall a satisfactory level of control was in place which enabled us to take assurance for our audit opinion.

On the basis of the audit testing undertaken, there were no issues of concern in relation to the operation of the Board's corporate governance arrangements.

An overview report on *Best Value in fire and rescue services in Scotland* was issued in July 2012 by the Accounts Commission. It focused on the opportunities and challenges facing fire and rescue in moving towards the new Scottish Fire and Rescue Service (SFRS), which came into operation on 1 April 2013. The new service will be subject to scrutiny by Her Majesty's Fire Service Inspectorate in Scotland (HMFSI) and the Auditor General for Scotland. Audit Scotland is working with HMFSI on an early inspection of this service.

# Introduction

1. The Police and Fire Reform (Scotland) Act 2012 wound up Tayside Fire and Rescue Board on 31 March 2013 and transferred the Board's functions to the new Scottish Fire and Rescue Service (SFRS). Residual accounting and reporting obligations were transferred to Perth & Kinross Council which had previously been the lead authority for financial advice and support to the outgoing board.
2. This report is the summary of our findings arising from the 2012/13 audit of Tayside Fire and Rescue Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
3. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by Perth & Kinross Council's Audit Committee.

## Acknowledgements

5. We would like to express our thanks to the staff of the Board for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Financial statements

## Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on 25 March, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and remains unchanged.

## Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of Tayside Fire and Rescue Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 25 September 2013.
9. We received the unaudited financial statements on 25 June 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team to enable us to complete our on-site fieldwork by early July. The Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings

10. During the course of the audit we identified a few issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

## Going concern

11. The Board's balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £207.9 million due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The Explanatory Foreword by the Treasurer to the Board and Note 3 to the accounts confirms that the Board has adopted a 'going concern' basis for the preparation of the financial statements as the Scottish Government, under the Police and Fire Reform (Scotland) Act 2012, has a legal obligation to provide the service with the funding it needs in the future to meet all pension liabilities as and when they fall due.

12. The accounts detail the Police and Fire Reform (Scotland) Act 2012 as an event taking place after the balance sheet date whereby all existing Fire and Rescue Joint Boards in Scotland ceased to exist as separate legal entities at midnight on 31 March 2013 and all assets, liabilities, interests and obligations transferred to the SFRS. Note 5 to the accounts highlights that it is still appropriate to adopt a going concern basis for the preparation of the Board's financial statements as the changes being implemented are a transfer from one public body to another, which is classified as a machinery of government change.
13. We are satisfied, therefore, that the process which the Board has undertaken to consider the organisation's ability to continue as a going concern and the conclusion reached is reasonable.

### Statement on the system of internal financial control

14. The Board included a statement on the system of internal financial control (SSIFC) within the audited financial statements in line with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The SSIFC reported that no material weaknesses had been identified during the course of the year. Assurances for this should include the annual assessment and year end opinion from internal audit. The Chief Internal Audit's opinion has not been formally reported in an annual assessment but it is detailed in the SSIFC that *"on the basis of a review of policies and procedures in place and the work completed during 2012/13, including a review of the Board's implementation of agreed actions from previous years' audits, reasonable reliance can be placed on the Board's system of overall internal financial control"*.

### Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant officers and Board members.
16. The exit packages disclosed in the Remuneration Report relate to severance agreements reached with ten individuals. A voluntary severance scheme had been agreed which identified nine posts surplus to the requirements of the Scottish Fire and Rescue Service (SFRS) when it took over its full range of powers on 1 April 2013. The Scottish Government funded the costs (£0.348 million) associated with redundancy and additional cost of paying pensions early for these posts. The other voluntary severance agreement related to efficiencies identified by the Board during the year. The £0.672 million expenditure detailed in the remuneration report relates to the costs of these ten exit packages evaluated on an actuarial basis in accordance with International Accounting Standard 19 (Employee Benefits).

### Legality

17. Through our planned audit work we consider the legality of the Board's financial transactions. The Head of Finance has confirmed that, to the best of his knowledge and belief, and having

made appropriate enquiries that the financial transactions of the Board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.



# Financial position

## Financial Results

18. The Board's net expenditure before receipt of requisitions in 2012/13 was £23.513 million compared to the net budgeted expenditure of £23.584 million giving a net underspend of £0.071 million. In the Explanatory Foreword, the Head of Finance outlines the key variances against budgeted expenditure including:
- additional income to reimburse salary costs for employees seconded to assist with the national fire reform
  - voluntary severance costs of £0.348 million funded through the Scottish Government's scheme
  - additional spend to purchase or maintain equipment to ensure there was no negative impact on operational activities.
19. The net expenditure differs from the Net Cost of Services in the Comprehensive Income and Expenditure Statement of £22.872 million by £0.641 million. This is because reports prepared for the Board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements, for example, capital investment is accounted for as it is financed, rather than when the assets are consumed and retirement benefits are based on cash flows rather than the current service costs of benefits accrued in the year. Note 7 to the accounts reconciles the figures in the budget performance report to the figures in the Comprehensive Income and Expenditure Statement.
20. Capital expenditure in 2012/13 totalled £1.649 million financed by capital grants of £1.354 million, disposal proceeds of £0.041 million with the balance of £0.254 million being funded from revenue.

## Financial position

21. In 2012/13, the usable reserve balance was adjusted to nil in the accounts to reflect the agreement for the repayment of the £0.6 million uncommitted reserves to the constituent councils.
22. The Board's balance sheet at 31 March 2013 had net liabilities of £207.9 million due largely to the requirements of IAS 19 (Employee Benefits) which requires the full pension obligations to be recognised in the year they are earned. The pension liabilities of the Board at 31 March 2013 were £230.9 million. In addition to the pension liability there was a £4.2 million liability for the IAS 19 adjustments for injury benefits. These technical accounting requirements have no impact on the underlying basis for meeting current and on-going pension/injury benefit liabilities which will be met, as they fall due, by the SFRS from 1 April 2013.
23. As at 31 March 2013 the Board had significant cash & cash equivalent balances. These balances had been accumulated to allow the Board to pay its short term borrowing prior to

transfer of functions to SFRS. However the repayment of borrowing was subsequently not required prior to 31 March 2013. This resulted in the Board having a significant level of short term borrowing (£8.8 million) and cash & cash equivalents (£5.5 million) as at 31 March 2013.

# Corporate governance and systems of internal control

## Overall governance arrangements

24. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Board had sound governance arrangements in place.

## Accounting and internal control systems

25. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
26. No material weaknesses in the accounting and internal control systems were identified during the audit which could 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 financial statements.
27. Internal audit is an important element of the Board's governance structure. Our review established that the work of internal audit is satisfactory. Our Annual Audit Plan indicated that we intended to place formal reliance on internal audit's review of payroll for our assurances for the financial statements. However due to the timing of internal audit's work we were unable to place reliance on internal audit. To obtain the necessary assurances for the financial statements unplanned audit testing had to be undertaken in this area.

## NFI in Scotland

28. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in January 2013 but is not due to report until May 2014.
29. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate. With regard to the Board there were a number of matches identified. All the Board matches have been investigated and cleared with no fraud or irregularities highlighted.

## **Standards of conduct and arrangements for the prevention and detection of fraud and irregularity**

30. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. In our opinion the overall arrangements in place are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

# Performance

## Best value

31. In July 2012, the Accounts Commission published its overview report on *Best Value in fire and rescue services in Scotland*. This report drew on the findings of Best Value audits of Scotland's eight fire and rescue services published between January and March 2012. It focused on the opportunities and challenges facing fire and rescue in moving towards the SFRS, which came into operation on 1 April 2013. The SFRS will be subject to scrutiny by Her Majesty's Fire Service Inspectorate in Scotland (HMFSI) and the Auditor General for Scotland. Audit Scotland is working with HMFSI on an early inspection of the SFRS during 2013.
32. The report on Tayside Fire and Rescue was published in February 2012 and highlighted that it provided a highly effective emergency response service but identified several areas in an improvement agenda including how the Board carried out its governance and scrutiny roles.

## Performance management

33. The Board prepared an annual performance report in *Towards a Safer Tayside 2012-13*. This detailed the performance of the Board against 8 strategic objectives under four headings: prevention, intervention, people and performance. The services performance was considered during 2012/13 by the Board through quarterly activity reports.
34. The prescribed Statutory Performance Indicators (SPIs) contained in the Accounts Commission's 2008 Direction were submitted to Audit Scotland by the 31 August 2013 deadline. The information and arrangements in place for the collation and checking of data for fire service specific indicators were adequate. However the sickness absence information contained in its public performance report *Towards a Safer Tayside 2012-13* was significantly different from the audited information. This information is gathered through a UK-wide performance management system called IRS (Incident Reporting System).

## Overview of performance in 2012/13

### Strategic outcomes

35. Overall the Board's performance outcomes against its strategic objectives have been detailed in *Towards a Safer Tayside 2012/13* and are fairly positive. The statutory performance indicators are included within the strategic objectives. Some of the measures of performance in the year include:
  - the target of 15,000 home fire safety visits was exceeded
  - the number of incidents resulting in fire casualties increased (89 to 93) although the number of fire casualties fell (128 to 103)

- downward trends in the number of fires and other emergencies attended although road traffic collision incidents have increased (164 to 211)
  - a continued decrease in the number of malicious calls to 1% (2011/12 2%) of total calls received although there has been an increase in the number of unwanted fire signals from automatic fire alarms over the past 5 years
  - The days lost due to sickness and light duties per uniformed staff has increased to 8.6 days in 2012/13 (2011/12 - 6 days). There has also been an increase in overall sickness days from 3.5 to 4.7 days. The national averages were 7.2 and 6.8 respectively in 2011/12
36. *Towards a Safer Tayside 2012/13* highlights the progress against actions relating to the strategic objectives. Due to the reform process and the formation of the SFRS, some actions were considered no longer applicable or superseded by the reform agenda.

### National performance reports

37. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. The Board has not been directly involved in any reviews during the year however *Improving community planning in Scotland* issued in March 2013 notes that a fresh drive to realise community planning's full potential, particularly in the light of severe budget pressures on all public services, has been outlined in a Statement of Ambition from the Scottish Government and the Convention of Scottish Local Authorities. Any action arising from this review should be considered by the SFRS.