

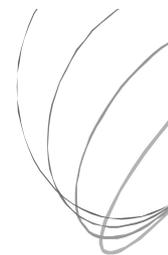
Tayside Fire and Rescue Board

Report to Members on the 2005/06 Audit



October 2006





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Key Messages

In 2005/06 we have audited the financial statements and looked at aspects of performance and governance within Tayside Fire and Rescue Board. This report sets out our main findings.

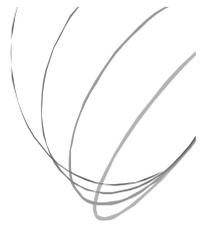
Overall, we found the financial stewardship of Tayside Fire and Rescue Board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2005/06
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress satisfactorily
- The Board has many aspects of a sound corporate governance framework in place. Further work is required, however, to develop a risk management strategy that includes an assessment of both financial and non-financial risks and to embed risk management processes throughout the Service
- Internal Audit has not provided an overall opinion on the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006
- All four of the Statutory Performance Indicators (SPIs) were assessed as reliable again this year. The Board performed well against the SPIs in 2005/06

Key issues for the Board in the future include:

- the absorption of transitional funding and the increasing cost of pensions;
- financial reporting changes introduced by the 2006 SORP;
- the need to continue developments in relation to governance arrangements, including the strengthening of internal audit arrangements and the development of a risk management strategy and a robust asset management planning process;
- the need to reduce call response times and the number of accidental dwelling fires per 10,000 population.

Key issues for the attention of members are outlined in the Action Plan included in this report.



This is the final year of our current appointment to the audit of the Board. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board over the five years of our audit appointment.

**Audit Scotland
October 2006**

Introduction

1. The members and officers of the Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
 - the Board has proper arrangements for securing best value in its use of resources; and
 - arrangements have been made to collect, record and publish statutory performance information.
2. This report summarises the most significant issues arising from our work during 2005/06.

Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2005/06, aspects of the Board's reported financial position and performance to 31 March 2006, and provide an outlook on future financial prospects and financial reporting issues.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Tayside Fire and Rescue Board for 2005/06, concluding that:
 - the financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year;
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Board's balance sheet has an excess of liabilities over assets of £147.116 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
6. The Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements. Future pension liabilities will be met, as they fall due, by government grant and contributions from constituent authorities in the normal way. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.

Financial position

7. The Board's net revenue expenditure amounted to £25.874 million and was met by constituent authorities' contributions of £25.903 million, resulting in a surplus for the year of £0.029 million. In his Report the Treasurer summarises performance against budget. The major factors contributing to the underspend are lower than expected staff costs and capital charges and increased income from the recovery of employees seconded to external bodies, offset by increased transport costs and capital expenditure financed from revenue.

8. The Board holds a general fund reserve as a contingency for unexpected events or emergencies. The Controller of Audit's 'Overview of the local authority audits 2004' recognises that the appropriate level of balances is for local authorities to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in constituent authority contribution levels results in an inadequate cushion held to deal with emergencies.
9. At 31 March 2006 the Board held a reserve of £1.356 million, of which £0.611 million has been earmarked to fund the future cost of fire pension entitlements accruing to those officers eligible to retire at 31 March 2006 but who have elected to remain in service. During 2005/06, the Board approved a strategy for reserves which set the overall level of reserves (including earmarked amounts) to be retained at the statutory limit included in the Police and Fire Services (Finance) (Scotland) Bill 2001 and identified the main financial pressures facing the Board. The Board has not separately identified the amount it requires to set aside for any unforeseen demands.
10. Capital expenditure totalled £2.357 million, against a budget of £1.730 million, and was funded by government grant of £1.730 million, capital receipts of £0.012 million and from revenue (£0.615 million). The Board was able to exceed its budget for capital expenditure due to careful management of its revenue budget which freed up resources which were used to enhance its capital programme.

Issues arising

11. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
12. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Board and for publication. The financial statements are an essential means by which the Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom —A Statement of Recommended Practice (the 'SORP'). A number of adjustments were made to the figures included in the unaudited accounts made available for public inspection. None of the adjustments made had an impact on the surplus achieved in the year.

Legality

14. Each year we request written confirmation from the Treasurer that the Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Fire Officer and the Corporate Management Team, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
15. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

16. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that *'currently no material weaknesses that require to be addressed have been identified; however, any recommendations made by both internal and external audit as a result of audits carried out in 2005/06 will be implemented under the normal business of the Board'*.
17. The Chief Internal Auditor did not prepare an Annual Report nor provide an independent opinion on the overall adequacy and effectiveness of the Board's internal control system to support the Treasurer in signing the Statement.

Action point 1

18. The Statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Future outlook

Pension liabilities

19. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In addition, the government is currently considering major changes to public sector pension schemes, with one of the aims being to provide an affordable, secure and sustainable benefit structure.

20. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
21. The firefighters' pension scheme is unfunded and, therefore, has no assets to be valued. Note 7.4 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2006 is £154.8 million. As the scheme is unfunded, the pension liability will fall to be met by serving firefighters' contributions and by taxpayers in the future (through constituent authorities' contributions).
22. The Board's estimated pension liabilities for support staff at 31 March 2006 exceeded its share of assets in the Tayside Superannuation Fund by £2.409 million. The full triennial actuarial valuation of the Tayside Superannuation Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% as at March 2002 to 91% as at March 2005.
23. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 275% of employee contributions to 315% by 2008/09.

Financial reporting

24. A number of changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent. The changes include:
 - replacement of the revenue account with a traditional income and expenditure account;
 - a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and
 - replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.

Action point 2

Governance

25. In this section we comment on key aspects of the Board's governance arrangements during 2005/06 and provide an outlook on future governance issues.

Overview

26. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that although the Board had some aspects of a sound corporate governance framework in place, further improvement was still required.

27. Over the past year, the role of the Performance Monitoring Sub-Committee has been developed to include additional duties and responsibilities. We are concerned to note, however, that little progress has been made in other significant areas requiring improvement raised in our previous Reports on the Audit:

- a risk management strategic plan has yet to be developed and risk management embedded within the Board's strategic and operational planning activity;
- the Chief Internal Auditor has again failed to provide a formal assessment of the internal controls within the Board.

28. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Perth & Kinross Council's Internal Audit section provided an internal audit service to the Board during 2005/06.

29. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. Last year we highlighted that internal audit work is directed at systems that are important to management, but are not key to our opinion on the financial statements. Consequently, we have not placed reliance on any of Internal Audit's work for the purpose of our 2005/06 audit and instead increased our own work in order to support our opinion on the financial statements.

Anti-fraud and corruption arrangements

30. The Board has appropriate arrangements in place to prevent and detect fraud and corruption, including an Anti-Fraud & Corruption Policy and Fraud Response Plan.

Systems of internal control

31. Our 2005/06 audit included follow-up of progress made in implementing previous audit recommendations. We found that the Board has yet to develop a comprehensive corporate asset management plan to inform and drive capital planning decisions. Asset management planning should provide real integration between asset management and financial planning and contribute to debates on affordability and long term objective setting.
32. The Board operates using some of the corporate financial systems of Dundee and Perth & Kinross Councils. We have also been able to take assurance from our work as the Council's auditors on these systems.

Future outlook

33. In the coming years the Board faces challenges to improve its governance arrangements, including:
 - continuing the development of risk management throughout the organisation;
 - the development of a robust asset management planning process to ensure best value in the use of the Board's assets and that spending plans are affordable, prudent and sustainable.

Action point 3

34. The Board has been participating in the National Fraud Initiative (NFI) which aims to identify and reduce fraud by bringing together data from local authorities and other public agencies to help detect a wide range of frauds against the public sector. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The Board needs to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

Performance

35. In this section we summarise key aspects of the Board's reported performance and provide an outlook on future performance.

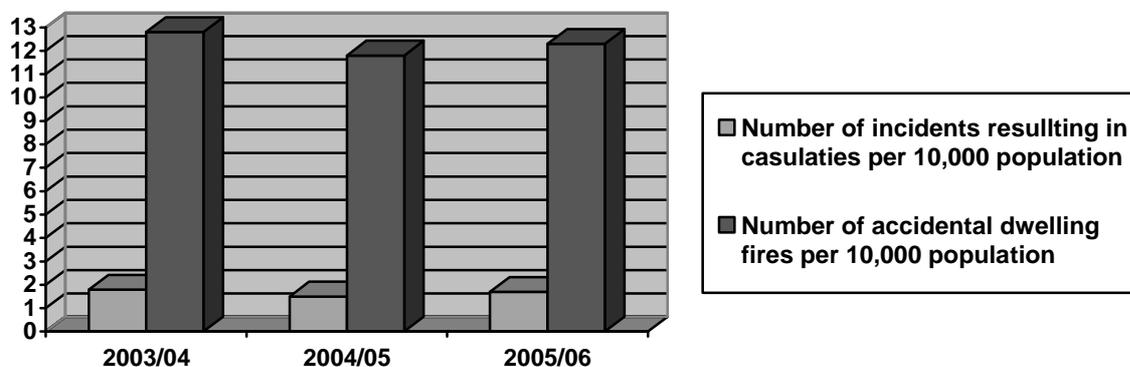
Statutory performance indicators

36. The Board has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the Board's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.

37. We assessed all four of the Board's statutory performance indicators as reliable again this year.

Community fire safety

38. SPIs show that the number of incidents resulting in casualties and the number of accidental dwelling fires per 10,000 population have increased slightly since 2004/05. The Board compares favourably with the 2004/05 Scottish average for the number of incidents per 10,000 population resulting in casualties (2.0) but exceeds it for the number of accidental dwelling fires per 10,000 population (11.0).

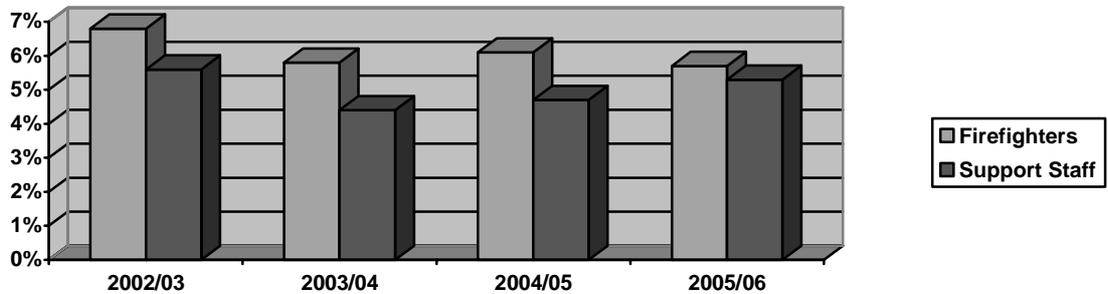


Call response time

39. In 2004/05 the Board was able to answer 94.8% of all calls within 2 minutes which is less than the 2004/05 Scottish average of 96.3%. In 2005/06 performance has deteriorated slightly, with the Service answering 94.6% of all calls within 2 minutes.

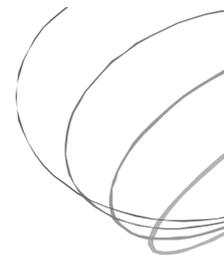
Proportion of working time lost due to sickness absence

40. The level of absence for firefighters has decreased since 2004/05 and currently stands at 5.7% compared with the 2004/05 national average of 7.4%. The level of absence for support officers has increased to 5.3% during 2005/06 but is still significantly below the 2004/05 national average of 6.6%:



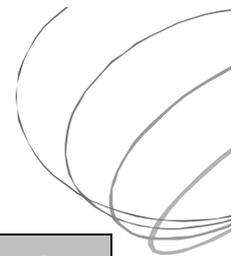
Future outlook

41. The Board has performed well against the SPIs in 2005/06 and in most cases exceeded the 2004/05 Scottish average performance. Particular areas for continuing attention in the coming years are reducing call response time and the number of accidental dwelling fires per 10,000 population.
42. A national performance audit study of fire and rescue services is currently underway, with the individual reports scheduled for publication in December 2006 and the national report in Spring 2007. The Board should take the opportunity to review their own arrangements in the light of the recommendations, and best practice, highlighted by the study.



Risk summary and action plan

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
1.	<p>Statement on the system of internal financial control</p> <p>The Chief Internal Auditor did not prepare an Annual Report nor provide an independent opinion on the overall adequacy and effectiveness of the Board's internal control system to support the Treasurer in signing the Statement on the System of Internal Financial Control.</p> <p><i>Risk: the Board has no independent assurance that the internal financial control systems in operation are adequate and effective.</i></p>	Head of Corporate Services / Chief Internal Auditor	Agreed. Tayside Fire and Rescue (TFR) are currently in the process of agreeing a service level agreement with Perth & Kinross Council Internal Audit. This will establish a level of audit coverage which will allow the Chief Internal Auditor to provide an independent opinion on the adequacy of the Board's internal control systems.	31 December 2006
2.	<p>Financial reporting</p> <p>Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.</p> <p><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p>	Head of Corporate Services	Agreed. Preparations are currently underway within TFR which will enable the 2006/07 financial statements to be presented in accordance with the 2006 Statement of Recommended Practice.	31 March 2007



No.	Issue & risk	Responsible officer	Response & agreed action	Action date
3.	<p>Governance</p> <p>The Board requires to continue ongoing developments to improve governance arrangements, including the development of a risk management strategy, and robust asset management processes.</p> <p><i>Risk: the Board may fail to identify and manage significant risks to its objectives. The Board may be unable to demonstrate a robust, affordable and sustainable approach to capital planning in the longer-term.</i></p>	Head of Corporate Services / Head of Technical Services	<p>Agreed. The asset management process is continuing to be developed with a pilot of the asset management system due to start shortly involving a limited number of records.</p> <p>TFR did not agree a risk management strategy during 2005/06 as this was deferred with the introduction of the Civil Contingencies Act which covered both the operational and business continuity aspects of risk management. The implementation of this Act is underway within TFR during 2006/07 with an action plan in place and the contracting of risk management consultants to assess our compliance or otherwise with the Act. This will provide a forum from which the statutory responsibilities of the Civil Contingencies Act 2004 (Chapter 6: Business Continuity for Category 1 responders) can be identified, and identify a framework that will assist with business continuity to be contained within the Contingency Planning (Scotland) Regulations 2005.</p>	31 March 2007