

TAYSIDE FIRE AND RESCUE BOARD

PERFORMANCE MONITORING SUB-COMMITTEE

REPORT BY THE CHIEF FIRE OFFICER AND TREASURER

28 JUNE 2010

EXTERNAL AUDIT REPORT**Abstract**

This Report brings to Members attention the Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10, which has been received from the Board's external auditors, Henderson Loggie.

1 RECOMMENDATIONS

It is recommended that Members consider the contents of the attached Report.

2 INTRODUCTION

As agreed the Performance Monitoring Sub-Committee in its role as Audit Committee should consider all external and internal audit reports. The attached Reports are for Members consideration.

3 CONTENTS OF REPORTS

The Report attached for Members consideration is the Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10 which contains details of the Audit Framework, Audit Approach, a Business and Audit Risk Analysis and Plan, and, the Planned outputs and Fee Proposal.

4 CONSULTATION

The Clerk has been consulted in the preparation of this Report.

S Hunter
Chief Fire Officer

J Symon
Treasurer

Background Papers

No background papers, as defined in Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

Fire and Rescue Headquarters
DUNDEE



HENDERSON LOGGIE
Chartered Accountants

Tayside Fire and Rescue Board

**Risk Assessment, Annual Audit Plan
and Fee Proposal for 2009/10**

External Audit Report No: 2010-01

Draft Issued: 23 December 2009

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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.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Tayside Fire and Rescue Board and the Performance Monitoring Sub-Committee and will be shared with the Accounts Commission and Audit Scotland
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes
- To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Board. Except to the extent necessary for the purposes of the plan, this information has not been independently verified.



Executive Summary

Introduction and Background

1. We were appointed by the Accounts Commission as Tayside Fire and Rescue Board's external auditors for the 5 year period from 1 April 2006 to 31 March 2011. This is our overall plan for the fourth year of our appointment. Our audit is governed by our letter of appointment, the Local Government Acts, auditing standards and Audit Scotland's Code of Audit Practice.
2. This document outlines:
 - our audit framework
 - our audit approach
 - the planned audit outputs and our proposed fee
 - our audit team
3. Background and planning information has been gathered through discussion with the Head of Corporate Services, the Finance Manager, the Treasurer and the Acting Chief Internal Auditor and a review of the documents listed at Appendix II. In gathering this information we have considered the planning guidance issued to us by Audit Scotland and the relevant issues for the Board in Audit Scotland's Priorities and Risks Framework document (PRF) for 2008/09 – 2010/11. The PRF is available on their website www.audit-scotland.gov.uk.

Summary of Planned Audit Work

Table 1: Planned Audit Outputs

Overall Planning	Risk Assessment, Annual Audit Plan and Fee Proposal
Governance	Fraud Returns NFI Questionnaire
Performance	Report to Members and the Controller of Audit – Annual Report #
Finance	Communication of Audit Matters to Those Charged with Governance – ISA 260 Report # Audit opinion on financial statements Audit opinion on Whole of Government Accounts
Overall Conclusion	Report to Members and the Controller of Audit– Annual Report #

- Our ISA 260 Report and Annual Report may be produced as a single output.

Proposed Fee

4. Based on the work we assess is required to discharge our audit responsibilities the total proposed fee, including Audit Scotland's fixed charge for 2009/10 is £28,480.

Acknowledgements

5. We would like to take this opportunity to thank all the officers within the Board who assisted us in gathering information for this plan.



Audit Framework

Introduction

- 6. Our audit framework is set by our letter of appointment, the Local Government Acts, (primarily Part VII of the Local Government (Scotland) Act 1973), auditing standards, Audit Scotland's Code of Audit Practice and ad hoc guidance.
- 7. This framework provides all bodies within the Public Sector with an audit model that is wider than simply providing assurance on the financial statements and the internal control environment. This wider model covers finance, governance and performance.

Code of Audit Practice

- 8. This plan takes account of the Code of Audit Practice (the Code) published by Audit Scotland in March 2007. This year we have not included full details of our audit responsibilities under the Code in our plan as these were included in the previous three years. The Code is available on Audit Scotland's website www.audit-scotland.gov.uk. Alternatively we can supply you with a copy of the Code.
- 9. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of a body. Due to the size of the Board our main focus will be on our financial statements audit and our financial control evaluation. Further details are outlined in paragraphs 26 to 51 and Appendix III.

Audited Bodies' and Auditors' Responsibilities

- 10. Audit Scotland has issued a statement on audited bodies' and auditors' responsibilities in relation to all aspects covered by the audit process. The Code incorporates this statement into each section for easy reference. Attention is drawn to these relative responsibilities and a summary is included at Appendix I.

Audit Objectives

- 11. Our objectives identified in the Code are summarised in Table 2.

Table 2: Auditors' Objectives

Key Area	Auditors' Objective	Main Audit Outputs
Financial Statements	Provide an opinion on audited bodies' financial statements as required by the relevant authorities for the local government sector.	Audit opinion on financial statements, ISA 260 Report / Annual Report
Corporate Governance Arrangements	Review and report on, as required by relevant legislation and the Code, the Board's corporate governance arrangements in relation to systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and the Board's financial position.	ISA 260 Report / Annual Report
Performance Management	Review and report on, as required by relevant legislation and the Code, the Board's arrangements for securing Best Value; complying with its Community Planning duties; aspects of managing its performance in relation to economy, efficiency and effectiveness in the use of resources; and for preparing and publishing statutory performance information.	ISA 260 Report / Annual Report

Source: Audit Scotland's Code of Audit Practice



Audit Framework

Planning Guidance

12. Audit Scotland's planning guidance for 2009/10 specifically directs us to undertake work on the following:
 - Provide the Independent Auditors' Report placed on the financial statements (and any opinions on consolidation packs / whole of government accounts returns) by 30 September 2010
 - Provide an annual report on the audit addressed to the Board Members and the Controller of Audit, to be submitted to Audit Scotland by 31 October 2010
 - Communicate audit plans to those charged with governance
 - Provide reports to management, as appropriate, in respect of our corporate governance responsibilities in the Code (including involvement in NFI)
 - Submit fraud returns to Audit Scotland
 - Discharge our responsibilities in connection with the Board's publication of statutory performance information
 - Contribute to Best Value audits
 - Undertake other work requested by Audit Scotland, eg exchanging information and intelligence about performance, supporting the impact of national performance audit studies and contributing evidence for the local authority overview report.
13. Any audit work beyond the core audit will incur an additional fee and will be discussed with management.

Best Value and Community Planning

14. The Local Government in Scotland Act 2003 (the 2003 Act) introduced statutory requirements for both authorities and auditors in relation to Best Value and Community Planning.
15. It is planned that the Best Value audit of Fire and Rescue Boards will take a similar approach to that adopted for Police. The Accounts Commission has yet to determine when these audits will commence but it is likely to be soon after the full audits for Police Joint Boards are underway. We note that some input will be required from local auditors. We will keep you advised of any developments in this area.

**Performance Reporting and Statutory Performance Indicators**

16. The 2008 Direction represents a significant shift in approach to the statutory performance indicators (SPIs) in recognition of the changing environment in which local authorities and police and fire services are operating. The Direction states that each Fire & Rescue service will report a range of information on its performance sufficient to demonstrate that it is securing Best Value in relation to:
- community fire safety
 - intervention in response to emergency incidents
 - staff
 - equalities and diversity
17. The audit approach has been revised in recognition of this shift and new audit guidance was issued by Audit Scotland in January 2010. We are no longer required to assess the reliability of individual indicators or to provide an opinion on a year-end return to Audit Scotland. Our emphasis will be on the arrangements and systems that the Service uses to generate performance results and consequent reports. Our work may include some sampling of data to test reliability, but it is the Service's responsibility to ensure the accuracy and relevance of all performance information.
18. The statutory deadline for authorities to place details of SPIs in the public domain by 30 September is unchanged. It is the Service's responsibility to ensure that appropriate arrangements are in place for the collection and publication, and our duty to review and report on these arrangements. It is the Service's responsibility to ensure that the data is accurate and reliable.
19. The findings of our audit will be included in our Annual Report, together with commentary on the Service's 2009/10 performance.

Audit Scotland National Studies

20. Audit Scotland undertakes a number of centrally directed performance audits each year. The Code directs us to participate in these at a local level, if required. One aspect of this participation during 2009/10 will be the presentation to the Board (where appropriate) of local information in relation to individual national studies. This is a developing aspect of national reporting and will be discussed further with officers and the Performance Monitoring Sub-Committee in due course.
21. Audit Scotland planning guidance directs us to provide information on how the Board has responded to national reports three months and one year following publication, with the nature and level of information required varying across different studies and different bodies.
22. The national report Improving Public Sector Purchasing was published in July 2009. The report finds that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme.
23. The Board is making progress in the area of collaborative procurement through the establishment of a Centre of Expertise for Fire Specific Procurement set up through the Chief Fire Officers Association (CFOA) (Scotland). A draft corporate plan has now been prepared and was due to be discussed at the CFOA procurement group meeting on 25 January. In addition the Board has recently embarked on a shared services initiative with Fife Fire and Rescue Service and Central Scotland Fire and Rescue Service.



Audit Framework

24. The national report Improving Civil Contingencies Planning was published in August 2009. It made 16 detailed recommendations where further improvements can be made. (See Appendix III, Key Business and Audit Risk Analysis and Plan)
25. We will review progress in addressing the issues raised in each of these reports, in addition to our on-going monitoring of progress with the outstanding financial action from the 2006 national review by Audit Scotland. Our findings will be reported in our Annual Report.



Audit Approach

Audit Approach

26. We plan our audit to meet the objectives discussed in Table 2 at paragraph 11 under guidance from Audit Scotland and in accordance with the Code and applicable auditing standards.
27. Our approach is risk-based and designed to be robust, efficient, challenging and fair. Key features of our approach are the integration of work for the finance, governance and performance strands of our remit; a focus on key business, operational and financial risks; financial statement audit procedures that maximise assurance from existing internal control processes; and maximum reliance on internal audit work, where possible.

Risk Assessment

28. We begin by gaining an understanding of the financial and business risks facing the Board. We assess the likelihood of the risk occurring and the impact this could have on service delivery and the financial position. We then assess the control arrangements that the Board has in place to manage these risks, and whether the risk has been reduced to an acceptable level. We also consider the Board's decision-making, governance and performance management frameworks. Audit Scotland's planning guidance and PRF contribute to the identification of the relevant national issues to be considered in this stage of our work.
29. Information is gathered from our existing knowledge of the Board, from a series of interviews with senior officers including the Head of Corporate Services, the Finance Manager, the Treasurer and the Acting Chief Internal Auditor, and from our review of key Board and other relevant documents. See Appendix II for documents reviewed.
30. The main issues identified from this process are noted at Appendix III, together with their audit implications. We have assessed the work required to fulfil our audit responsibilities in relation to these risks and noted the planned audit outputs. Our assessment of required work identifies where we plan to place reliance on internal audit work and the work of the Inspectorate and Audit Scotland's performance audit reports.
31. Proposed timings for final reports and the Performance Monitoring Sub-Committee meeting to which these will be presented are summarised in Table 3 at paragraph 55.

Financial Control Evaluation

32. The financial control environment will be 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. This involves the identification, testing and assessment of the key controls for the main financial systems. Where key controls are not in place we will carry out substantive testing as part of our financial statements audit.
33. We will follow up the progress in addressing the recommendations included in our report 2009-02 Follow-up of the 2007/08 Review of Internal Controls and report 2009-04 2008/09 Report to Members and the Controller of Audit.
34. From our review of internal audit plan for 2009/10 we noted that internal audit work will not cover identified key controls. We met with internal audit to discuss key control testing and this will be considered for inclusion in their 2010/11 plan.



Audit Approach

Financial Control Evaluation

35. A number of financial systems and services are provided to the Board under Service Level Agreements with other Councils within Tayside. In accordance with Audit Scotland's planning guidance we shall seek assurances from the Councils and their auditors that the key controls related to the systems used to provide these services are in place and operating effectively.
36. There are current Service Level Agreements (SLAs) in place for the provision of internal audit services, payroll services, banking and treasury services and for insurance and risk management services.
37. The payroll services SLA covers the period from 1 April 2003 to 31 March 2006 and notes that the terms and conditions contained in the SLA and agreed by both parties, will continue on the same basis beyond the initial agreement period of three years unless either party gives three months notice in writing to the other party of a wish to terminate the agreement. If revised charges are agreed with Dundee City, then a new SLA will be agreed at this point.
38. A pensions SLA due for completion by January 2010 is currently with Dundee City. We will monitor progress with this and other SLAs and report on this in our Annual Report.

Reliance on Internal Audit Work

39. The 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 using CIPFA's 2006 Code of Audit Practice for Internal Audit in Local Government in the United Kingdom. We believe that reliance on the work of Perth & Kinross Council's internal audit service for 2009/10 will be limited.
40. Perth & Kinross Council provide the internal audit service for the Board under a Service Level Agreement. For 2009/10 we will review all internal audit reports and consider their findings for all aspects of our audit. We will also maintain ongoing contact throughout our appointment.
41. The findings from our review will be reported in our ISA 260 Report / Annual Report.



Audit Approach

Reliance on Work of Other Inspection Bodies

42. We are required by the Code to contribute to the “whole organisation” approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We would therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.
43. The Scottish Government carries out reviews relating to operational areas and the Service regularly reports to the Board on the findings and recommendations and on how the Service will fulfil its responsibilities in relation to strategies and plans. Reports considered by the Board include The Scottish Government National Resilience Strategy “Scotland’s Resilience: The Contribution of the Fire and Rescue Service” and consultations on the Draft Fire and Rescue Framework for Scotland 2009.
44. A national study Scotland Together: A Study examining the fire deaths and injuries in Scotland was published in November 2009 and was reported to the Board on 1 February 2010. This study was commissioned by the Scottish Government to consider the number of key questions including why Scotland faces a disproportionately high number of primary fires, fire deaths and fire casualties compares to other parts of the UK and Europe. The study contains 37 recommendations and identifies issues that cannot be addressed by fire and rescue services alone. The contents are being considered at local and national level; by Tayside Fire and Rescue and with their key partners in the Tayside Community Planning Partnerships and by working together with the other seven Scottish fire and rescue services to consider the 37 recommendations from a Scotland-wide perspective respectively.
45. We will track progress through the review of these reports to committee.

Communication and Reporting

46. Auditing standards require us to communicate throughout the audit with those charged with governance. We have agreed that such communication will be through the Performance Monitoring Sub-Committee. For matters relating specifically to the audit of the financial statements, communication will be with the Head of Finance and the Head of Corporate Services.
47. Communication with Members during the course of the year will be through our reports and our attendance at the Performance Monitoring Sub-Committee. Our formal reporting to all Members will be through our Annual Report produced at the conclusion of each audit year.
48. We will communicate regularly with officers throughout the audit year to plan and conclude our audit work, maintain an overview of the Board’s business, and discuss any new issues that emerge. This communication should be two-way, and we encourage officers to have early discussions with us on any issues that may give rise to audit comment at a later date. We also welcome feedback on our audit approach.
49. Throughout our audit, we identify areas for improvement and encourage compliance with accepted best practice. At the conclusion of each project we will discuss our findings and recommendations for action with management prior to issuing a draft report, which will include our recommendations within an action plan, if appropriate. Recommendations will be graded by importance.
50. The draft report will be issued to allow the Board’s officers to confirm the factual accuracy of the report and to provide a response to any recommendations within an action plan. This includes details of the responsible officer and reasonable timeframes to be allocated for each of the agreed actions. Once this is completed, the final report will be issued to lead officers and submitted to the next Performance Monitoring Sub-Committee. Our proposed reporting timetable is included in Table 3 at paragraph 55.

Reliance on Board Action and Working Papers

51. In assessing our audit activity we have sought to place reliance on internal audit work where key controls are tested. We also expect that adequate records and working papers will generally be available as audit evidence and that officers will respond to requests for information within a reasonable timeframe. Our Working Papers Requested List will identify specific supporting working papers that we expect to be available with the draft financial statements.

Planned Audit Activity and Outputs

52. Appendix III, Key Business and Audit Risk Analysis and Plan, records the planned audit activity that we assess is required for 2009/10.
53. Table 3 below summarises our timetable for the outputs in which we plan to report our audit activity.
54. We will monitor our progress against our plan and report this to each meeting of the Performance Monitoring Sub-Committee.
55. To inform our work we will have regular meetings with officers, and review minutes of meetings and reports presented to the Board and its committees. As we identify new issues we will bring these to the attention of management and the Performance Monitoring Sub-Committee, where appropriate.

Table 3: Timetable for Planned Audit Outputs

Planned outputs	Date of final report	Performance Monitoring Sub-Committee date
Overall Planning		
Risk Assessment, Annual Audit Plan and Fee Proposal	26/02/10	28/06/10
Governance		
Fraud Returns	As required	N/A
NFI Questionnaire	26/02/10	N/A
Performance		
SPIs in the Report to Members and the Controller of Audit – Annual Report	30/09/10	15/11/10#
Finance		
Communication of Audit Matters to Those Charged with Governance – ISA 260 ##	August 2010	29/11/10
Audit opinion on financial statements	31/08/10	N/A
Audit opinion on the Whole of Government Accounts	30/09/10	N/A
Overall Conclusion		
Report to Members and the Controller of Audit – Annual Report ##	30/09/10	15/11/10 #

This report will be submitted to the Board meeting on 15/11/10.

Our ISA 260 Report and Annual Report may be produced as a single output.

Planned Audit Outputs and Fee Proposal

Determining the Annual Audit Fee

- 56. The audit of the Board will be completed under the ‘fee for the audit’ concept. The agreed fee for the Board’s audit requires to be set within the indicative fee range notified by Audit Scotland to the Clerk to the Board in November 2009.
- 57. The indicative fee range for the Board in 2009/10 is £24,120 to £28,480. For smaller audits the planning guidance allows for the range to be extended by 20% of the mid-point of the range. The indicative range includes Audit Scotland’s overhead recovery charge of £4,500.
- 58. Placement within the range depends on the level of work we consider requires to be undertaken and is influenced by the number and level of risks facing the Board. It also assumes that internal audit reports and other working papers will be available timeously and be of sufficient quality and that no major revisions are required to the financial statements. Our audit activity and ultimately the level of fee may require to be reassessed where this is not the case.
- 59. For 2009/10 a particular influence on the placement in the range are the preparation for the introduction of IFRS compliant accounts in 2010/11 and the need to restate the Balance Sheet at 1 April 2009 on an IFRS basis. We plan to review the restatement as part of our 2009/10 audit work.
- 60. From our risk assessment and our assessment of the skill mix that we believe is required to complete the identified programme of work and deliver the outputs noted in Table 4, our total proposed fee for 2009/10 is £28,480.
- 61. Our fee assumes there will be no material or significant adjustments to the accounts presented for audit. If adjustments are required an additional fee will be issued based on the additional time and appropriate staff costs incurred.

Table 4 - Proposed Fee

Financial year	2009/10
	£
Proposed audit fee	23,980
Audit Scotland fixed charge	4,500
Total proposed fee	28,480 =====

Arrangements for Additional Audit Work

- 62. Where we are required to undertake work that was not provided for within the initial audit plan, the agreed fee may be revised, within the indicative range, in conjunction with the Board. Fees outwith the indicative range require express agreement from Audit Scotland.
- 63. Indicative fees do not include an allowance for additional work, such as PFI/PPP projects. Fees for additional work will be agreed separately following approval from Audit Scotland.
- 64. Audit Scotland, on behalf of the Accounts Commission, will on occasion request us to investigate correspondence from the public and agree an additional fee for the initial work. This will be financed through the Audit Scotland fixed charge. Where further work is directed by Audit Scotland an additional charge to the Board may be required. This will be discussed with management should this occur.



Audit Team

65. The audit team have considerable experience of the public sector, and local authority sector in particular, and have developed an understanding of the issues faced by the Board. Table 5 provides contact details and responsibility of each of the key team members.

Table 5: Key Team Members

Team member	Role and responsibilities	Contact details
Cathie Wyllie Engagement Partner	The audit team is headed by Cathie Wyllie as engagement partner. Cathie is responsible for the overall delivery of our services to the Board.	Tel: 01382 594784 cbw@hendersonloggie.co.uk
Margaret Richardson Audit Director	Margaret is responsible for managing the day to day delivery of the audit and liaison with the Performance Monitoring Sub-Committee.	Tel: 01382 594786 mar@hendersonloggie.co.uk
Adrienne Borrows Assistant Manager	Adrienne will be the main point of contact for financial statements audit work.	Tel: 01382 594768 aab@hendersonloggie.co.uk
Irene Leiper Administrator	Irene supports the team and will liaise with Board officers to organise papers for committees etc	Tel: 01382 594789 irenel@hendersonloggie.co.uk
Steve Cartwright Partner	Steve is available as an independent partner to deal with any comments or complaints.	Tel: 01382 200055 scc@hendersonloggie.co.uk

Confirmation of independence

66. Ethical standard 1, Integrity, Objectivity and Independence, issued by the Auditing Practices Board (APB), requires that external auditors should ensure that those charged with governance are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.
67. We confirm that Henderson Loggie has procedures in place to ensure compliance with APB Ethical Standards. We confirm that in our professional judgement we are independent of Tayside Fire and Rescue Board and our objectivity and independence have not been compromised in any way. There are no relationships between Henderson Loggie and the Board, its members and senior officers that may reasonably be thought to bear on our objectivity and independence. Henderson Loggie does not (and will not) provide any consultancy or non-audit services to the Board.

