

Government and Public Sector Assurance

October 2007

# Strathclyde Fire and Rescue

## Annual Report to Members and The Controller of Audit

# Contents

<b>Section</b>	<b>Page</b>
1. Introduction .....	1
2. Independent Auditor's Report.....	2
3. Financial Performance 2006/07 .....	3
4. Budgeted Financial Position for 2007/08.....	6
5. The Audit Process and Accounting Issues.....	8
6. Systems of Internal Control .....	10
7. Performance Audit during 2006/07.....	12
8. Prevention and Detection of Fraud and Irregularities.....	14
Appendix 1: Action Plan .....	16
Appendix 2: Responsibilities of External Audit and the Board and its Management .....	18
Appendix 3: Audit Opinion.....	20
Appendix 4: Other Formal Reports Submitted During the 2006/07 Process .....	22

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31 October 2007

Our ref: MM/JM/JA

Ladies and Gentlemen

**Annual Report to Strathclyde Fire and Rescue Board Members and the Controller of Audit 2006/07**

We have completed our audit of Strathclyde Fire and Rescue and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

# 1. Introduction

- 1.01 Our overall responsibility as external auditor of Strathclyde Fire and Rescue (“The Board”) is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 1.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 1.03 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.04 The Board and the Treasurer are, together with other matters, responsible for:
- Making arrangements for the proper administration of the Board’s financial affairs and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
  - Selecting suitable accounting policies and applying them consistently;
  - Making judgements and estimates that are reasonable and prudent in line with the Code of Practice on Local Authority Accounting in the United Kingdom; and
  - Maintaining proper accounting records.
- 1.05 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements present fairly the financial position of the Board as at 31 March 2007, and its expenditure and income for the year ended; and
  - Whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 1.06 Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: *“Communication of audit matters to those charged with governance”*, we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity. This report discharges the requirements of ISA 260.

# 2. Independent Auditor’s Report

## Our Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
  - that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
  - the respective responsibility of management and auditors in relation to the accounts; and
  - whether, in the auditor’s opinion, the accounts present fairly the financial position of the Board as at 31 March 2007.
- 2.02 Our opinion for the year ended 31 March 2007, which is in the format prescribed by the Accounts Commission is unqualified.
- 2.03 Our opinion is set out in full in **Appendix 3**.

## Police and Fire Services (Scotland) Act 2001

- 2.04 The Police and Fire Services (Scotland) Act 2001 makes provision for the Board to carry forward unspent balances each financial year. The amount carried forward into the future year by the Board must not exceed 3% of the contributions made by the constituent authorities for that year. The cumulative balance i.e. in year surplus and reserves, (excluding the pensions reserve) carried forward into future years should not exceed 5% of the constituent authorities’ contributions for the year, unless specific consent is obtained from the Scottish Ministers. The Board’s performance against this target for the year ended 31 March 2007 was:

Financial Targets	Achievement
3% in year carry forward	The Board’s in year surplus was £0.637 million. This represents 0.5% of contributions (precepts) received during 2006/07.
5% cumulative carry forward	The Board’s cumulative carry forward into 2007/08 is £6.775 million, representing 5% of the contributions (precepts) received during 2006/07.

# 3. Financial Performance 2006/07

- 3.01 Strathclyde Fire and Rescue is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.
- 3.02 The 2006 Statement of Recommended Practice (“SORP”) amended the presentation of the Board’s financial statements. The consolidated revenue account has been replaced with an income and expenditure account. In addition, the Statement On The Movement on the General Fund Balance highlights the Board’s in year surplus, removing all accounting entries which do not reflect the Board’s performance. The statutory accounts for 2006/07 consist of the five main statements and associated notes as follows:
- The Board’s Income and Expenditure Account which details the Board’s income and expenditure for the year ended 31 March 2007;
  - The Statement of the Movement on the General Fund which adjusts the surplus or deficit on the income and expenditure account for amounts required by statute and non-statute to show an overall surplus or deficit for the year;
  - A Statement of Total Recognised Gains and Losses;
  - Balance sheet as at 31 March 2007; and
  - Cash flow statement.

## Financial Performance in the Year

3.03 The Board's overall financial out-turn for the year ended 31 March 2007 is shown below:

	£m	£m
Gross Expenditure	152.4	
Gross Income	<u>(10.5)</u>	
<b>Net Cost of Services</b>		<b>141.9</b>
Other Activities including gain on disposal of fixed assets, interest payable and Interest on Revenue Balances		2.4
Pensions Interest Cost and Expected Return on Pensions Asset		<u>45.0</u>
<b>Net Operating Expenditure</b>		<b>189.3</b>
Precepts on Constituent Authorities		<u>(136.3)</u>
<b>(Surplus)/Deficit for the Year</b>		<b>53.0</b>
Amounts included in the Income and Expenditure Account but required by statute to be excluded from movement on General Fund	(62.5)	
Amounts not included in the Income and Expenditure Account but required by statute to be included from movement on General Fund	9.8	
Transfers to/(from) the General Fund	<u>(0.9)</u>	
		<u>(53.6)</u>
<b>(Increase)/Decrease in General Fund Balance</b>		<b>(0.6)</b>
<b>Balance on General Fund Brought Forward</b>		<b><u>(7.8)</u></b>
<b>Balance on General Fund Carried Forward</b>		<b><u>(8.4)</u></b>

3.04 As at 31 March 2007, the Board had an overall deficit of £53 million as stated on the Income and Expenditure Account. After adjusting this in-year deficit within the general fund, in order to reflect the appropriate statutory and non-statutory adjustments for example gains and losses on disposal and FRS 17 costs, the overall in year surplus for the Board was £0.6 million.

3.05 At the start of the 2006/07 financial year the Board budgeted for a breakeven position i.e. no in year surplus or deficit. Expenditure was forecast at £137.278 million to be funded by precepts of £136.278 million and a contribution from the Board's reserves of £1 million. A contribution from reserves was anticipated in order to set precepts in line with inflation.

3.06 In the event, the Board achieved an underspend of £1.284 million during the year compared with budget. The main reasons for this underspend were:

- Pensions – Pensions were underspent in year due to pension payments being less than anticipated and fewer retirements in year;
- Underspends in employee costs due to a number of support staff vacancies and lower than forecasted payments to retained and volunteer personnel as this service is demand led;
- Supplies and services were underspent at year end due to reduced demand for replacement clothing following the recent issue of station workwear, combined with closer scrutiny at station level.



# 4. Budgeted Financial Position for 2007/08

4.01 For the purposes of this report, we have summarised the projected 2007/08 financial position as approved by the Board in the table below

Budgeted Position for 2007/08	£m	£m
	Forecast	Forecast
Gross expenditure	150.9	
Gross income	<u>(8.6)</u>	
<b>Net Cost of Services</b>		<b><u>142.3</u></b>
<b>Funded By:</b>		
Precepts on Constituent Authorities		<u>140.3</u>
<b>Net Deficit</b>		<b><u>2.0</u></b>
Utilisation of general reserves carried forward		<u>(2.0)</u>
<b>2007/08 budgeted (surplus)/deficit</b>		<b><u>0</u></b>

4.02 Precepts to be received from constituent authorities have been set in line with individual Local Authorities Grant Aided Expenditure ("GAE") limits as informed by the Scottish Government. Therefore, in order to fund expenditure in year £2 million is budgeted to be utilised from reserves in order to achieve a breakeven financial position.

4.03 The Board's medium term financial strategy was prepared in October 2006 and forecast the Board's financial position up to 31 March 2008. 2007/08 is the last financial year of the current comprehensive spending review and as a result the Board has not yet received an indication of potential levels of funding from 2008/09 onwards.

4.04 A key financial risk to the Board in future years is the maintenance of precepts in line with Local Authority Grant Aided expenditure. This may mean only inflationary increases to precepts on an annual basis. The Board is currently bridging the income and expenditure gap by utilising funds held in reserves, although it is noted these are not unlimited.

4.05 A further risk is that as the Board's pension scheme is an unfunded scheme if the number of retirees increases then this will have a significant impact on the financial position of the Board.

- 4.06 Going forward, it is recommended as part of the financial planning process increases in expenditure above the rate of inflation for precepts are reviewed by Management and where possible contingency arrangements devised.

**Action Point 1**

**Use of reserves**

- 4.07 The Fire and Police Services (Scotland) Act 2001 only allows Fire Boards to hold a maximum of 5% of precepts in reserves, excluding the pension reserve. Cumulative reserves for 2006/07 totalled £6.775 million, 5% of current precepts. The Board should ensure that reserves are utilised in line with the Board's financial strategy and that the maximum reserves allowable under the 2001 Act are not exceeded.

**Action Point 2**

# 5. The Audit Process and Accounting Issues

## **Audit Process**

- 5.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of an acceptable standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

## **Preparation of Financial Statements**

- 5.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice ("SORP").
- 5.04 Our audit of the financial statements identified a number of disclosure, format and other issues which have now been adjusted by Management leading to a set of financial statements that comply with the requirements of the 2006 SORP.

## **Financial Statements Approval**

- 5.05 The draft accounts were signed by the Treasurer on 26 June 2007 and submitted to the Controller of Audit by the statutory deadline of 30 June 2007.

## **Going Concern**

- 5.06 The Board's balance sheet has an excess of liabilities over assets of £792.8 million due to the accrual of pension liabilities. In accordance with International Audit Standards ("ISA") 520 we have considered going concern. ISA 520 requires auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indications that may give rise to going concern consideration is an excess of liabilities over assets.
- 5.07 The Foreword to the Statement of Accounts outlines the Treasurer's view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the accounting requirements for pensions do not impact on the underlying basis for meeting the Board's current and ongoing liabilities. Future pension liabilities will be met as they fall due from contributions from constituent authorities in the normal way.

## **Accounting Issue**

- 5.08 During the course of our review we identified one issue which we have brought to management attention below.

### *Furniture and Fittings*

- 5.09 Historically the Board has valued furniture, fixtures and fittings at 2.5% of the value of the buildings in operation as at 31 March. Although the Board holds detailed inventory listings for furniture, fixtures and fittings, these listings do not record a value for assets. As at 31 March 2007 the Board held furniture, fittings and fixture assets of £3 million.
- 5.10 Through discussion with Management it was noted that the 2.5% figure applied was historic and not supported by a professionally qualified valuer. Therefore, it was agreed that the value of these assets should be removed from the accounts in line with recommended accounting practice and any significant spend on furniture, fixtures and fittings above the de minimus threshold capitalised within the accounts.
- 5.11 The balance of £3 million has been removed from the accounts through a downward revaluation accounted for through the Fixed Asset Restatement Account.

# 6. Systems of Internal Control

- 6.01 It is part of management’s overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard the Board’s assets.
- 6.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. This includes an understanding of the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.

**Follow Up Report on previous control matters raised for action**

- 6.04 We followed up the Board’s progress in implementing recommendations made by the Board previous external auditors (Audit Scotland). Our Follow Up report was submitted to Management in March 2007.
- 6.05 Of the six agreed recommendations reported in our follow up report progress was reported as follows:

Status	Total
Action Implemented	4
Action in Progress	2
Limited/Little Progress to Date	-
<b>Total</b>	<b>6</b>

- 6.06 The two actions which were in progress were in respect of business continuity planning and the implementation of a non-operational strategic risk register.

**Financial Systems and our 2006/07 Internal Controls Report**

- 6.07 Our Internal Controls Report was finalised in April 2007. The report contained a number of recommendations to improve controls, one of which was graded as high risk. This was in relation to the preparation of regular bank reconciliations.
- 6.08 The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the action plan during our 2007/08 audit.

**Control Weaknesses identified**

- 6.09 A number of other control weaknesses were identified during the course of the final audit. These were all of a minor nature and have been reported in a Final Management letter to the Head of Finance.

### **Internal Audit's Report on the Board's Internal Controls**

- 6.10 The extract of the Internal Auditor's opinion for 2006/07 is reproduced below:
- 6.11 "The overall opinion of Internal Audit for the year 2006/07, based on the work undertaken in the last year, is that, aside from the difficulties encountered in implementing the very complex Rank To Role grading changes within SFR, generally assurance can be placed on the adequacy and effectiveness of the SFR's internal control system".
- 6.12 Internal audit undertook additional work on the Rank to Role grading process in May 2007. Internal audit did not identify any significant exceptions which would impact on the Board's internal controls. Rather, internal audit found minor improvements required in terms of the documentation supporting changes to pay grades as opposed to the payments made to staff.

# 7. Performance Audit during 2006/07

- 7.01 During 2006/07 Audit Scotland undertook a performance audit on all Scottish Fire and Rescue Authorities following up the verification exercise on modernisation undertaken in 2004. This review included a review of the overall outcomes of modernisation.
- 7.02 The Audit Scotland performance team conducted a range of interviews, reviewed relevant documents and analysed performance information, reviewing six areas of performance:
  - Strategic management;
  - Fire prevention and risk management;
  - Financial management;
  - Workforce management;
  - Management of operational business;
  - Communication.
- 7.03 A local report for Strathclyde Fire and Rescue was prepared in November 2006 covering all six areas as well as a national report which summarised findings for all Scottish Fire and Rescue Authorities.
- 7.04 During 2006/07 we followed up the four financial recommendations reported in Strathclyde Fire and Rescue’s local report, out with our previous follow up work.

Recommendation	Status	Results of Follow Up
<p>The Board should improve the identification and monitoring of efficiency savings to ensure there is adequate budgetary provision to deliver the service once transitional funding has ceased.</p>	<p>Partially Implemented</p>	<p>The Chief Fire Officers Association (CFOA) has agreed to consider the findings of the Audit Scotland report at a national level. Minutes of the Finance Committee meeting on 7th June 2007 acknowledged the recommendations of the report outlining the approach going forward. Different groups have been created to action the recommendations contained within the report.</p> <p>The Board is to lead on the strategy for the use of revenue budget reserves to provide consistency of approach across Scotland.</p>

Recommendation	Status	Results of Follow Up
The Board should ensure the reserves strategy enables the FRA to continue to hold sufficient funds to deal with emergencies.	Fully Implemented	This recommendation has been linked into the Medium Term Financial Strategy. The requirement has been built into the 2007-2010 budget. Specific details are contained on the reserve strategy considering both the statutory 5% and devolved budget holder's % of precepts. The current strategy is to contribute £2 million from reserves to the revenue budget for 2007/08.
The Board should embed financial management training within regular training programmes for staff.	Partially Implemented	The Board has been developing a Finance Directorate Training Programme, with a list of suitable programmes drafted and an exercise currently underway to consider which posts need which courses from the complete programme. The exercise is expected to be complete with courses available from September.
The Board should develop a corporate asset management plan to demonstrate best value in the use of the Board's assets and to ensure that spending plans are affordable, prudent and sustainable.	Partially Implemented	As with the first recommendation above this is being actioned on a national basis through the CFOA. The action is being led by Highlands and Islands who will lead and form a Task and Finish Group. The group is to be started by late summer.

7.05 Going forward, Management should continue to monitor progress against the financial recommendations contained within the Performance Audit 2006 Report. Progress should be reported to the Risk and Audit Forum.

**Action Point 3**



# 8. Prevention and Detection of Fraud and Irregularities

## **Responsibility with respect to Fraudulent and/or Illegal acts**

- 8.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditors is to express an opinion on those financial statements.
- 8.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected. However, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 8.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

## **Fraud and Corruption Reviews**

- 8.04 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Board's fraud and corruption internal policy and regulations for members and staff conduct. No significant weaknesses were identified through these reviews.
- 8.05 As part of our audit, we examine journal entries and accounting estimates for biases and add an element of unpredictability in audit procedures year to year.
- 8.06 Our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

## **National Fraud Initiative**

- 8.07 In 2006/07 the Board again took part in the National Fraud Initiative (NFI) in Scotland. 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. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 8.08 The NFI 2006/07 results (data matches) were made available to audited bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the board's involvement in NFI 2006/07 during the course of our audit.

- 8.09 The Board undertook work on the matches identified from the payroll information submitted. No instances of fraud were identified from the work performed.
- 8.10 The Board took the decision not to investigate the matches that were identified from the creditors information submitted. This was after discussions with South Lanarkshire Council, with whom the Board works closely in relation to the NFI, who informed the Board that they had encountered a large number of matches that were subsequently identified as appropriate payments. This was as a result of attributes used to identify potential matches that were actually standard payments made on a monthly basis.
- 8.11 Management should review the decisions taken in respect of NFI creditors' data and investigate potential matches to ensure that matches are appropriate payments.

#### **Action Point 4**

##### **Fraud Guidance**

- 8.12 We have reviewed the guidance issued by Audit Scotland during 2006/07, in particular Technical Bulletins, Notes for Guidance and relevant Urgent Issues Notes, and undertaken work accordingly. There were no matters arising from this work.

##### **Fraud Submission**

- 8.13 A return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. A nil return was submitted.

# Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
1	Going forward, it is recommended as part of the financial planning process increases above the rate of inflation for precepts are reviewed by Management and where possible contingency arrangements devised.	Medium	<p>This has been a feature of SFR's financial planning process over the years and will continue to be. For example the most significant above-inflation increase has been in relation to pensions. This was forecast at least 10 years in advance and every opportunity was taken to highlight the issue both at local and national level over that period.</p> <p>In addition, SFR currently holds the maximum permitted level of reserves as a financial "safety net".</p>	Deputy Chief Officer	Reviewed as at 31 March 2008 and thereafter on an ongoing basis.
2	The Fire and Police Services (Scotland) Act 2001 only allows Fire Boards to hold a maximum of 5% of precepts in reserves, excluding the pension reserve. Cumulative reserves for 2006/07 totalled £6.775 million, 5% of current precepts. Therefore, the Board should ensure that reserves are utilised in line with the Board's financial strategy and that the maximum reserves allowable under the 2001 Act are not exceeded.	High	<p>Since the introduction of the Police and Fire Services (Scotland) Act SFR has continually monitored the reserve balances relative to the statutory limits and has taken these factors into account during budget setting and monitoring.</p> <p>The Medium Term Financial Strategy approved by the Board sets out the basis on which reserves will be utilised and this is adhered to.</p>	Deputy Chief Officer	31 March 2008

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
3	Going forward, Management should continue to monitor progress against the financial recommendations contained within the Performance Audit 2006 Report. Progress should be reported to the Risk and Audit Forum.	Medium	This has been ongoing and will continue.	Director of Strategic Planning	Ongoing
4	Management should review the decisions taken in respect of NFI creditor's data and investigate potential matches to ensure that matches are appropriate payments.	Medium	<p>The NFI exercise undertaken in respect of creditors during 2006/07 was optional and was the first year that this process was used by Audit Scotland. On reviewing the data and in conjunction with South Lanarkshire Council the view was taken that to analyse the significant number of matches would not represent best use of resources given the criteria used to achieve a match.</p> <p>We are in discussion with Audit Scotland with a view to refining the matching criteria for the 2007/08 exercise. Useful data obtained will be fully investigated.</p>	Deputy Director of Finance	In accordance with NFI 2007/08 timetable

# Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of Strathclyde Fire and Rescue and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist Strathclyde Fire and Rescue regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with Strathclyde Fire and Rescue and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to Strathclyde Fire and Rescue or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with Strathclyde Fire and Rescue. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of Strathclyde Fire and Rescue and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of Strathclyde Fire and Rescue to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of Strathclyde Fire and Rescue to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that Strathclyde Fire and Rescue has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to Strathclyde Fire and Rescue during the year as listed at [Appendix 4](#).

## **Materiality**

Materiality is defined by the International Accounting Standards Board in the following terms:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

## **Management’s Judgments and Accounting Estimates**

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

## **Audit independence**

As external auditors of Strathclyde Fire and Rescue we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

# Appendix 3: Audit Opinion

## **Independent Auditor's report to the members of Strathclyde Fire and Rescue and the Audit Commission for Scotland.**

We certify that we have audited the financial statements of Strathclyde Fire and Rescue for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

The Treasurer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit 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.

We report our opinion as to whether the financial statements present fairly the financial position of the Board in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the Board has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the Board's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.

We read the other information published within the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Statement by the Treasurer and Statement of Accounting Policies. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Treasurer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the Board as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



# Appendix 4: Other Formal Reports Submitted During the 2006/07 Process

Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

## Planning visits

Outline Audit Plan 2006/07

## Interim Visit

Follow up of 2005/06 Outstanding Audit Recommendations

Internal Controls Report 2006/07

## Final Accounts Visit

Audit Opinion

Annual Report to Board Members and Controller of Audit

Final Management Letter

### **Freedom of Information (Scotland) Act 2002**

*This report is intended solely for the information of the Members of the Board of Strathclyde Fire and Rescue and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. Strathclyde Fire and Rescue agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Strathclyde Fire and Rescue shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, Strathclyde Fire and Rescue discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.*

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