

# Strathclyde Fire & Rescue

## Annual Report to the Strathclyde Fire & Rescue Board and the Controller of Audit

2007/08

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# Executive Commentary

Our overall responsibility as external auditors of Strathclyde Fire & Rescue is to undertake our external audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”) revised and published in March 2007.

## Audit Opinion (Section 2)

Our opinion for the year ended 31 March 2008, which is in the format prescribed by the Accounts Commission is **unqualified**.

## The Audit Process and Accounting Issues (Section 3)

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management were of a good standard, although it has been agreed with management that from next year, Management’s internal reasonableness review of the statements will be undertaken in advance of the commencement of our audit visit. Overall, we believe an effective audit process was achieved and good working relationships exist with your staff.

Under International Auditing Standard (“IAS”) 260 – “Communication of audit matters to those charged with Governance” we are required to report all unadjusted errors identified during the course of our audit to members of the Performance and Audit forum (in their governance role). We are pleased to report that all adjustments proposed have been agreed with management and reflected in the financial statements.

## Financial Performance 2007/08 (Section 4)

As at 31 March 2008, Strathclyde Fire & Rescue reported an overall deficit of £56.278 million (£52.970 million in 2006/07) as stated in the Income and Expenditure Account. After adjusting this in-year deficit to reflect the appropriate statutory and non-statutory adjustments (for example Financial Reporting Standard 17 pension costs), the overall in year reduction in the general fund balance is £0.431 million.

The Board’s budget for 2007/08 was set at £142.262 million to be financed primarily by precepts from constituent local authorities of £140.262 million and a £2.000 million contribution from the Board’s general reserves, in order to achieve a breakeven financial position.

During the year the Board did not need to draw down the planned £2.000 million from reserves due to a number of budget underspends in year and the receipt of additional income which was not included in initial budget forecasts

## Financial Projections 2008/09 (section 5)

The budget takes into account the funding provided by constituent local authorities (an increase of 3.8% on 2007/08 levels), financial pressures arising in respect of pensions and has been discussed with the Directors of Finance of the twelve constituent local authorities.

The net cost of services is forecast at £148.592 million. This budget is based on an initial budget (roll forward of 2007/08 figures) plus a number of additional costs; relating to for example known pay increases, staff training costs for 2008/09, annual loan charges anticipated and forecast pension costs.

This section also outlines the Board’s efficiency savings proposals, financial sustainability and financial pressures in respect of rising pension costs.

## **Governance and Internal Control Arrangements (Section 6)**

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.

This section outlines the Board's overall governance arrangements, training for elected members, risk management arrangements, National Fraud Initiative arrangements and our findings from our interim work reported in March 2008.

Overall arrangements were found to be appropriate and operating as intended. We have highlighted the need to continue to ensure elected Members receive the appropriate training and the need to further embed risk management arrangements throughout the Service.

## **Performance Management Arrangements (Section 7)**

The Board has established a corporate vision for 2015; this document sets out the overall vision for the service, in particular the Service's Seven Corporate Priorities. Set out within this Corporate Strategy are key targets and dates for achievement ranging from 2010 through to 2015. The Corporate vision is supported by an Integrated Risk Management Plan (IRMP). The IRMP establishes the key activities necessary over a three year period (2007 – 2010) to deliver the targets within the Corporate Vision.

The four Performance Indicators for 2007/08, reported to Audit Scotland were graded an A – Data reliable in all material respects.

In July 2008, Audit Scotland published its "Scottish Fire and Rescue Authorities 2007/08 Progress Report" following up on the progress Fire and Rescue Authorities ("FRAs") have made in service reform since 2007. This section highlights certain key recommendations arising from the national report including a need to provide robust evidence to demonstrate whether efficiency savings are being delivered and the need to further develop public reporting arrangements.

The Board will require to continue to work closely with the twelve constituent local authorities both in terms of agreeing financial settlements but also in respect of performance reporting. Each of the twelve local authorities have produced Single Outcome Agreements ("SOA"), as set out within the Scottish Government/Local Government Concordat, and the Board will need to work closely with the twelve Local Authorities in delivering certain of the key measures and targets outlined in the SOAs.

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31 August 2008

# 1. Introduction

- 1.01 Our overall responsibility as external auditors of Strathclyde Fire and Rescue is to undertake our external audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”) revised and published in March 2007.
- 1.02 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 assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value.
- 1.03 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.04 Set out below for information is a summary of our responsibilities as your external auditors and the responsibilities of Strathclyde Fire and Rescue Board Members and the Treasurer.

<b>Responsibility of the Treasurer and the Strathclyde Fire and Rescue Board Members</b>	<b>Responsibilities of External Audit</b>
<ul style="list-style-type: none"><li>• Ensuring proper administration of the Board’s financial affairs.</li><li>• Managing the Board’s affairs to secure economic, efficient and effective use of resources and safeguard its assets.</li><li>• Selecting suitable accounting policies and applying them consistently.</li><li>• Making judgements which are prudent, and estimates that are reasonable and prudent in line with the CIPFA/LAASAC Code of Practice on local authority accounting in the United Kingdom.</li><li>• Maintaining proper accounting records.</li></ul>	<ul style="list-style-type: none"><li>• Issuing an audit report (opinion) on whether the financial statements present fairly the financial position of the Board as at 31 March 2008 and its income and expenditure for the year ended.</li><li>• Determining whether the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973</li></ul>

## Acknowledgements

- 1.05 We would like to thank all management and staff for their assistance throughout the audit process.

# 2. Independent Auditors' Report

## Our Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the external auditors shall place on the abstract of accounts (financial statements) 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 2008.

Our opinion for the year ended 31 March 2008, which is in the format prescribed by the Accounts Commission is **unqualified**.

## Police and Fire Services (Scotland) Act 2001

- 2.02 The Police and Fire Services (Scotland) Act 2001 makes provision for the Board to carry forward unspent balances each financial year within prescribed limits. The surplus carried forward into the future year by the Board must not exceed 3% of the contributions (precepts) received from the Board's twelve local authorities. In addition, the cumulative balance i.e. in year surplus including reserves, (but excluding the pensions reserve) carried forward into future years should not exceed 5% of the local authority precepts received in year, unless specific consent is obtained from the Scottish Government. The Board's performance against these targets for the year ended 31 March 2008 was:

Financial Targets	Achievement
3% in year carry forward	The Board's financial position for 2007/08 is a decrease in the general fund balance for the year of £0.431 million. Therefore, this requirement has not been exceeded.
5% cumulative carry forward	<p>The Board's cumulative carry forward balance into 2008/09 is £9.518 million (general fund carry forward of £8.016 million plus cumulative reserves of £1.502 million). £9.518 million represents 6.8% of constituent local authority contributions in year.</p> <p>However, as at 31 March 2008, £2.522 million of the total carry forward balance was earmarked for cash pension payments (referred to as commutation payments). This balance is excluded under the Police and Fire Services (Scotland) Act 2001 from the 5% carry forward limit.</p> <p>Therefore, total carry forward balance into 2008/09, in line with the Police and Fire Services (Scotland) Act 2001 is £6.996 million (£9.518 million less £2.522 million) which is 5% of in year constituent local authority contributions.</p>

# 3. The Audit Process and Accounting Issues

## Audit Process

- 3.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management were of a good standard, although it has been agreed with management that from next year, management's internal reasonableness review of the statements will be undertaken in advance of the commencement of our audit visit. Overall, we believe an effective audit process was achieved and good working relationships exist with your staff.
- 3.02 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 2007: A Statement of Recommended Practice ("SORP").

## Accounts Approval

- 3.03 The Board's draft financial statements were signed as authorised for issue by the Treasurer to the Board on 25 June 2008 and submitted to the Controller of Audit by the statutory deadline of 30 June 2008.

## Audit Adjustments

- 3.04 During the course of our audit a number of financial adjustments and disclosure amendments were discussed and agreed with management. Following these discussions, management has revised the financial statements to reflect our recommended adjustments.
- 3.05 Under International Auditing Standard ("IAS") 260 – "Communication of audit matters to those charged with Governance" we are required to report all unadjusted errors identified during the course of our audit to members of the Performance and Audit Forum (in their governance role). We are pleased to report that all adjustments proposed have been agreed with management and reflected in the financial statements.

## Fixed Asset Register – Operating Equipment

- 3.06 As set out in the Board's accounting policies, the Board has adopted a deminimus level of £6,000 in relation to capitalising expenditure. Expenditure less than £6,000 is treated as revenue expenditure. From our review of the Board's £1.6 million additions to operating equipment during 2007/08 we noted that certain assets consisted of a number of invoices for smaller values, some values less than £6,000. In particular this related to water equipment, hydrant caps, communications equipment and other operating equipment. Total expenditure for these assets is £358,855. There is a risk that the Board may be capitalising expenditure inappropriately which is below the deminimus level and/or not capital in nature. Going forward, for the 2008/09 financial statements, Management should only group capital expenditure where appropriate and in individual asset cases where expenditure is above the £6,000 deminimus level.

**Action 1**

- 3.07 From our review of the Board's fixed asset register it was noted that only the overall balance at cost is recorded in the register in relation to operating equipment i.e. a detailed listing of all operating equipment on an individual asset basis is not maintained. This represents a risk that an asset may be disposed of or misappropriated, but the asset register is not updated correctly. Assets which no longer exist may continue to be depreciated within the financial statements. Management should introduce an appropriate mechanism during 2008/09 to record all operating equipment on an individual basis within the asset register.

**Action 2**

### Government Grants Deferred

- 3.08 During 2007/08 the Board received £8.245 million in capital grants. When government grants are received the SORP requires them to be credited to the government grants deferred account and then funds released into the income and expenditure account on an annual basis to match the depreciation charged on the individual assets to which the grants relate. During our review of the treatment of government grants we noted that:

*Authorisation matched to depreciation* – Grants received are amortised in the year of receipt with a full year's release of income to the Income and Expenditure Account. However, in accordance with the Board's depreciation policy, assets are only depreciated in year based on the number of days they are in operational use. This leads to a time lag, of up to a year, with amortisation and depreciation not being matched.

- 3.09 As a result of the above treatment, the Board is likely to be overstating its income in year and therefore overstating the surplus within the Income and Expenditure account. However, it is worth noting that this does not impact on the overall increase/decrease in the General Fund balance as these entries are reversed out of the Income and Expenditure Account to comply with statutory requirements.
- 3.10 Going forward, it is recommended that management reviews its depreciation policy to charge a full year's depreciation in the year of acquisition and therefore matching the annual depreciation charge with the release from the government grants deferred account.

**Action Point 3**

### Provisions

- 3.11 Provisions within the financial statements are based on the knowledge and experience of management and as a result involve a degree of judgement. As in previous years the financial statements include a provision for insurance claims and time in lieu where employees can choose to receive either time in lieu or a payment for overtime worked.
- 3.12 Included within the 2007/08 Financial Statements is a provision in relation to firefighters and part time workers sick pay. The need for this provision arose through a national employment tribunal in March 2008. From our review the calculation of this provision appears reasonable. In addition, we have sought and received additional representations from management in relation to this provision in terms of the criteria set out in Financial Reporting Standards ("FRS") 12: Provisions and Liabilities.



## Going Concern

- 3.13 The Board's balance sheet contains an excess of liabilities over assets of £702.6 million (£792.8 million in 2006/07) due to the accrual of pension liabilities. In accordance with International Standards of Auditing ("ISA") number 520 we have considered whether the Board is a 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 indicators that may give rise to a going concern consideration is an excess of liabilities over assets.
- 3.14 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. We have also received additional representations from Management supporting this view.

# 4. Financial Performance 2007/08

## Financial Position 2007/08

- 4.01 As at 31 March 2008, Strathclyde Fire & Rescue reported an overall deficit of £56.278 million (£52.970 million in 2006/07) as stated in the Income and Expenditure Account. After adjusting this in-year deficit to reflect the appropriate statutory and non-statutory adjustments (for example Financial Reporting Standard 17 pension costs), the overall in year reduction in the general fund balance is £0.431 million.

## Financial out-turn compared with the 2007/08 budget

- 4.02 The Board's financial position as at 31 March 2008, as reported in the financial statements was as follows:

	£m
<b>Extracted from the Income and Expenditure Account</b>	
Net operating expenditure	196.540
Precepts received from Constituent local authorities	<u>(140.262)</u>
<b>Deficit for the year (primarily due to inclusion of pension costs under Financial Reporting Standard 17 – Pension Liabilities)</b>	<b>56.278</b>
<b>Statement on the Movement on the General Fund Balance</b>	
Net additional amount required by Statute and non-statute practices to be debited and credited to the general fund in year	<u>(55.847)</u>
Decrease in General Fund balance (2007/08)	0.431
Brought forward General fund balance (2006/07)	<u>(8.447)</u>
<b>General Fund balance carried forward</b>	<b><u>(8.016)</u></b>

- 4.03 The Board's budget for 2007/08 was set at £142.262 million to be financed primarily by precepts from constituent local authorities of £140.262 million and a £2.000 million contribution from the Board's general reserves, in order to achieve a breakeven financial position.
- 4.04 During the year the Board did not need to draw down the planned £2.000 million from reserves due to a number of budget underspends in year and the receipt of additional income which was not included in initial budget forecasts. The principal reasons for this variance compared with budget were:
- Underspends compared with budget in respect of employee costs due to unstaffed vacancies in year. In addition, monthly pension costs and retirements were less than forecasted;
  - Receipt of additional income in relation to catering and vehicle maintenance; and
  - Savings were offset slightly by additional costs incurred in respect of transport and supplies and services due to higher than forecast fuel prices.

# 5. Forecast financial position 2008/09

## Financial Projection 2008/09

- 5.01 For the purposes of this report, we have summarised the projected 2008/09 financial position as approved by the Board on 24 January 2008, in the table below:

	£m
Gross Expenditure	(157.706)
Gross Income	<u>9.114</u>
<b>Net Cost of Services</b>	<b><u>(148.592)</u></b>
Funded by:	
<b>Precepts on Constituent Authorities</b>	<b><u>148.592</u></b>
<b>Net forecasted deficit for 2008/09</b>	<b><u>(3.000)</u></b>
Utilisation of the general reserves balance carried forward from 2007/08	<u>3.000</u>
<b>2008/09 budgeted (surplus)/ deficit</b>	<b><u>0</u></b>

- 5.02 The budget takes into account the funding provided by constituent local authorities (an increase of 3.8% on 2007/08 levels), financial pressures arising in respect of pensions and has been discussed with the Directors of Finance of the twelve constituent local authorities.
- 5.03 The net cost of services is forecast at £148.592 million. This budget is based on an initial budget (roll forward of 2007/08 figures) plus a number of additional costs relating to for example known pay increases, staff training costs for 2008/09, annual loan charges anticipated and forecasted pension costs.

## Efficiency Savings

- 5.04 In order to ensure a balanced budget in 2008/09, it has been necessary for the Board to identify cash efficiency savings amounting to £2.343 million; planned as follows:

	£m
Management Action Savings (for example debt rescheduling, training and conferences, income via MOT testing, reduction in number of medical retirements)	0.838
Review of Base Budget Savings (for example insurance, rates, software licences, out-turn for retained firefighters)	0.882
General Efficiencies (postage, clothing, contract cleaning)	0.106
Vacancies (not filling vacant posts pending Best Value reviews)	0.390
No contributions to Repairs and Renewals Reserve in year	<u>0.127</u>
<b>Total forecast cash efficiencies – 2008/09</b>	<b><u>2.343</u></b>

## Financial Strategy 2008 – 2011

- 5.05 In October 2007 the Board approved, a medium term financial strategy for 2008 – 2011. The strategy reflected the implications of pay awards and pensions on the Board's financial position as well as highlighting other financial pressures including specific funding for capital expenditure and the impact of inflation on the Board's financial position.

- 5.06 In light of the financial pressures identified, the strategy approved by the Board, recommended that the Board seeks to maintain reserves (excluding amounts earmarked for pensions) within a range of 1.5% to 3.5% of local authority precepts. Management should continue to monitor the level of Board Reserves, in light of the new financial arrangements to ensure that reserves can be maintained at the planned level and ensure compliance with the carry forward requirements set out in the Police and Fire Services (Scotland) Act 2001.

**Action Point 4**

- 5.07 In addition to the savings outlined above for 2008/09, savings of £0.726 million and £1.303 million are required in 2009/10 and 2010/11 to achieve a balanced budget. Management should continue to review the financial position closely and report to members any significant variances compared with the approved budget or efficiency plan.

**Action Point 5**

**Financial Sustainability**

- 5.08 The Scottish Government published its proposals in relation to the National Comprehensive Spending Review in November 2007. This proposal outlined a new way of working with local government including a reduction in ring fenced funding and improved performance management arrangements through Single Outcome Agreements (“SOA”). These new arrangements have been set out in the Concordat agreed between the Scottish Government and Convention of Scottish Local Authorities (“COSLA”).
- 5.09 The Concordat outlines the need for public sector bodies to demonstrate annual efficiencies of 2%. However, it does state that these efficiencies can be retained within local government.
- 5.10 In terms of the revenue funding arrangements of the Service, the Grant Aided Expenditure (GAE) figures the Board has historically used to base its constituent authority precepts, are no longer published. Therefore, following consultation with the Directors of Finance of the constituent local authorities, an average annual precept increase of 2.7% over a three year period was agreed and considered to be affordable by the local authorities. Therefore, precept increases over the next three years are:

Financial Year	Increases
2008/09	3.8%
2009/10	2.7%
2010/11	1.6%

- 5.11 A higher increase in 2008/09 is required to take into account a rise in pension costs of approximately 28% in this year (£8.092 million) – see paragraph 5.12 below.

**Rising Pension Costs**

- 5.12 The number of firefighters due to retire in 2008/09 is significant, resulting in increased pension costs for the Board. At present, pension costs for 2008/09 are anticipated to be 28% greater than the costs incurred in 2007/08. This will be a significant financial pressure for the Board going forward, and will initially require the use of reserves to assist in funding the costs, as precepts will not be sufficient.
- 5.13 At the time of our work (August 2008) discussions were ongoing with the Scottish Government in relation to rising pension costs and the financial pressure on the Board. The Scottish Government announced in September 2008 additional funding for the Fire Service to meet the additional costs in respect of revised pension commutation arrangements. In addition, discussions are ongoing between COSLA and representatives of the Fire Services in respect of the longer term pension’s financial pressure.

**Retained Firefighters and Part Time Workers – Sick Pay**

- 5.14 Included within the 2007/08 financial statements is a provision in respect of retained firefighters and part time workers sick pay. In March 2008, an employment tribunal found that these workers had been discriminated against and as a result discussions are underway to reach a financial settlement. The financial settlement reached is expected to be based on an agreed sick pay rate and there is a risk that this may involve additional financial costs which have not been so far identified. It is anticipated that negotiations will be settled during 2008/09 and the outcome will require to be closely monitored by management.

# 6. Governance and Internal Control Arrangements

## Governance and Control

- 6.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal control to provide reasonable assurance that accounting systems provide timely, accurate and reliable financial information and to safeguard the Board's assets.
- 6.02 As auditors, we obtained 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 external audit would not usually identify all matters of interest to management in discharging its responsibilities.

## Overall Governance Arrangements

- 6.03 The Board of Strathclyde Fire and Rescue consists of members of the twelve local authorities that make up Strathclyde with membership based on the respective size of the local authority. The Board currently has thirty four members.
- 6.04 The Board is supported by a number of sub committees, in particular:
- Executive Sub Committee
  - Budget Scrutiny Forum
  - Performance and Audit Forum
  - Employee and Equality Forum

## Training for Elected Members

- 6.05 The local government elections in May 2007 led to the establishment of a new Board and many members who had not either previously been a Councillor and/or involved with the work of the Service. A new Convener from North Lanarkshire Council was appointed, supported by two Vice Conveners, one of whom had been the previous Convener of the Board. Four members of the Board are retired firefighters. Out of the thirty four members appointed to the Board, twenty eight had not previously been involved with the Service and twelve of these members were newly elected Councillors.
- 6.06 At the first meeting of the Board in June 2007 an overview of the Strathclyde Fire and Rescue Services was presented to Members and a Service induction was undertaken by a number of the Members. At this meeting a member induction and development programme was approved which consisted of four elements.

**Session 1:** Overview of the Board and its decision making and scrutiny arrangements. At this session elected members were presented with a pack including the Board's vision for 2015, Corporate Plan and integrated risk management plan. Twenty one elected Members attended this session.

**Session 2:** Presentation on the Human Resources Directorate and Training and Operational Directorate, which was attended by eleven members.

**Session 3:** Presentations on the Community Safety Directorate and Strategic Planning Directorate, attended by thirteen members.

**Session 4:** Presentations on Operations Directorate and the Finance Directorate, attended by thirteen members.

- 6.07 In addition to the above sessions, twenty Board members attended the Scottish Fire Conference (2007) and the Board has continued to use its scheduled meetings to provide specific presentations on key issues facing the Service.
- 6.08 Going forward, Management should continue to ensure Members training needs are identified and addressed and that all Members are actively encouraged to attend sessions.

**Action Point 6**

**Risk Management Arrangements**

- 6.09 The Board has in place a risk register. During 2007/08 the Board revisited the risks within the risk register to ensure that only strategic risks facing the Board were recorded in the Corporate Risk Register. Risks identified have been assessed in terms of impact and likelihood on a scale of one to ten.
- 6.10 A risk management team has been established and has responsibility for reviewing the corporate risk register and updating the Board on key risks facing the service. The risk management team will review the corporate risk register and determine where risks should be reported within the Board.
- 6.11 Management should continue to review the Board's risk management arrangements with a view to embedding risk management throughout the Service including consideration of where risks and the corporate risk register is reported within the Service.

**Action Point 7**

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

- 6.12 We followed up the Board's progress in implementing recommendations made in our Interim Management Letter dated March 2007 and Annual Report to Members dated September 2007. Our Follow Up report was submitted to Management in March 2008 as part of the Interim Management Letter for 2007/08.
- 6.13 Of the 16 agreed recommendations reported in our follow up report, progress was reported as follows:

Status	Total
Action Implemented	11
Action in Progress	4
Limited/Little Progress to Date	0
No longer applicable	1
<b>Total</b>	<b>16</b>

- 6.14 The four actions which were in progress at the follow up visit were in respect of the implementation of a corporate asset management policy; the implementation of the training programme for newly elected members; the minimisation of payroll payments by cheque; and the need to update the staff expenses policy. The implementation of each of these recommendations is ongoing and currently being progressed by management.

## Financial Systems and our 2007/08 Internal Controls Report

- 6.15 Our Internal Controls Report was finalised in March 2008. The report contained four recommendations to improve controls including controls in relation to the processing of journals and reconciliation of the investment call account, all of which were graded low to medium risk.
- 6.16 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 2008/09 audit.

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

- 6.17 The Board's Internal Audit service is provided by South Lanarkshire Council through a service level agreement. During the 2007/08 year, Internal Audit undertook work in respect of:
- Asset Management
  - Expenses
  - Payroll
  - Follow Up work
- 6.18 In total, Internal Audit input 70 audit days at the Board during 2007/08. Internal audit's annual report was presented to the Performance and Audit Forum on 23 June 2008. The report included the opinion that:
- "...the overall opinion for the year 2007/08, based on the work undertaken in the last year is that general assurance can be placed on the adequacy and effectiveness of Strathclyde Fire and Rescue's internal control environment."*

## Prevention and Detection of Fraud and Corruption

- 6.19 Our approach has been determined through consideration of the incentives, pressures, opportunities, attitudes and any indicators of fraud.
- 6.20 We have reviewed certain elements of the Board's fraud and corruption arrangements, through discussion of key risk areas with senior management as well as reviewing associated controls and selected documentation.
- 6.21 Our enquiries of management and our testing of financial records 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.

## Fraud Submission

- 6.22 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.

## National Fraud Initiative

- 6.23 During 2007/08, Audit Scotland working with the Accounts Commission, external auditors and a range of public bodies in Scotland completed another major counter fraud exercise, known as the National Fraud Initiative in Scotland ("NFI").
- 6.24 This initiative is undertaken every two years as part of the statutory audits of public bodies. Strathclyde Fire and Rescue participated in the 2006/07 exercise, which completed during 2007/08.
- 6.25 NFI uses computerised data matching to compare a range of information held on public bodies' systems for example public sector pay and pensions, government register of deceased persons and housing benefits, to identify inconsistencies or other circumstances which may indicate fraud or error. Matches identified are subsequently provided to the public sector body for further investigation.



- 6.26 In order to participate in the 2006/07 NFI exercise, the Board worked closely with its twelve constituent local authorities to investigate potential matches. As reported in our Interim Management Letter in March 2008, the service investigated all potential matches identified and worked closely with the local authorities. No matches investigated as part of the 2006/07 exercise were found to be fraudulent.
- 6.27 A report was published by the Auditor General for Scotland and the Accounts Commission in May 2008 on the 2006/07 NFI exercise. The report highlighted that to date fraud and overpayments of £9.7 million had been found as a result of the 2006/07 exercise and that this amount is expected to continue to increase as further investigations are concluded.
- 6.28 The 2008/09 NFI exercise is planned to commence in October 2008. In our role as external auditors we will continue to review progress in respect of NFI. In advance of the 2008/09 NFI exercise, the Service should consider the actions highlighted to Management by Audit Scotland via a letter issued to all NFI participants dated April 2008, in particular concerning a review of the NFI approach adopted by the Board, consideration of the risk based datasets and into areas where the service is most at risk of fraud or overpayment.

#### **Action Point 8**

# 7. Performance Management Arrangements

## Overall Arrangements

- 7.01 The Board has established a corporate vision for 2015, this document sets out the overall vision for the service, in particular the Service's Seven Corporate Priorities. Set out within this Corporate Strategy are key targets and dates for achievement ranging from 2010 through to 2015. The Corporate vision is supported by an Integrated Risk Management Plan (IRMP). The IRMP establishes the key activities necessary over a three year period (2007 – 2010) to deliver the targets within the Corporate strategy.
- 7.02 Progress reports against the Corporate strategy and the IRMP are presented to the Board and scrutinised by the Performance and Audit Forum. In addition, the Board has developed a Suite of twenty two performance indicators which are regularly measured and progress reported to the Performance and Audit Forum.

## Performance Indicators

- 7.03 During June 2008 we reviewed the Board's arrangements for compiling data to submit performance indicator ("PI") information to Audit Scotland including an assessment of the accuracy of the performance information in line with the PI guide issued by Audit Scotland. The Board submit a return for four indicators:
- **Fire Casualties** – number of incidents resulting in casualties and number of fatal/non fatal per 10,000 population
  - **Accidental dwelling fires** – rate per 10,000 population of accidental fires
  - **Sickness absence** – percentage of rider shifts lost due to sickness and percentage of working time lost to sickness for all other Brigade staff
  - **Call response time** – calls handled in less than one minute and less than two minutes
- 7.04 All four indicators were graded "A" – "Data appears reliable in all material respects" and were submitted to Audit Scotland in line with the agreed reporting deadline.

## Best Value

- 7.05 Fire and Rescue authorities have a duty to achieve best value, as set out in the Local Government in Scotland Act 2003. Best Value features for the Fire Service include:
- Effective performance management and planning;
  - Increased public reporting and accountability;
  - Customer and citizen relationships; and
  - Leadership and scrutiny of elected members

- 7.06 In July 2008, Audit Scotland published its “Scottish Fire and Rescue Authorities 2007/08 Progress Report” following up on the progress Fire and Rescue Authorities (“FRAs”) had made in service reform since 2007. The report followed up progress across five key areas:
- Leadership and Governance;
  - Prevention and Risk Management;
  - Financial and Performance Management;
  - Workforce Management; and
  - Equality and Diversity
- 7.07 Overall the report found FRAs had made progress across a number of areas including engaging with elected members, taking a more strategic approach to partnership working, developing appraisal systems for staff and continuing to prioritise resources into community safety and fire prevention. However, the Accounts Commission also highlighted specific areas where progress had been slower than anticipated, including:
- Evaluating the impact, outcomes and cost effectiveness of community safety activity;
  - Development of comprehensive performance management arrangements and using these arrangements to focus improvement activity;
  - Providing robust evidence to demonstrate whether efficiency savings are being delivered; and
  - Further development of public reporting arrangements in order to meet statutory best value guidance.
- 7.08 The overall conclusion to the report was that FRAs Best Value arrangements are not as far developed as those in Local Authorities and that FRAs need to ensure that they make progress against all the elements of Best Value at a pace which recognises this gap. Going forward, Strathclyde Fire and Rescue should continue to review and enhance its arrangements to ensure best value is achieved, progressing the findings outlined in the Commission’s follow up report.

#### **Action Point 9**

### **National Performance Studies**

- 7.09 The Audit Scotland Performance Team is currently undertaking a review of asset management arrangements across public sector organisations in Scotland. This review incorporates Fire Services’ approaches to asset management with data being gathered through a questionnaire issued to Fire Authorities. A national report is planned to be published by the Accounts Commission and the Auditor General during 2009.

### **Partnership Working**

- 7.10 The Board will require to continue to work closely with the twelve constituent local authorities both in terms of agreeing financial settlements but also in respect of performance reporting. Each of the twelve local authorities have produced Single Outcome Agreements (“SOA”), as set out within the Concordat, and the Board will need to work closely with the twelve Local Authorities in delivering certain of the key measures and targets outlined in the SOAs. These measures and targets may vary between Local Authorities. The Board will also have a key role to play during 2008/09 when the SOAs are extended to community planning partners.

# Appendix 1: Action Plan

Risk Ratings:	
Our findings are classified based on the following risk ratings:	
High	Significant weakness requiring immediate attention by management.
Medium	Weakness identified which needs to be rectified but there is no material impact on the achievement of objectives.
Low	Minor weakness identified.

Recommendation No.	Recommendation and Risk Rating	Management Response
1. Section 3, paragraph 3.06	<p>For the 2008/09 financial statements Management should only group capital expenditure where appropriate and in individual asset cases where expenditure is above the £6,000 de minimus level.</p> <p><b>Risk Rating – Medium</b></p>	<p>Agreed</p> <p><b>Responsible Manager:</b> Deputy Director (Finance)</p> <p><b>Implementation Date:</b> June 2009</p>
2. Section 3, paragraph 3.07	<p>Management should introduce an appropriate mechanism to record all operating equipment on an individual basis within the asset register.</p> <p><b>Risk Rating – High</b></p>	<p>Agreed</p> <p><b>Responsible Manager:</b> Deputy Director (Finance)</p> <p><b>Implementation Date:</b> June 2009</p>
3. Section 3, paragraph 3.10	<p>Management should review its depreciation policy to charge a full years depreciation in the year of acquisition and therefore matching the annual depreciation charge with the release from the government grants deferred account.</p> <p><b>Risk Rating – Medium</b></p>	<p>Agreed</p> <p><b>Responsible Manager:</b> Deputy Director (Finance)</p> <p><b>Implementation Date:</b> June 2009</p>

Recommendation No.	Recommendation and Risk Rating	Management Response
4. Section 5, paragraph 5.06	<p>Management should continue to monitor the level of Board Reserves, in light of the new financial arrangements to ensure that reserves can be maintained at the planned level and ensure compliance with the carry forward requirements set out in the Police and Fire Services (Scotland) Act 2001.</p> <p><b>Risk Rating</b> – Medium</p>	<p>This is done as a matter of course and will be reflected in the budget setting process for 2009/10.</p> <p><b>Responsible Manager:</b> Deputy Chief Officer</p> <p><b>Implementation Date:</b> Ongoing review</p>
5. Section 5, paragraph 5.07	<p>Management should continue to review closely the financial position of the Board and report to Members any variances compared with approved budget, including the efficiency plan.</p> <p><b>Risk Rating</b> – Medium</p>	<p>This is done as a matter of course through regular monitoring reports to the Board and will be reflected in the budget setting process for 2009/10.</p> <p><b>Responsible Manager:</b> Deputy Director (Finance)</p> <p><b>Implementation Date:</b> Ongoing review</p>

Recommendation No.	Recommendation and Risk Rating	Management Response
6. Section 6, paragraph 6.09	<p>Management should continue to ensure members training needs are identified and addressed and that all members are actively encouraged to attend sessions.</p> <p><b>Risk Rating</b> – Medium</p>	<p>Following the programme of induction training for members, it is intended to carry out a review of the training to date, to inform the development of future training programmes.</p> <p><b>Responsible Manager:</b> Deputy Chief Officer</p> <p><b>Implementation Date:</b> 31 March 2009</p>
7. Section 6, paragraph 6.11	<p>Management should continue to review the Board's risk management arrangements with a view to embedding risk management throughout the service including consideration of where risks and the corporate risk register is reported within the Service.</p> <p><b>Risk Rating</b> – Medium</p>	<p>This work is currently being undertaken by the Strategic Planning Directorate.</p> <p><b>Responsible Manager:</b> Assistant Chief Officer (Strategic Planning)</p> <p><b>Implementation Date:</b> 30 June 2009</p>
8. Section 6, paragraph 6.28	<p>In advance of the 2008/09 NFI exercise the Service should consider the actions highlighted to Management by Audit Scotland via a letter issued to all NFI participants in April 2008, in particular a review of the NFI approach adopted by the Board and consideration of the risk based data sets.</p> <p><b>Risk Rating</b> – Medium</p>	<p>Completed – 2008/09 NFI exercise is now underway in accordance with guidelines.</p> <p><b>Responsible Manager:</b> Deputy Director (Finance)</p> <p><b>Implementation Date:</b> Complete</p>
9. Section 7, paragraph 7.08	<p>Strathclyde Fire and Rescue should continue to review and enhance its arrangements to ensure best value is achieved and progress the findings outlined in the Commissions follow up report.</p> <p><b>Risk Rating</b> – Medium</p>	<p>At its meeting in August 2008 the Board was advised of Audit Scotland's findings and agreed that future progress in relation to the associated recommendations would be reported through the Performance and Audit Forum.</p> <p><b>Responsible Manager:</b> Assistant Chief Officer (Strategic Planning)</p> <p><b>Implementation Date:</b> Ongoing review</p>

# Appendix 2: Communication to Management

International Auditing Standard (“IAS”) (UK&1) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance.

Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within IAS 260 together with reference to the relevant communication with you during 2007/08 or comments as appropriate.

Communication Required under IAS 260	Reference/Comment
Engagement letters	Signed engagement letter with Audit Scotland at start of our five year appointment.
Independence	Audit planning document reported to December 2007 Performance and Audit Forum and confirmed no member of the audit team has any direct interest, financial or otherwise in Strathclyde Fire and Rescue.
Audit Approach and Scope	Audit planning document – reported to Performance and Audit Forum December 2007.
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Members and the Controller of Audit.
Potential Effects of Material Risks and Exposures	Planning document – December 2007.
Audit Adjustments	Section 3 of our Annual Report to Members 2007/08.
Material Uncertainties relating to Going Concern	Section 3 of our Annual Report to Members 2007/08.
Disagreement with Management about Matters that could be Signification to the Financial Statements	None identified.
Expected Modifications to the Auditors Report	None identified.
Letter of Representation	Signed by Management 28 August 2008.
Material Weaknesses in Internal Control	None identified. Internal Control findings reported in our Interim Management Letter (March 2008)

Communication Required under IAS 260	Reference/Comment
Fraud	Discussed fraud arrangements with management throughout the audit. Annual fraud return submitted to Audit Scotland.
Laws and Regulations	We have not identified any material breaches of laws and regulations which would impact on the 2007/08 financial statements.
Audit Materiality	Audit Planning document – presented to Performance and Audit Forum December 2007.
Fair Value Measurement and Disclosure	Included in representation letter, signed by Management 28 August 2008.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

### Formal Reporting to Management during 2007/08

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2007/08 are summarised below:

Formal Output	Timing
Outline Audit Plan	December 2007
Interim Management Letter (including follow up of prior year recommendations)	March 2008
Annual Report to Board Members and the Controller of Audit	August 2008
Audit Opinion	August 2008



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

*This report is intended solely for the information of the Strathclyde Fire & Rescue Board and the Controller of Audit. 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 & Rescue agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Strathclyde Fire & Rescue shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, Strathclyde Fire & 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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