

September 2009

Strathclyde Fire & Rescue

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

2008/09 Audit

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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the Service or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Introduction

Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope of the Audit

Our overall responsibility as external auditor of Strathclyde Fire & 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. 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.

Our audit has been planned and conducted to take account of these wider perspectives.

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 arising from the audit of financial statements to those charged with governance of an entity.

This Annual Report to the Board, together with previous reports to the Performance and Audit Forum throughout the year, discharges the requirements of ISA 260.

Set out below for information is a summary of our responsibilities as your external auditors and the responsibilities of the Board and the Treasurer.

Responsibilities of the Treasurer and the Board	Responsibilities of External Audit
<ul style="list-style-type: none">• Ensuring proper administration of the Board's financial affairs;• Managing the Board's affairs to secure economic, efficient and effective use of resources and safeguard its assets;• Selecting suitable accounting policies and applying them consistently;• Making judgements which are prudent, and estimates which are reasonable and prudent in line with the CIPFA/LAASAC Code of Practice on local authority accounting in the United Kingdom;• Maintaining proper accounting records.	<ul style="list-style-type: none">• Issuing an audit report (opinion) on whether the financial statements give a true and fair view of the financial position of the Board as at 31 March 2009, and its income and expenditure for the year then ended;• Determining whether the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973.

Acknowledgment

We would like to formally extend our thanks to all Strathclyde Fire & Rescue managers and staff for the assistance they have given us during the audit process.

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29 September 2009

2. Executive Summary

Audit Opinion and Accounting Issues (Section 3)

Our audit opinion concerns the presentation of Strathclyde Fire and Rescue's financial position as at 31 March 2009 and its income and expenditure for the year then ended.

We are pleased to report that our opinion on the true and fair view of the financial statements is **unqualified**.

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

- Actual pension payments in relation to the New Firefighters' Pension Scheme were originally charged to the General Fund rather than the FRS 17 pension costs. This treatment requires Scottish Government regulation which has yet to be put in place. An adjustment was required to reflect the FRS 17 pension costs and this has resulted in a reduction in the General Fund balance by £2.4 million. The Scottish Government has indicated its intention to introduce regulation in 2009/10 to support the reversal of these costs from the General Fund to the Pensions Reserve in future years and retrospectively. This national issue only came to light in late August 2009 and has resulted in a delay of the issuing of our audit opinion whilst a decision was taken by Audit Scotland regarding how to proceed with this nationally;
- The revaluation of Land and Buildings resulted in an upward revaluation of £36.92 million and an impairment charge of £11.81 million.

- A £0.97 million impairment of a short term investment caused by the failure of Icelandic banks has resulted in a charge to the Income and Expenditure Account. The Board has taken advantage of the Scottish Government Capital Finance Regulations to defer the impact of the impairment on the General Fund.

Financial Management and Performance (Section 4)

For the year ended 31 March 2009, Strathclyde Fire & Rescue reported an overall deficit of £58.18 million. After adjusting this in-year deficit to reflect the necessary statutory and non statutory adjustments through the Statement of Movement on the General Fund Balance, the Board recorded a reduction in the General Fund of £2.39 million for the year compared to the budgeted reduction of £3 million. However, in addition to this there was a further £1.2 million reduction to the General Fund as a result of a prior year adjustment in relation to FRS 17 costs. The total effect is a £3.59 million reduction in the General Fund.

Financial Forecasts for 2009/10 (Section 5)

The Board has prepared detailed financial forecasts as part of its financial planning process. The revenue budget for 2009/10 forecasts an expenditure budget totalling £155.66 million including a contribution to reserves of £1.1 million. Particular cost pressures in respect of pension costs, fuel and utilities remain.

Governance and Business Risks (Section 6)

The findings from our consideration of the Board's governance arrangements were reported in our 2008/09 Interim Management Letter. The Board has reviewed arrangements in place and is taking steps to implement changes to further enhance the governance environment.

Good arrangements exist for partnership working, financial management and performance management.

Systems of Internal Control (Section 7)

The Code of Audit Practice requires us to review and report on the Board's Statement on the System of Internal Financial Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement on the System of Internal Financial Control.

Audit Scotland requires us to review the progress made by the Board regarding the investigation of matches that were identified as a result of the 2008/09 National Fraud Initiative (NFI) exercise. As at 31 July 2009 the Board had made good progress regarding the investigation of matches.

Recommendations

Where appropriate, we have made recommendations for improvement. These are summarised in Appendix A along with management's responses.

3. Audit Opinion and Accounting Issues

Audit opinion

The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the external 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 whether the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the Board as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Our opinion for the year end 31 March 2009, which is in the format prescribed by the Accounts Commission for Scotland is **unqualified**.

Police and Fire Services (Scotland) Act 2001

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 constituent local authorities. In addition, the cumulative balance (the 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 2009 was:

Financial Targets	Achievement
3% in year carry forward	The Board has not carried forward any in year surplus into 2009/10. Therefore, this requirement has not been exceeded.
5% cumulative carry forward	The Board's cumulative carry forward into 2009/10, excluding the pension commutations reserve, is £3.626 million, representing 2.4% of the constituent local authority contributions.

Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a good standard. Overall an efficient audit process was achieved through an effective working relationship with your staff.

Preparation and Approval

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 2008: A Statement of Recommended Practice ("SORP").

The Board's draft financial statements were signed as authorised for issue by the Treasurer to the Board on 25 June 2009 and submitted to the Controller of Audit by the statutory deadline of 30 June 2009.

Audit Adjustments

During the course of our audit a number of disclosure adjustments were discussed and agreed with management. Following these discussions, management has revised the financial statements to reflect our recommended adjustments.

Under International Standards on Auditing ("ISA") 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.

Going Concern

The Board's balance sheet contains an excess of liabilities over assets of £678.95 million (£702.05 million in 2007/08) due to the accrual of pension liabilities. An excess of liabilities over assets is one of the indicators that may suggest concerns regarding the ability of an organisation to continue as a going concern. Therefore in accordance with International Standards on Auditing ("ISA") 520 we have considered whether the Board is entitled to prepare its financial statements on the going concern basis.

The Board has adopted the going concern basis for the preparation of its financial statements as the pensions liability does not impact on its underlying ability to meet its current and ongoing commitments. Future pension payments will be made as they fall due from contributions from constituent authorities through the precept levy.

Formal representations have been obtained from management in this regard and we agree with the basis of preparation of the accounts.

Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

FRS 17 – Retirement Benefits

In relation to the Board's employer's pension costs, Scottish Government regulations generally requires that the difference between retirement benefit costs as calculated under FRS 17 and the Board's actual employer's pension contributions are charged to the Pensions Reserve. No regulation is currently in place to permit this in respect of the New Firefighters' Pension Scheme which commenced from 6 April 2006.

This national issue only came to light in late August 2009 and has resulted in a delay of the issuing of our audit opinion whilst a decision was taken by Audit Scotland regarding how to proceed with this nationally. The cumulative impact since the inception of the scheme during 2006/07 totals £2.4 million which is material to the financial statements. The Treasurer to the Board has agreed to make the necessary adjustments to ensure that the Board has complied with the Accounting Standard.

Therefore, for the New Firefighters' Pension Scheme, the full FRS 17 costs since the scheme's inception have been charged against the General Fund balance. This has led to a decrease in the General Fund of £2.4 million and an increase in the Pension Reserve of £2.4 million. If this situation is corrected by regulation during the 2009/10 financial year, and assuming it can be applied retrospectively, the adjustment will be reversed by increasing the General Fund by £2.4 million.

Action 1

Revaluation of Land and Buildings

The Board is required to revalue its Land and Buildings every 5 years. During 2008/09 the entire estate was revalued. For a number of properties that had not been valued during the five year cycle the fluctuations in value were significant.

The revaluation exercise resulted in an increase of £36.92 million. In addition, there was an impairment charge of £11.81 million to the Income and Expenditure Account for the properties where values had declined.

The Revaluation Reserve was established following the change in accounting treatment required by the 2007 SORP. The balance in the Revaluation Reserve at 31 March 2009 was too small in most instances to absorb the downward revaluations of properties, meaning the downward revaluation had to be charged to the Income and Expenditure Account in the year.

The accounting entries in future years require that detailed information is held in respect of fixed assets to enable adjustments to be made to the Revaluation Reserve for differences between historic depreciation and depreciation based on the revalued amounts, as well as transfers to and from the Revaluation Reserve and Income and Expenditure account for future fluctuations in value.

The Board records information on fixed assets on a spreadsheet. This presents a potential risk to the Board in future years if information held on fixed assets is not sufficient to comply with accounting requirements and is insufficient to maintain an accurate understanding of the assets held by the Board. Also there is an increased risk of human error attached to using a manual spreadsheet which could result in inaccurate fixed asset records.

Management should consider acquiring an automated fixed asset system to ensure that an accurate Fixed Asset Register continues to exist.

Action 2

Impairment of Icelandic Bank Deposits

The Board had £3 million invested in Heritable Bank at the time of the collapse of Icelandic banks. Heritable Bank is now in administration and so the carrying value of the investments has been impaired by £0.97 million on the basis of information provided by the Bank's administrators.

The impairment has been taken to the Income and Expenditure Account. The Board has taken advantage of the Scottish Government Capital Finance Regulations to defer the impact of the impairment on the General Fund with £0.83 million (the impairment charge net of the interest element) being transferred to the Financial Instrument Adjustment Account. This amount will have to be charged to the Income and Expenditure Account in 2010/11.

International Financial Reporting Standards (IFRS)

The Chancellor's announcement in the 2008 Budget introduced the requirement for local government bodies to adopt IFRS for 2010/11, including the restatement of 2009/10 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting. Central government bodies and NHS Boards are one year ahead of local authorities in this process, and had to produce a re-stated IFRS compliant balance sheet as at 31 March 2008 by the end of November 2008, and are now required to produce full shadow IFRS accounts by 30 September 2009. This exercise has shown that those organisations which have planned adequately and dedicated sufficient resources to this project are now best placed to produce shadow accounts by the end of September.

It has been announced that local authorities, including Police and Fire authorities, will be required to produce a re-stated IFRS compliant opening balance sheet as at 1 April 2009 by the end of February 2010. Strathclyde Fire and Rescue has signed up to the CIPFA and PwC IFRS advisory service in order to assist with this project.

4. Financial Management and Performance 2008/09

The table below summarises the financial performance for 2008/09:

	£000s	£000s
Gross Expenditure	161,032	
Gross Income	(11,693)	
Net Cost of Services		149,339
Net Operating Expenditure		208,266
(including impact of loss on disposals, interest receivable & payable and pension interest costs and returns on assets)		
Funded by:		
Precepts from Constituent Authorities		(150,086)
Income & Expenditure deficit for the year		58,180
Amount required to be credited to the general fund balance		(55,790)
Prior Year Adjustment		1,200
Decrease in the General Fund balance		3,590

Financial Performance 2008/09

For the year ended 31 March 2009, the Board reported an overall deficit of £58.18 million (£56.28 million in 2007/08) in the Income and Expenditure Account.

After adjusting this in-year deficit to reflect the appropriate statutory and non-statutory adjustments, the overall in year reduction in the general fund balance is £3.59 million.

These adjustments included £40.46 million relating to Financial Reporting Standard 17 retirement benefits and £11.81 million relating to the impairment of Land and Buildings following the revaluation exercise in the year.

Performance against Budget 2008/09

The Board's budget for 2008/09 was set at £148.59 million (2007/08 £142.26 million) to be financed primarily by precepts from constituent local authorities of £145.59 million with a £3 million contribution from the Board's general reserves to achieve a breakeven financial position.

The Board achieved an underspend against this budget with only £1.19 million contributed from the general fund during the year. The remaining £2.4 million reduction in the general fund relates to the FRS 17 costs for the New Firefighters' Pension Scheme (£1.2 million of which is a prior year adjustment to reflect the FRS 17 costs in 2007/08 and a further £1.2 million

in 2008/09). This outturn position was achieved as a result of a number of underspends and areas of additional income, the most significant of which are outlined in the paragraphs which follow.

Employee Costs

Pension costs were underspent by £1.3 million as a result of the impact of lower levels of ill-health and standard retirements. In addition to this, funding of £4.49 million was received from the Scottish Government via the twelve constituent authorities to cover the increased pension commutations.

Other Income Sources

Income receipts exceeded budget for training courses, vehicle maintenance and catering, amounting to £0.26 million of additional income.

Fuel Costs

The underspend and additional income above were partly offset by significant rises in fuel costs during the year. This resulted in overspends for transport and property costs of £0.26 million and £0.03 million respectively during the year.

Capital Expenditure

The Board completed the purchase of land at the Clydesmill Industrial Estate during 2008/09. This land is being used for the new Training Centre Complex and a new Fire Station. The £8.25 million land acquisition is held as awaiting development at 31 March 2009 as both projects are still at the design stage.

The Board continues to maintain an up to date fleet of vehicles and as part of this programme, has added 28 new vehicles in the year, replacing 34 vehicles disposed of in the year. Six vehicles remain as assets under construction at the year end and will be completed during 2009/10.

The Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice ("SORP") requires that a full valuation of land and building be carried out every five years. All land and buildings held by the Board were valued at 31 March 2009.

Along with the movements in additions and disposals during the year the full revaluation of the estate has resulted in an increase in the net book value of tangible fixed assets to £195.55 million, an increase of £34.84 million from the prior year.

No significant fixed assets were disposed of during the year.

5. Financial Forecasts for 2009/10

The 2009/10 budget has been developed as part of the Medium Term Financial Strategy 2009/10 – 2010/11, covering the period to the end of the current spending review period. This was approved by the Board in October 2008.

The proposed budget and funding arrangements over the remainder of the spending review period are as follows:

	2009/10 £000s	2010/11 £000s
Total Budget	155,655	160,546
Funded By:		
Agreed Precepts	149,523	151,915
Additional Pension Commutations	2,418	2,062
Additional Pension Funding	2,969	2,969
Scottish Government - Pension Pooling of Risk	1,845	-
Reserves	(1,100)	3,600
Total Funding	155,655	160,546
Percentage of Precept	2.7%	1.6%

The strategy and corresponding revenue budgets have been developed to ensure break even positions based on the agreed levels of funding from constituent authorities and additional Scottish Government funding, whilst developing and maintaining a prudent reserves strategy.

The Board is committed to ensuring general reserves stay above 1.5% and below 5% of the precept income. The approved budgets will have the following impact on the reserves strategy:

Reserve Balances	2009/10 £000s	2010/11 £000s
Opening Balance (excl pensions)	6,026	7,126
Added to reserves	1,100	
Taken from reserves	-	3,600
Closing Balance (excl pensions)	7,126	3,526
Percentage Precept	4.8%	2.3%

In 2009/10 and 2010/11 the closing reserves balance is budgeted to be within the Boards tolerable threshold.

The Board is taking advantage of the Scottish Government option to defer the impact of the impairment of the Icelandic deposits until 2010/11, allowing the Board to remove the impact of the impairment from the Income and Expenditure Account in 2008/09. It is hoped that in the meantime an increased settlement can be agreed or possible arrangements are made to recover the whole of the balance. However, should the Board not recover the 80% currently indicated in 2010/11 by the Administrators, the financial impact of the impairment will have to be recognised; this will reduce the general reserve balance.

The Board should review the reserve strategy to ensure the impact of the Icelandic bank investment impairment on the closing general reserve balance in 2010/11 is considered.

Action 3

Financial Pressures

There are a number of financial pressures that could prevent the Board from achieving its Medium Term Financial Strategy and beyond as follows:

- Potential decreases in core funding as a result of the government's forthcoming financial settlement;
- Pay and pensions inflation;
- Fuel and energy costs;
- Reduced interest rates;
- Local Government Pension Scheme changes; and
- Equal pay.

The Board are fully aware of these and are committed to actively managing them to ensure that the Medium Term Financial Strategy is achieved.

Planned Savings

The Board must identify savings to meet its financial targets each year, with the Scottish Government requiring that savings of 2% be realised each financial year, which can be re-invested in the service. The budgets discussed above include an element of efficiency savings. In 2009/10 efficiency savings of £3.08 million have been identified, representing 2% of the annual budget.

These efficiencies must be achieved to realise a balanced budget, and management are committed to delivering these during the financial year.

Financial Plan

The Board has reviewed the 2009/10 – 2011/12 Medium Term Financial Strategy when preparing and approving the 2009/10 revenue budget and will do so again in 2010 when approving the final budget of this spending review period.

6. Governance and Business Risks

We comment on the following areas throughout this section of the report:

- Overall Governance Arrangements
- Partnership Working
- Financial Management
- Performance Management

We have also reported in detail on a number of these areas in our Interim Management Letter (IML) for 2008/09 submitted to the Performance and Audit Forum on 15 June 2009.

Overall Governance Arrangements

Governance arrangements have been reported on in our IML submitted to the Performance and Audit Forum on 15 June 2009. No changes to the governance arrangements have been identified since then. The following paragraphs outline the continuing arrangements.

The Board of Strathclyde Fire and Rescue is the Fire and Rescue Authority for the West of Scotland. The Board is responsible for providing a fire and rescue service to almost half the population of Scotland – about 2.3 million people across a 14,000 square kilometre area that includes rural and island communities and Scotland’s largest city, Glasgow.

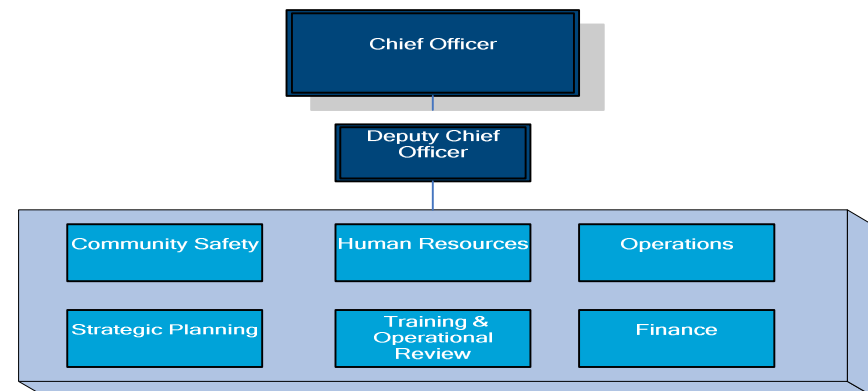
The Board has 34 members who represent the twelve unitary authorities that make up Strathclyde. Membership is based on the size of each respective local authority and the current Convener is from North Lanarkshire Council.

The Board is supported by a number of sub-committees, in particular:

- Executive Sub Committee which meets as and when required;
- Budget Scrutiny Forum;
- Performance and Audit Forum; and
- Employee and Equality Forum.

The forums meet four times a year, with each forum consisting of fifteen members with at least one member from each authority.

The Service itself consists of the following six Directorates: Operations, Community Safety, Human Resources, Training and Operational Review and Finance. The senior management team is responsible for the ongoing management of the Board, which meets monthly. The diagram below illustrates this structure.



Partnership Working

The Board has a history of working effectively with a number of partners. This will become increasingly important in the future with the introduction of community based Single Outcome Agreements (SOAs) in 2009/10 as these will rely on good working relationships amongst community planning partners. These partnership groups are important to Strathclyde Fire & Rescue as they are central to the Board's strategy of a preventative approach to fire safety and the raising of awareness around community safety.

The Board is also involved in partnership working with both the Strathclyde Police Authority and Scottish Ambulance Service. A range of initiatives are in place to realise efficiencies from the sharing of resources such as vehicle workshops.

Financial Management

Management receives detailed financial information each month to help manage performance against budgets and control expenditure. Devolved budgets are used meaning that management information is provided to a number of different levels of staff at an appropriate level of detail, as a means to support the effective monitoring of expenditure. All unusual variances against budget must be explained to the Finance Department in standard returns on a monthly basis. The Finance Department consolidates the management accounts and explanations of movements to form a monthly finance pack that is used to monitor the financial position of the Board at the Corporate Management Team Meetings and each meeting of the Board. The information produced, and frequency of reporting, ensures decision makers have appropriate information on which to base decisions.

Financial management arrangements have been reported on further in our Interim Management Letter. No changes to the financial management arrangements have been identified since that report was prepared.

The Board has an updated Medium Term Financial Strategy covering the 3 year period to 2011/12, while recognising the uncertainty surrounding 2011/12 is beyond the current spending review period. Work has now begun to review this strategy and consider strategies and budget assumptions for the next three year period from 2010/11

Performance Management

Overall Arrangements

The Board's Corporate Vision for 2015 sets out the overall vision for the service, in particular the Service's Seven Corporate Priorities. The Corporate Strategy sets out 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.

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

During July 2009 we reviewed the Board's arrangements for compiling data to submit performance indicator ("PI") information to Audit Scotland. The Board submits 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

- **Call response time** – calls handled in less than one minute and less than two minutes
- **Sickness absence** – percentage of rider shifts lost due to sickness and percentage of working time lost to sickness for all other staff

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.

The Performance Indicators for Fire Casualties and Accidental dwelling fires have both improved since 2007/08. However, call response time increased from 2007/08 by over 4 seconds per call. This was attributed to staff turnover within Operations Control and the resulting high number of trainees. However, this performance is expected to improve as the staff become more experienced.

7. Systems of Internal Control

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Performance and Audit Forum in our Interim Management Letter on 15 June 2009.

The report contained nine recommendations to improve controls, one of which was graded as higher risk. The higher risk recommendation was in relation to controls over amendments to payroll standing data. It was found that data input to the payroll system was not being counter checked. Management implemented controls to counter check payroll input immediately following the interim visit and carried out an exercise to confirm all changes made to standing data during 2008/09 to ensure changes agreed to supporting documentation.

For all the recommendations, management has completed an action plan detailing those individuals responsible for implementation and the timetable for completion. We will follow up this action plan during our 2009/10 audit.

Statement on Internal Financial Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Financial Control.

The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted.

Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement. The issues over payroll controls raised during the interim visit have been acknowledged in the statement along with management response and actions taken subsequently to address these weaknesses.

Follow up of outstanding recommendations

We followed up the Board's progress in implementing recommendations made in the prior year. The follow up progress was reported in the Interim Management Letter, considered at the Performance and Audit Forum meeting on 15 June 2009.

At the time of reporting, of the 16 agreed actions, progress was as follows:

Status	Total
Action implemented	4
Action in Progress	3
Little action to date	-
Implementation date not passed at time of our audit / No longer applicable	9
Total Recommendations	16

Overall, the Board has fully implemented four recommendations and commenced action on a further three. There are no recommendations where no action has been taken representing a commitment by management to enhance the control environment.

National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue 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.

NFI in Scotland is now well underway following the release of the identified possible matches in February 2009. The Board has been investigating the matches since February to consider if any instances of fraud have been identified.

Good progress has been made in investigating Payroll to Payroll matches. The Board had 102 matches of which 81 have now been closed. All matches have been opened and the remaining 21 cases are under investigation at present.

No instances of fraud have been identified through the exercise to date. The majority of matches relate to retained fire-fighters who have other primary employment. Given the smaller number of matches relative to a local authority it is manageable for the Board to investigate every case individually.

Internal audit

The role of internal auditing is determined by management and therefore its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2008/09 South Lanarkshire Council continued to act as the Board's internal auditors. We have reviewed the work of internal audit and have, where appropriate, used their work to help develop our audit programme.

Information Technology General Controls

An additional piece of work was carried out in 2008/09 in response to the virus attack on the Board in January 2009. The attack by the Conficker virus resulted in significant downtime for the Finance Department and highlighted some weaknesses in the Board's general Information Technology controls.

There was no impact on the accounts for the year 2008/09 and therefore details of the work carried out and the findings have been reported in a separate management letter entitled "Information Technology General Computer Controls".

A number of recommendations were made including:

- Improvement of segregation of duties;
- The application of IT Policies and Procedures; and
- The development of a Disaster Recovery Plan.

Management had been aware of these issues and have supplied satisfactory management comments detailing how these recommendations will be addressed.

Procurement

In addition to our normal audit procedures, we undertook additional work in relation to the process and procedures that are followed for tendering contracts that are above the Official Journal of the European Union (OJEU) threshold. During 2008/09 there were four contracts awarded that were above the threshold for service, supplies and works contracts, which were as follows:

Description of Contract	Successful Contractor	Value of Contract
Architectural Consultancy Service for Training Centre Project	Cooper Cromar	£970,300
Project Management Consultancy Services for Training Centre Project	Gardiner and Theobald	£422,550
Civil/Structural Engineering Consultancy Services for Training Centre Project	URS Corporation Ltd	£394,380
Mechanical and Electrical Consultancy Engineering Services for Training Centre Project	Hully and Kirkwood	£281,700

A review of the tendering process undertaken by the Board for each of the contracts confirmed that overall compliance with OJEU was effective but resulted in two areas of minor non-compliance being identified. These were as follows:

- OJEU rules stipulate that Invitations to Tender must be for a minimum of 35 days for contracts and in one of the four projects we identified that the Board allowed only 33 days whilst technically failing to meet the requirements of OJEU no adverse impact was intimated by suppliers.

- As an administrative task, award notices must be sent to OJEU within 48 days of the date that the final award letter is sent to the preferred supplier, but the Board has technically failed to meet this deadline for all of the 4 contracts awarded during 2008/09. No adverse impact on suppliers was experienced as full supplier debriefs had been provided within the mandatory timescales..

Management should ensure that the Board is in compliance with all aspects of the OJEU regulations.

Action 4

Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	<p>Management should be actively involved in the situation regarding the New Firefighters' Pension Scheme. The necessary adjustments between the General Fund and the Pensions Reserve should be made if the Scottish Government implement the regulation retrospectively to allow FRS 17 pension costs to be replaced with the actual in-year pension payments. (High Risk)</p>	<p>Management Response: SFR will continue to seek assurances from the Scottish Government that this legislation will be implemented as a matter of urgency, and progress will be closely monitored.</p> <p>Responsible Officer: Deputy Director (Finance) Due Date: 31 March 2010</p>
2	<p>Capital accounting in the Local Authority sector has become increasingly more complex following the introduction of the Revaluation Reserve in 2007/08. It has required the Board to hold more detailed information on each asset which is difficult to maintain on a spreadsheet. Management should consider acquiring an automated fixed asset system to ensure that an accurate Fixed Asset Register continues to exist. (Medium Risk)</p>	<p>Management Response: An upgrade to financial systems in October 2009 will include the ability to incorporate a fixed asset module. The Finance Directorate will commence work to implement this new solution and integrate with existing financial systems.</p> <p>Responsible Officer: Financial Systems Manager Due Date: 31 March 2010</p>
3	<p>Should the Board not recover the 80% of its short term investment in the Heritable Bank in 2010/11 as currently indicated, the financial impact of the impairment will have to be recognised. This will significantly reduce the general reserve balance and could result in the Board breaching its reserve strategy.</p> <p>The Board should review the reserve strategy to ensure the impacts of the impairment on the closing general reserve balance in 2010/11 are considered. (Medium Risk)</p>	<p>Management Response: SFR are actively pursuing recovery of funds with Heritable Bank Plc through CoSLA, in conjunction with all other affected local authorities. The reserve strategy will be reviewed taking account of possible impairment.</p> <p>Responsible Officer: Deputy Director (Finance) Due Date: 31 March 2010</p>

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4	<p>Failure to comply with OJEU tendering regulations can result in challenges from bidding suppliers and potential financial penalties from the European Union.</p> <p>The Board should review the policies and procedures for tendering for contracts over the OJEU threshold to ensure that these are compliant with the most up-to-date regulations in order to minimise the risk of non-compliance. These should subsequently be strictly adhered to by staff within the procurement department. (High Risk)</p>	<p>Management Response:</p> <p>SFR has introduced a software solution which supports our compliance with OJEU requirements. We understood there to be a system control which did not allow us to breach the 35 day limits for OJEU. We will investigate with our software provider the validation routines on OJEU dates in order that the 35 day limit is not breached and if appropriate ask that an update to the software is included in their next release.</p> <p>The system has now been amended to prompt where contract notices are still due. Working practices have been amended to review outstanding notices before the 48 day deadline</p> <p>Responsible Officer: Procurement Manager Due Date: 30 September 2009</p>

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