

Strathclyde Fire and Rescue

Annual Audit Report 2011-12

October 2012



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1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to the Board of Strathclyde Fire and Rescue (the Board) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2012-13. This is therefore the first year of our appointment. This document summarises the key outcomes from our 2011-12 audit of the Board.

National Fire Reform

During the year Royal Assent was given to the Police and Fire Reform (Scotland) Act 2012. From the 1 April 2013 the Board will no longer be responsible for service provision. Strathclyde Fire and Rescue Service are heavily involved in the reform and lead a number of working groups.

The Board need to maintain appropriate governance and service provision through- out 2012-13.

Summary findings

Overall the Board is in a good financial position with strong levels of reserves. The Board has coped well in achieving efficiency savings in its operations to minimise the impact on reserves whilst maintaining a good level of operational performance in responding to incidents quickly, reducing casualties and deaths from fire incidents and increasing awareness of fire safety in communities.

During the year the Accounts Commission reported on the governance arrangements associated with the retirement and re-employment of the Chief Fire Officer in 2010. This report draws attention to significant weaknesses in governance arrangements relating to this decision. The Board has considered the Accounts Commission report and is taking appropriate action to address identified gaps in governance arrangements. Our audit of governance in 2011-12 has not identified any significant weaknesses and we have concluded that governance arrangements are currently working well.

Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> The Board currently has a general fund balance of £10.1m, a decrease of £1m from the prior year as part of a planned use of reserves. The balance is above the Board's target for reserves balances. The Board recorded a slight underspend against combined capital and revenue budget in the year. Capital expenditure on the approved programme was below budget, however additional capital expenditure funded from revenue was incurred.
Financial Statements	<ul style="list-style-type: none"> We have given an unqualified opinion on the financial statements of the Board. The draft financial statements were of a good standard and, as a result, we proposed only minor adjustments.
Governance	<ul style="list-style-type: none"> Governance arrangements have generally worked well during the year. The Controller of Audit published his report covering the review of the governance arrangements for the retirement and re-employment of the Chief Fire Officer in 2010. The report is critical of the decision making process, but acknowledges that the decision itself was not unreasonable
Performance	<ul style="list-style-type: none"> The Board is making good preparations for the transition to a single fire service. The Board received a positive Best Value report from Audit Scotland during the year, and has good performance management arrangements in place.

Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by the Finance Team and other staff during our audit.

2. Financial Position

The Board currently has a general fund balance of £10.1m, a decrease of £1m from the prior year. The Board remained in line with budget recording a small underspend against the combined revenue and capital budget in the year and is making good progress in delivering required efficiency savings as it moves towards the creation of a single fire service for Scotland.

Financial Strategy

When the revenue budget was set in January 2011, it was set in the context of a very challenging financial settlement. Local authority funding for 2011-12 had been reduced by 2.8% in cash terms from the prior year.

In September 2011 the Scottish Government announced a Police and Fire Reform Bill and began progressing plans to merge the eight current fire services into one national service. The Bill received royal assent in August 2012 and the merger is scheduled for 1 April 2013.

The Board has therefore managed its financial and operational performance well during 2011-12 in the context of changing expectations and priorities.

Financial Position

The Board is in good financial health, with strong levels of reserves and a clear financial strategy for the future. The key financial priorities for the Board remain the same throughout this period of reform.

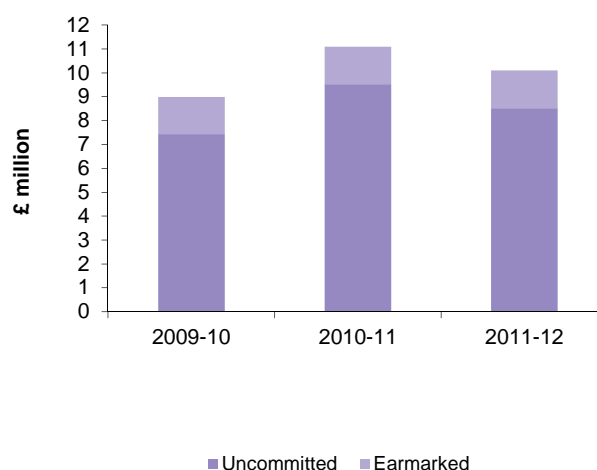
The Board had set a target to steadily reduce reserves over the period 2011-2015 from 8.2% to 2.8%. The planned reduction in reserves for the period 2012-13 has been taken into account when setting the 2012-13 budget. Expected reserve levels at 31 March 2013 are 6.6% of authority contributions, which will be paid back to the constituent authorities following the demise of the Board on 31 March 2013.

At 31 March 2012, the Board reported a general fund balance of £10.1 million (2010-11: £11.1m). This exceeds the Board's target level of reserves, at 1.5%

of authority contributions and also the statutory carry forward limit of 5%. Ministerial consent was obtained to exceed the carry forward limit.

Figure 1: The Board's reserves continue to exceed targets

Source: Board of Strathclyde Fire and Rescue Statement of Accounts



Comprehensive Income and Expenditure Statement

The Board's accounts record significant variances in the Comprehensive Income and Expenditure from the prior year, principally as a result of pension accounting movements. As Table 1, overleaf, highlights, the Board reported total net comprehensive expenditure in year of £62.996 million (2010-11: income of £201,314 million).

The change in the value of pensions is largely impacted by changes in actuarial assumptions for the discount rate, mortality rates for scheme members and long term returns on assets (for funded schemes). In simple terms, the economic recession is reducing long term returns on pensions assets, whilst scheme members are living longer increasing the cost of pensions.

Table 1: Financial Results for 2011 and 2012

	2010-11	2011-12
	£'000	£'000
Net cost of services	17,121	168,719
Other operating expenditure	(19)	(65)
Financing and investment income	66,885	62,017
Taxation & non-specific grant income	(170,191)	(163,540)
(Surplus)/ Deficit on the provision of services	(86,204)	67,131
(Surplus)/deficit on revaluation of fixed assets	(1,671)	(1,711)
Actuarial (Gains) / Losses on Pension Fund and Injury Benefits	(113,439)	(2,424)
Total comprehensive income and expenditure	(201,314)	62,996

Source: Board of Strathclyde Fire and Rescue Statement of Accounts

The other significant pensions movement between the current and prior year was an actuarial gain in the prior year of £102.839m, which in the current year is matched by a loss of £1.476m.

Expenditure in 2011-12

The Board had a strong performance against budget, and the planned contribution from reserves of £1 million to fund services was achieved.

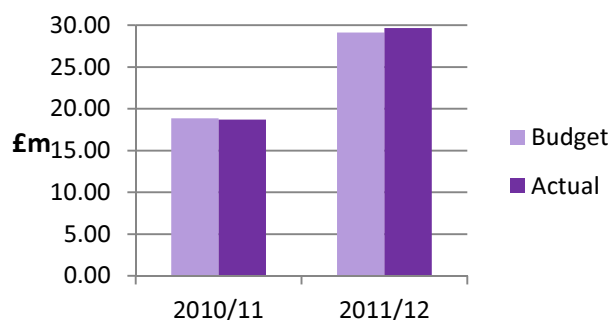
Costs were controlled in a number of ways. Firstly, full implementation of the 5 Group Duty System, management and support staff restructuring and the merger of Parkhead and Cambuslang Community Fire

Stations, as well as a number of vacancies throughout the year.

Capital Expenditure

The Board approved the original capital programme of £28.305m, which was subsequently increased to £29.137m through the year following additional funds provided by Scottish Government. Expenditure on the programme items totalled £27.757m, resulting in an underspend of £1.380m, predominately in relation to the training centre which came in £0.617m under budget. In addition, capital expenditure of £1.920m was also incurred, funded by contributions from revenue underspends. No significant capital projects are underway, or planned, as a result of the national merger in April 2013.

Figure 2 Capital expenditure increased in 2012. Programme expenditure was below budget, however additional expenditure financed from revenue was incurred.



Source: Board of Strathclyde Fire and Rescue Statement of Accounts

Current Projections for 2012-13

We have reviewed the Board's projections for 2012-13 and its plans to maintain and improve services prior to the merger.

The level of Government Grant available to Local Authorities has remained in cash terms, constant from 2011-12, this represents a real term reduction of 1.6%. The Board has set a revenue budget of £138.677m for 2012-13, representing an increase of

£1m on the revenue budget from 2011-12. The Board has approved a reserves contribution of £2 m to support the 2012-13 budget, and to maintain the level of requisitions sought from constituent councils in the year.

The 2012-13 capital budget has been reduced by 70% over 2011-12. Due to the completion of the

training centre project in 2011-12. A further phase of the centre is planned to be completed during 2012-13 for which £3m has been included in the capital programme. Other approved projects are limited to refurbishment works and the procurement of vehicles and other equipment .

We have issued an unqualified audit opinion on the Board's 2011-12 financial statements. The Board supplied good quality draft financial statements and supporting working papers for audit

Preparation of Accounts

The accounts and working papers were presented for audit on 27 June 2012, in accordance with our audit timetable. The standard of working papers was of a very high quality, and is reflected in the minor proposed adjustments that we identified during the audit.

Commentary on key judgements and estimates

Pensions

The Board's Balance Sheet records a significant net liability as a result of IAS 19 accounting adjustments to reflect the costs of pensions. The liability, of £1,101 million in 2011-12 reflects the unfunded Fire Fighters Pension Scheme. However, this technical accounting treatment has had no impact on the underlying basis for meeting the Board's current and ongoing pension liabilities. These costs are met from the Board's funding from Government Grants and contributions from constituent authorities under the Amalgamation Scheme 1995.

Uncertainty and estimates

The Board has drawn attention to the critical judgements and assumptions made in producing the financial statements within Note 3 to the Accounts. Note 3 highlights that the key uncertainty within the financial statements relates to the valuation of the deposit with Heritable Bank which is currently in administration. The Board has followed CIPFA guidance in valuing and accounting for the impairment.

Revenue recognition

The predominant source of revenue for the Board is from requisitions from constituent councils. Revenue for this category of receipts is recognised when the amounts become due. Government grants and contributions are recognised when conditions attached to the grant have been met. Revenue with regard to goods and services is recognised when it becomes probable that economic benefits will flow to the Board. The basis of revenue recognition was found to be appropriate and in line with prior years.

Review of principal accounting policies

We have reviewed the financial statements and confirmed that the accounting policies appear appropriate and in line with sector expectations.

Misstatements

There were no uncorrected misstatements that we require to bring to your attention. A number of minor presentational adjustments were made to the

accounts including additional disclosures within the remuneration report and Note 19 Pensions. We reported these adjustments to the Performance and Audit Forum on the 10 September 2012 in our Key Issues Memorandum.

Opinion

We provided an unqualified opinion on the financial statements for 2011-12.

3. Governance

The Board's governance arrangements generally operated well during the year, however, the Accounts Commission has drawn attention to significant deficiencies in the governance arrangements related to the retirement and re-employment of the Chief Fire Officer in 2010. The Board has considered this report and taken action to address identified governance gaps where they continue to be relevant. The Board is making good preparations for the transition to a single fire service.

Retirement and Re-employment of the Chief Fire Officer

On the 26 September 2012 the Controller of Audit published his report into the retirement and re-employment of the Chief Fire Officer.

The report concluded that there had been systemic failures in the governance arrangements associated with the decision making process for the Chief Fire Officer's retirement and re-employment. The key finding was that information made available to the Board was inadequate to allow it to fully consider all courses of action available and make a transparent decision. The report also concluded that, although the decision to retire and then re-employ the Chief Fire Officer was understandable in the circumstances the Board found itself, it would not meet the public's expectations of what is a good use of public funds.

The costs of the decision are reflected in the Board's 2011-12 accounts as a provision to meet the costs of the unauthorised payment charge of £29k and the Chief Fire Officers personal tax liability of £207k.

The Board has considered the Accounts Commission report and taken action to address governance issues identified where they continue to be relevant.

Progress on National Fire Reform

In June 2012, the Police and Fire Reform (Scotland) Bill passed through Parliament and has now received Royal Assent, under this Act the eight current fire boards will be abolished and a new single Scottish Fire & Rescue Service established. Strathclyde Fire & Rescue has been closely involved in this progress,

with Strathclyde leading on a number of merger working groups.

The Board has been making good preparations to deal with the changes. Although this has required an investment of time and resources at a range of levels across the service, no issues with the on-going service delivery were noted from this.

Impact of local elections

Due to Council elections being held in May 2012, there was disruption to the normal frequency of sub-committee meetings. Appropriate decision making arrangements were established during the interim period and the sub-committees have now been re-established.

Our testing of Internal Controls

As part of our audit work we reviewed the internal control environment in operation at Strathclyde Fire and Rescue. We made a number of minor recommendations within our Interim Management Report which we reported to the Performance and Audit Forum on the 10 September 2012.

Statement on the System of Internal Financial Control

A Statement on the System of Internal Financial Control (SSIFC) forms part of Strathclyde Fire and Rescue's annual accounts and summarises the internal control framework, including arrangements for risk management, financial governance and accountability.

We reviewed the SSFIC as part of our annual audit procedures and we are satisfied that it is line with our understanding of the internal controls in place at Strathclyde Fire and Rescue. We do, however, note that this is good practice to prepare an Annual Governance Statement, which requires more disclosure as it should reflect how the organisation conducts its business internally and in dealing with others.

Review of Internal Audit

The Board's Internal Audit service is provided by South Lanarkshire Council. 82 days were used to achieve the 2011-12 audit plan against a planned 75 days. All four planned reviews were completed, however the timing of the reviews was delayed until the final quarter.

As part of our year one audit procedures, we completed a detailed review of the Council's internal audit function against the good practice guidelines within CIPFA's Code of Practice for Local Government Internal Auditors. Due to the nature and timing of the reviews carried out during 2011-12, we did not place formal reliance on the work of Internal Audit, but we reviewed their work to ensure that our work was appropriately focused, and to highlight where there were control weaknesses.

We found that the internal audit department is performing well. However, there is scope to improve the level of communication between Internal Audit and the Performance and Audit Committee as the internal audit plan is currently agreed with management only and reports are provided to the Performance and Audit Forum in summary form only as part of the Internal Audit Annual Report. We have made a number of recommendations to improve the current interaction of the Performance and Audit Forum with Internal Audit which were reported to the Performance and Audit Forum in the Interim Management Report on the 10 September 2012.

Internal Audit concluded in their annual report to the Performance and Audit forum that 'an adequate level of assurance can be provided over the adequacy and effectiveness of Strathclyde Fire and Rescue's internal control environment'.

Looking forward

Since the approval of the plan to form a national fire service, the Board has entered a transitional period, where it must ensure that:

- Strathclyde Fire and Rescue continues to deliver services effectively and achieve value for money
- preparations are made for the new service arrangements, including local governance and accountability.

4. Performance

Strathclyde Fire and Rescue has a clear vision for the area which is supported by strong performance management arrangements.

Audit Scotland Best Value Report

Audit Scotland recently completed a Best Value Audit and Inspection at the Board. The report concluded that Strathclyde Fire and Rescue is an effective service with a strong culture of performance management and continuous improvement. Key recommendations were in relation to enhancing strategic planning through the use of measurable corporate outcomes, Board members strengthening their role in setting the strategic direction and ensuring public performance reports provide a more balanced picture of performance. A number of notable practices were identified and good practice case studies from Strathclyde Fire and Rescue in integrated partnership working and asset management were identified in the Best Value in fire and rescue services in Scotland overview report.

The Board have arrangements in place to monitor all recommendations through the Corporate Improvements sub-group which meet quarterly to review progress against the recommendations which come from a variety of sources including external and internal audit, HMI inspections and self-assessments. A number of the recommendations from the Best Value report have been put on hold pending the disbanding of the Board. The review of crewing levels has been completed and the roll out of station plans is due to be completed in December 2012.

Emergency response times

Individual Boards have the authority to set their own speed and level of response standards based on the risks identified within their Integrated Risk Management Plans. The Board has chosen not to set specific response standards, believing them to be a flawed approach to manage both emergency response services and public expectations. Overall response times are monitored and have shown a slight increase over recent years which is attributed to poor weather conditions over recent winters and increases in travel time. Response times to primary dwelling fires have remained fairly constant and are broadly in line with national patterns.

Performance management arrangements

The Board has a well-developed approach to performance management and improvement. Performance indicators are clearly aligned to its corporate priorities and reports are clear and easy to interpret. Performance is monitored on a quarterly basis and reported to the Performance and Audit Forum and bi-annually to the Board. A number of improvements have been made to the performance monitoring report, taking account of suggestions by members to improve comparability with other services. The Best Value report includes a number of recommendations for example, to improve the strategic planning framework by more clearly providing measurable corporate outcomes against which success can be judged and to provide a more balanced picture of performance within the annual public performance report.

Statutory Performance Indicators

The Chief Fire Officers' Association Scotland (CFOAS) agrees a suite of Performance Indicators against which all Scottish Fire and Rescue Services report progress on a quarterly basis. In addition the Board provide a range of local indicators. Due to the number of external factors and the variety of topography between different fire services, it is difficult to draw direct comparisons between different fire and rescue services.

The Board has performed well in comparison to prior year with a reduction seen in the number of accidental dwelling fires, incidents resulting in casualties and the number of fatal and non-fatal casualties. The number of working days lost per officer has reduced on the previous year, however this indicator has increased for other staff. Local indicators reported also show a decrease in the number of malicious calls as a result of targeted efforts including increased education activity and increased partnership working and there was a significant increase during 2011-12 in home fire safety visits.

Table 2: Performance Indicators

Indicator	2009/10	2010/11	2011/12	2011/12 Scotland
Number of incidents resulting in casualties	321	418	311	732
Number of incidents resulting in casualties per 10,000 population	1.5	1.9	1.4	1.4
Number of fatal and non-fatal casualties	430	553	406	981
Number of fatal and non-fatal casualties per 10,000 population	1.9	2.5	1.8	1.9
Number of accidental dwelling fires	2,304	2,349	2,296	4,957
Number of accidental dwelling fires per 10,000 population	10.4	10.6	10.3	9.5
Total number of days lost per year through sickness and light duties for fire officers	19,591	15,056	10,326	24,583
Average days lost per fire officer	11.2	8.5	6.2	7.2
Total number of days lost per year through sickness for all other staff directly employed by the brigade	10,817	10,231	8,747	15,663
Average days lost per all other staff	6.9	6.4	7.2	6.8

Source: Audit Scotland 2012

Appendix A: "The Small Print"

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton UK LLP, the Performance and Audit Forum of the Board of Strathclyde Fire and Rescue (the Board).

The purpose of this report is to highlight the key issues affecting the results of the Board and the preparation of the Board's financial statements for the year ended 31 March 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Board.

Responsibilities of the Board and auditors

The Board is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Board confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The Board's management are responsible for the identification, assessment, management and monitoring

of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Performance and Audit Forum that it has done so.

The Performance and Audit Forum is required to review the Board's internal financial controls. In addition, the Performance and Audit Forum is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Performance and Audit Forum should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more

extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Performance and Audit Forum.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

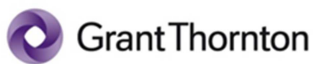
We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Fees payable to Audit Scotland	38,000
Total audit fees	38,000

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit



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The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

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