

Scottish Fire and Rescue Service

Annual Report 2012-13

November 2013



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1. Executive Summary

Introduction

The Auditor General for Scotland appointed Grant Thornton LLP as auditors to the Scottish Fire and Rescue Service (SFRS) under the Public Finance and Accountability (Scotland) Act 2000 for a three year period from 2013. This is the first year of our appointment. This report summarises the findings from our audit work for the year ended 31 March 2013.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by Audit Scotland and the Auditor General for Scotland. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of

public business and the use of public money. This means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

Our Annual Report

This report summarises the findings from our 2012-13 audit of the Scottish Fire and Rescue Service. The scope of our work was set out in our Audit Plan, which was presented to the Audit and Risk Assurance committee on 26 June 2013.

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.

Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> SFRS lived within their delegated resource budget. The 2013-14 budget has been set in the challenging context of the savings expectations of reform.
Financial Statements	<ul style="list-style-type: none"> We issued an unqualified audit opinion on the 2012-13 financial statements. SFRS supplied satisfactory draft financial statements and supporting working papers for audit.
Governance	<ul style="list-style-type: none"> On 1 April 2013, responsibility for fire and rescue services in Scotland transferred to the new national Fire and Rescue Service. Governance arrangements have been established however, as expected due to the infancy of the organisation, arrangements are still developing and being embedded in the organisation.
Performance	<ul style="list-style-type: none"> The early stages of the transition have not had an impact on service response despite the level of organisational change. The Scottish Fire and Rescue Service has set challenging targets for itself in its Strategic Plan and Annual Operating Plan. Performance monitoring arrangements are under development.

2. Financial Position

SFRS lived within their delegated resource budget. The 2013-14 budget has been set in the challenging context of the savings expectations of reform.

Financial Position

In the period to 31 March 2013, SFRS had only limited operational responsibilities, and so the relatively small number of transactions and balances in the financial statements mostly relate to the costs of governance and setting up the new body.

Grant-in-aid from the Scottish Government of up to £744k was available to SFRS in the year. SFRS drew down £648k of this, spending £312k in cash, leaving a cash balance of £336k. SFRS have identified that their process for identifying resources required and drawing down against their revenue grant in aid will need to be improved to ensure that funds are not drawn down in advance of need.

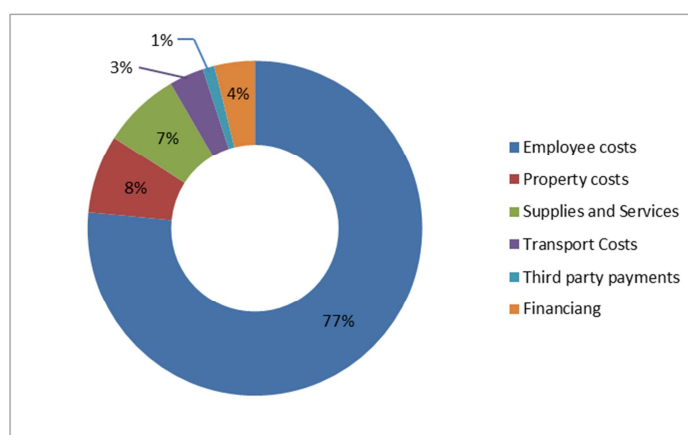
As at 31 March 2013, SFRS had negative reserves of £6,941 million, the majority of this relates to the pension reserve of £6,943 million.

The Budget (Scotland) Bill, passed by the Scottish Parliament on 6 February 2013, set the Resource funding for SFRS at £277.238 million for 2013-14. This funding comprises £274.8 million transferred from the Local Government Settlement, reduced for £7.6 million of Fire Reform savings, plus £10.038 million from Scottish Resilience to fund the Scottish Fire Service College at Gullane (£5.388 million), the Firelink radio system (£4.5 million) and fire safety publicity (£0.15 million).

The original approved budget for 2013-14 is £277.2 million. The most significant area of expenditure in the approved budget is employee costs of £217 million (77%).

The budget includes a number of identified savings in relation to transitional staff costs of £10.4 million and non-employee cost savings of £7.2 million.

Figure 1: 2013-14 approved revenue expenditure



source: SFRS revenue budget 2013-14

The budget included unallocated savings of £4.3 million (1.6%) it is expected that these savings will be achieved through devolving budget responsibility and savings targets to senior managers, and implementing robust budget monitoring arrangements.

Capital resource available in 2013-14 is £17.9 million made up of capital grant of £15.3 million and carried forward committed reserves of £2.64 in relation to the Technical Rescue Zone in the former Strathclyde area.

Looking forward

In 2014-15 the resource budget is set to fall by at least a further £12 million (4.3%) to £265 million and by a further £7 million (2.6%) in 2015-16.

Capital grant is expected to rise in 2014-15 by £6.9 million (45%) and a further increase is expected in 2015-16 of £1.8 million (8%) in line with Scottish Government's commitment to infrastructure investment.

3. Financial Statements

We issued an unqualified audit opinion on the 2012-13 financial statements. SFRS supplied satisfactory draft financial statements and supporting working papers for audit.

Overall Conclusions on the Financial Statements

The key findings emerging from each aspect of our work during 2012-13 were presented to the Audit and Risk Assurance Committee at their meeting on 16 September 2013.

On 26 September 2013 we issued an unqualified audit opinion on the SFRS financial statements for the period ended 31 March 2013. Management corrected a number of material errors in the financial statements. The adjustments were predominantly due to transactions associated with the combination of pension assets and liabilities as staff transferred to SFRS. Accounting for unfunded defined pensions is not covered by the FReM. SFRS worked closely with the audit team and Audit Scotland to help to clarify the position.

Preparation of Accounts

The accounts and working papers were presented for audit in accordance with our audit timetable. The standard of working papers was of a satisfactory quality.

Audit Adjustments

A number of material audit adjustments were identified. The material errors resulted from the lack of guidance for accounting for unfunded pension liabilities in the FReM. There will be a large number of similar pensions transactions in the 2013-14 financial statements, and we are confident that management are now in a better position to correctly account for pensions under the FReM.

As part of our audit we also recommended some minor improvements to the remuneration report, management commentary and annual governance statement. We concluded that the remuneration report was correctly prepared and that the commentary and governance statement were consistent with our knowledge of SFRS.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

4. Governance

On 1 April 2013, responsibility for fire and rescue services in Scotland transferred to the new national Fire and Rescue Service. Governance arrangements have been established however, as expected due to the infancy of the organisation, arrangements are still developing and being embedded in the organisation.

Governance arrangements

Board and Committee structure

On 7 August 2012, the Scottish Government appointed the Chair of SFRS. Subsequently in October 2012, 11 other members were appointed. The Board's responsibilities include providing strategic direction, support and guidance to the SFRS ensuring it operates effectively and that the Scottish Government's priorities are implemented. Board members are personally and corporately accountable for the Board's actions and decisions. The Board has a key role in scrutinising plans and proposals and hold the Chief Officer and Senior Leadership Team to account.

The Board has established four committees:

- Audit and Risk Assurance Committee
- Local and Stakeholder Engagement Committee
- Service Transformation Committee
- Employee Partnership Forum

Scottish Government

The Scottish Fire and Rescue Service Governance and Accountability Framework has been drawn up by the Scottish Government in consultation with SFRS. It sets out the broad governance structures within which SFRS will operate and defines key roles and responsibilities which underpin the accountability relationships between SFRS and Scottish Government. It is linked to the Fire and Rescue Framework for Scotland which sets out Ministers' strategic priorities for SFRS.

The Scottish Government will assess SFRS's performance on a continuous basis and undertake a formal internal review at least twice a year. The responsible Scottish Minister will meet the SFRS chair at least once a year.

Local scrutiny arrangements

The Police and Fire Reform (Scotland) Act 2102 seeks to place local communities at the heart of the provision of fire and rescue services. There are three key elements to this:

- the designation of a Local Senior Officer (LSO);
- the production of a local fire and rescue plan for each local authority area approved by the local authority; and
- the creation of formal relationships between local authorities and the service

The legislation does not prescribe the structures and processes required to deliver the three key elements. It is purposefully flexible to allow local authorities and partners to develop arrangements according to local need.

There are broadly four types of structure developing:

1. A partnership led scrutiny model with additional elected members using an existing Safer and Stronger or Community Safety Partnership committee.
2. A member led committee with partners and officers invited as non-voting advisors formed as a new committee.
3. A member only committee using existing committees such as policy and resources or formed as a new committee.
4. A full Council approach.

A collaborative statement has been issued by COSLA, Scottish Government and the Improvement Service to provide guidance on good scrutiny and engagement as a

result of the Police and Fire Reform (Scotland) Act 2012.

Key principles of engagement encouraged are:

Five principles for Good Scrutiny and Engagement

The principles are based on good practice and promote the 'four pillars' of public service reform.

- Focus on outcomes
- Understand local conditions and reflect the community voice
- Promote joint working to secure better outcomes and Best Value
- Provide strategic leadership in order to influence service delivery
- Support continuous improvement by providing constructive challenge

A thematic inspection of the development of local police plans and local fire and rescue plans and associated arrangements for local scrutiny and engagement by HM Inspectorate of Constabulary for Scotland (HMICS) supported by HM Fire Service Inspectorate (HMFSI) was laid before Parliament in May 2013.

The review found that progress is being made in all areas towards the delivery of the three key elements of reform. LSOs had been appointed and were working with their respective communities, stakeholders and local authorities to develop local fire and rescue service plans.

The review concluded that the development of local scrutiny and engagement structures is broadly welcomed, however, it was too early in the development of these new arrangements to make meaningful judgments on their impact.

During the review, a number of good practice indicators for local scrutiny and engagement were identified as an

initial guide to LSOs and local authorities in the development of the new arrangements.

In addition to the good practice indicators, one recommendation was made in the report:

Recommendation

HMICS and HMFSI should engage with Audit Scotland to reach agreement on arrangements to review progress on the introduction of local scrutiny and engagement structures and to consider how this will fit into a wider inspection and audit process that minimises the burden of inspection on service providers.

External Regulators

The Police and Fire Reform (Scotland) Act 2012 amended the Fire (Scotland) Act 2005. The amended Act places a duty on the Auditor General and Inspectors of the SFRS to co-operate and coordinate external scrutiny. A Memorandum of Understanding has been agreed between the Auditor General for Scotland and HM Fire Service Inspectorate (HMFSI).

The Auditor General and HMFSI have distinct statutory responsibilities. There are some areas where their duties have the potential to overlap for example, in relation to arrangements for governance and accountability, achieving Best Value, performance management or community planning.

The Memorandum of Understanding includes a framework for collaborative working which is intended to minimise areas of overlap.

Annual Governance Statement

An Annual Governance Statement (AGS) forms part of SFRS's annual report and summarises the internal control framework, including arrangements for risk management, financial governance and accountability.

We reviewed the AGS 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 SFRS.

Fraud Corruption and Standards of Conduct

We have a responsibility to consider and report on any fraud or corruption we become aware of as part of our audit. In the period to 31 March 2013 no fraud or corruption was detected or reported.

Key policies on anti-fraud and corruption and whistleblowing are under development.

Since 1 April and the expansion of activities and staff, SFRS have been involved in the National Fraud Initiative, with an aim to prevent and detect fraud and corruption by matching data between organisations.

Internal Audit

Under the terms of the Scottish Government Shared Service arrangements, the Scottish Government Internal Audit Division (SGIAD) has agreed to provide an internal audit service for SFRS from April 2013 for an initial two year period. Two members of SFRS staff will work alongside SGIAD in delivering the internal audit plan under a co-sourcing arrangement.

The Internal Audit plan was presented to the Audit Committee on 26 June 2013. As SFRS is undergoing significant organisational change and systems develop and mature, a nine month plan was prepared to allow flexibility for any new priorities identified.

The initial plan, of 535 resource days, focuses on Governance arrangements and key corporate systems including the general ledger, creditor payments and payroll. The cost of the service is expected to be in the region of £75,000.

Public Sector Internal Audit Standards

A common set of Public Sector Internal Audit Standards (PSIAS) were adopted by the Relevant Internal Audit Standard Setters, for implementation as from 1 April 2013, with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The new standards, interpreted for the UK public sector, encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework and replace the existing standards. They apply to all internal audit service providers, whether in-house, shared service or outsourced.

Specific requirements of the PSIAS

■ An internal audit charter

The charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if the internal audit provider performs non-audit activities.

■ A quality assurance and improvement programme

The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. This should include:

- on-going internal quality monitoring and self-assessment
- a five-yearly, independent, external assessment of the internal audit function
- effective communication.

In this context effective communication refers to the engagement of the committee's membership – and of the chair, in particular – in discussions with the head of internal audit about:

- SFRS's risks and assurance requirements
- the level of assurance provided
- issues of concern raised by audit work undertaken
- the implementation of agreed recommendations and the enhanced assurance arising.

The new standards came into force on 1 April 2013.

Policies and Procedures

SFRS is a large, complex organisation. As such it requires a suite of policies and procedures covering all aspects including operational, human resource and finance.

A significant amount of work had been carried out by the Reform Team prior to the formation of the new service which has now been taken forward by the relevant Directorates.

A number of policies and procedures have already been approved by the Board. The HMFSI overview report did note however that not all policies had been equality impact assessed.

This remains an area of focus for SFRS to ensure appropriate policies and procedures are drafted and approved as timeously as possible.

Risk Management

Risk management arrangements have been a high profile area for discussion and debate between the Board and Senior Leadership team (SLT). A number of workshops have been held and the Audit and Risk Assurance Committee have received updates on the progress of the arrangements.

A Risk Management Policy has been drafted and is expected to be approved by the Board on 28 November 2013.

The policy takes into account the principles of risk management outlined in the Scottish Public Finance

Manual and other recognised Risk Management standards.

A single Corporate Risk Register will be maintained for recording the strategic risks. A Functional Risk Register will also be maintained to record operational risks. The Corporate and Functional Risk Registers will be reviewed regularly by management and the Audit and Risk Assurance Committee will oversee the Corporate Risk Register.

We will review how the risk management arrangements and Risk Management Policy develop over 2013-14.

5. Performance

The early stages of the transition have not had an impact on service response despite the level of organisational change. The Scottish Fire and Rescue Service has set challenging targets for itself in its Strategic Plan and Annual Operating Plan. Performance monitoring arrangements are under development.

HMFSI Overview Report

HMFSI have carried out an early assessment of SFRS. The purpose of the inspection was to gain an overview of the functioning of SFRS and in particular:

- to assess the impact of transition on service delivery;
- to assess the effectiveness and capacity of the new management and supervision arrangements in relation to monitoring performance and providing quality assurance; and
- to assess the extent to which and with what degree of clarity, SFRS has set out its plans to deliver the agreed benefits of reform.

The inspection aimed to identify emerging issues and provide a source of evidence and base line for future work.

The report concluded that overall the process of combining eight fire and rescue services and one fire service college into a single organisation has been complex and time consuming. HMFSI did not identify any adverse effect on operational response as a result of organisational change. The direction of travel of the SFRS looks good, however it remains at a very early stage of the transition process.

The Board's initial focus has been short term, focusing on the settling in of the new management structure and ensuring business as usual. The Board recognises its role going forward in driving through change and innovation in SFRS. A Service Transformation Programme Board has been established which reports to a committee of the Board.

SFRS need to ensure that there is sufficient capacity at management level as the focus moves from business as usual to Service Transformation.

A number of positives were identified in the report including:

- SFRS have made significant inroads into reducing duplication but the geographical distribution of remaining staff means that, in the short term, specialist staff may not be in the best locations.
- The delivery of prevention initiatives is continuing, particularly home fire safety visits. The creation of national targets for their delivery is to be welcomed, but monitoring should continue to be used to build up consistency and ensure that high risk individuals are being appropriately targeted across the country.
- Performance management arrangements are still at a relatively early stage of development. Self-assessment is developing well and management are actively trying to embed performance management to inform national policy direction. Senior officers are working to establish a nationally consistent performance culture.

A number of areas were highlighted as requiring focus including:

- Business continuity in the former Highlands and Islands Fire and Rescue Service.

- Staff retention and engagement to avoid any degradation of service delivery pending finalisation of Control structures and staffing.
- Operational Risk Information available to firefighters has not yet reached a satisfactory standard across SFRS.
- Strategic planning could be improved through more detailed analysis of the measures that will be applied to meet the targets in the Fire and Rescue Framework.

The report acknowledges that SFRS is in a time of transition and the findings may become obsolete as the Reform continues.

HMFSI Risk Assessment and Work Programme

At the September 2013 Audit and Risk Assurance Committee, HMFSI presented their risk assessment and resultant work programme. The risk assessment drew upon a number of sources of evidence including the Initial Overview Report of the Scottish Fire and Rescue Service by HMFSI and the Best Value in Fire and Rescue Services in Scotland (Accounts Commission, July 2012). The risk assessment identified a number of functions and areas where deficiencies may occur, which were then evaluated for likelihood and impact. The outcome of the risk assessment was a draft programme of work for the following 12 months.

Work scheduled for the remainder of 2013-14 includes:

■ A Regional Comparison

This work will pick up on the service overview inspection and look at functions and data in more detail and in particular make comparisons across different geographical areas.

■ Commonwealth Games 2014 Assurance

This work will primarily be carried out at the request of Scottish Government. The inspection

will be scoped in consultation with Scottish Ministers, SFRS and partner bodies.

Audit Scotland Best Value Report

The Accounts Commission published the National Overview report on Best Value in fire and rescue services in Scotland in July 2012. The new national Scottish Fire and Rescue Service will inherit many aspects of strong performance, however, there are marked differences in how the existing eight services manage their resources and deliver fire and rescue services.

Key messages from the report include:

- Real progress has been made since 2004 in establishing Integrated Risk Management Planning (IRMP), providing each service with a structured approach to identifying community risks and prioritising their use of resources.
- Scottish Fire and Rescue Services share common strategic objectives, but there is little agreement on how these are implemented. Services were found to exist in friendly competition as opposed to collaboration, with little progress on shared services.
- Partnership working is a real strength, but requires more assessment of the impact of initiatives. Community engagement, on the other hand, was found to be patchy, with limited formal engagement regarding policies and plans.
- Performance management is improving and services are increasingly evaluating their own performance, but self-assessment needs to be embedded more consistently and used to drive improvements in service performance.

Strategic Plan

The strategic plan was approved by the Board on 26 September 2013, after a period of consultation.

The 2013-16 strategic plan sets out the outcomes that SFRS want to deliver over the three year period to 2016 in line with Scottish Fire and Rescue Framework. The framework articulates three aims of reform:

Aims of Reform

- To protect and improve local services, despite the financial cuts, by stopping duplication and maintain front line outcomes.
- Create more equal access to specialist support services and national capacity where and when they are needed.
- Strengthen the connection between fire services and communities by creating a new formal relationship with all 32 local authorities, creating opportunities for many more locally-elected members to have a formal say in Fire and Rescue Services in their area, and better integration with community planning partnerships.

The framework details 58 priorities for SFRS and a number of targets that have been agreed between SFRS and Scottish Government. The agreed targets are:

- Reduce fire casualties by 5% each year
- Reduce specialist services casualties
- Reduce accidental dwelling fires by 10% each year
- Reduce the number of non-domestic fires
- Reduce firefighter injuries
- Improve staff attendance levels at work

The plan sets out at a high level how SFRS intend to meet their agreed targets.

We will review how performance against the Strategic Plan is monitored.

Annual Operating Plan

The Annual Operating Plan 2013-14 is the first Annual Operating Plan of the SFRS. The focus in the first year is for a seamless transition from the eight antecedent fire and rescue services to the single SFRS.

The Annual Operating Plan was, by necessity, developed in advance of the Strategic Plan. The Annual Operating Plan has clear links to the aims of reform.

We will review how SFRS have performed against their Annual Operating Plan in 2013-14.

Performance Indicators

The Scottish Fire and Rescue Framework sets out a number of primary and secondary performance indicators for SFRS. The primary indicators demonstrate outcomes, while the secondary indicators focus on inputs.

The primary indicators focus on rates of fires, fire casualties and special services. The secondary indicators include community fire safety activity and indicators based on cost of providing the service.

We will review how performance monitoring and reporting arrangements operate during 2013-14.

Appendix A: "The Small Print"

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton UK LLP, and the Scottish Fire and Rescue Service (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 period ended 31 March 2013.

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 Audit and Risk Assurance Committee that it has done so.

The Audit and Risk Assurance Committee is required to review the Board's internal financial controls. In addition, the Audit and Risk Assurance Committee 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 Audit and Risk Assurance Committee 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 Audit and Risk Assurance Committee.

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	18,500
Total audit fees	18,500



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