

Appendix D

Lothian and Borders Fire and Rescue Board

Annual report on the 2012/13 audit



Prepared for Members of City of Edinburgh Council and the Controller of Audit for Scotland
25 September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

2012/13

We have given an unqualified opinion that the financial statements of Lothian and Borders Fire and Rescue Board for 2012/13 give a true and fair view of the state of the Board's affairs and of its net expenditure for the year.

The audit of the financial statements progressed satisfactorily. The accounts and working papers were presented for audit on 20 May 2013, in accordance with the agreed timetable, and audit work was completed by the end of June before the authority's lead accountant in this area retired.

A number of amendments to the accounts were made as a result of our audit but there was no change to the level of reserves to be redistributed to constituent councils.

Overall the Board's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. Internal Audit's review of the key controls within the main financial systems enabled us to conclude that the relevant systems of internal control were operating effectively during 2012/13. Arrangements for processing residual transactions after year end were also satisfactory.

Introduction

1. The Police and Fire Reform Act 2012 wound up Lothian and Borders Fire and Rescue Board on 31 March 2013 and transferred the board's functions to the new Scottish Fire and Rescue Service. Residual accounting and reporting obligations were transferred to Edinburgh City Council who had previously been the lead authority for support to the outgoing Board.
2. This report is the summary of our findings arising from the 2012/13 audit of Lothian and Borders Fire and Rescue Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
3. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Council's Governance, Risk and Best Value (GRBV) Committee.

Financial statements

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on 22 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of Lothian and Borders Fire and Rescue Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
8. We received the unaudited financial statements on 20 May 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 14 June 2013. The Board were required to follow the Code of Accounting Practice 2012/13 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings (ISA260)

9. During the course of the audit we identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
10. **Non-Current Assets:** Last year's audit process identified that a number of operational plant and equipment assets had been fully depreciated and were included in the accounts at nil value. Consequently, an adjustment was made in the audited financial statements to better reflect the worth of these assets to the Board. In 2012/13 a further review of asset lives has been undertaken and a retrospective change has been reflected in the 2011/12 balances, with a £0.651 million reduction in the depreciation charge for the year, and a corresponding increase in net assets. As with last year, these amendments do not affect the Board's financial position as they are effectively removed by the standard adjustments to bring the accounts onto a funding basis.
11. **Exit packages:** During the year expressions of interest were sought from staff in the Board's voluntary severance/early release scheme. The Board considered and approved a total of 10

departures through this scheme, as detailed in the remuneration report. The one-off costs of these departures, which include redundancy costs, pension contributions in respect of added years, ex-gratia payments and pension strain costs, totalled £0.66million. These costs have been met by the Scottish Government.

12. **Post year-end transactions:** Responsibility for expenditure and income transactions incurred after 31 March 2013 lies with the Scottish Fire and Rescue Service. As part of our financial statements audit we reviewed and tested the arrangements in place for processing transactions at the financial year end. Whilst we did identify a small number of monetary errors during this testing they were not material, and we concluded that arrangements for processing residual transactions were satisfactory.
13. **Post balance sheet event:** The Board meets the first £100,000 of the cost of individual claims for damages against them. Thereafter, the Board's insurance policy covers the legal cost of defending a claim, however the Board would still have been liable for the cost of any penalties awarded against them for breach of Health and Safety regulations. Responsibility for settlement of liabilities transferred to the Scottish Fire and Rescue Service on 1 April 2013. Note 34 of the unaudited accounts disclosed a contingent liability in relation to a petition served by the Crown Office. However following settlement of separate damages claim on 19 June 2013, the narrative on note 34 has been updated to recognise a potential liability for the Scottish Fire and Rescue Service in relation to any Health and Safety actions on this second incident.
14. **Management information system:** The management information system operated by Lothian and Borders Fire and Rescue Board to record orders for goods and services, inventory, moveable non current assets and equipment could not produce complete and accurate management information. The Board provided on-going staff training to minimise the risk of data inaccuracies and user input errors and had undertaken data cleansing activities to minimise inaccuracies. We reviewed these and considered them to be reasonably based.

Whole of Government Accounts

15. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Although the Board is required to complete a 'Data Collection Tool' (DCT), external audit is not required to carry out test procedures or certify the DCT as the Board is below the threshold set by HM Treasury. We have confirmed that Council officers have correctly assessed the size of the Board for WGA purposes and completed a DCT and submitted it by the required deadline of 6 September 2013.

Financial position

16. Lothian and Borders Fire and Rescue Board finished the year with a usable reserves balance of £1.99 million. This balance was adjusted to nil in the accounts to reflect the agreement for the repayment of uncommitted reserves to constituent councils.

17. The Board had total borrowings of £5.91 million at the 31 March 2013. This borrowing was facilitated by, and will remain with, City of Edinburgh Council, although it will be serviced by the new Scottish Fire and Rescue Service going forward.

Corporate governance and systems of internal control

Overall governance arrangements

18. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Board had sound governance arrangements in place.

Accounting and internal control systems

19. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
20. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
21. Internal audit is an important element of the Board's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including key controls within the main financial systems. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Prevention and detection of fraud and irregularity

22. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion Lothian and Borders Fire and Rescue Board's overall arrangements for the prevention of fraud were satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

23. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in January 2013 but is not due to report until May 2014.
24. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate. With regard to Lothian and Borders Fire and Rescue Service there were a

number of low risk matches identified as a result of the exercise and these fall to be followed up by the new Scottish Fire and Rescue Service.

Standards of conduct and arrangements for the prevention and detection of corruption

25. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

Best value and performance

26. In July 2012, the Accounts Commission published its overview report on Best Value in fire and rescue services in Scotland. This report drew on the findings of Best Value audits of Scotland's eight fire and rescue services published between January and March 2012. It focused on the opportunities and challenges facing fire and rescue in moving towards the Scottish Fire and Rescue Service (SFRS), which came into operation on 1 April 2013. The SFRS will be subject to scrutiny by both Her Majesty's Fire Service Inspectorate in Scotland (HMFSI) and the Auditor General for Scotland. Audit Scotland is working with HMFSI on an early inspection of the SFRS during 2013.

Statutory performance indicators

27. Annual Statutory Performance Indicators (SPIs) are submitted to Audit Scotland in accordance with the direction issued by the Accounts Commission. The direction placed a responsibility on the Board to submit the SPIs to Audit Scotland by 30 September 2013. The Board ceased to exist as at 31 March 2013 and many of the key staff left. Officers at City of Edinburgh Council have identified a new contact to obtain the required information. Once we receive the SPI information from Council officers we will perform the required checks.

Acknowledgements

28. We would like to express our thanks to the staff of the Council and the Board for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable. In particular we would like to acknowledge the work of Ian Knowles and wish him well in his retirement.