

Strathclyde Fire and Rescue

Annual Audit Report 2012-13

October 2013



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1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Strathclyde Fire and Rescue (the Board) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2016-17. This is therefore the second year of our appointment. This document summarises our responsibilities as external auditors for the year ended 31 March 2013 and our approach to issues impacting the Board during the year.

Our responsibilities

We carry out our audit in accordance with our statutory responsibilities under the 1973 Act and in accordance with the International Standards on Auditing (UK and Ireland).

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Board.

The Police and Fire Reform (Scotland) Act 2012

(Supplementary, Transition, Transitory and Savings Provision Order 2013)

The Joint Fire Boards were abolished as at 31 March 2013 by the Police and Fire Reform (Scotland) Act 2012. The above Order provides for the transfer of the Accounting and Reporting obligations of the Board to South Lanarkshire Council as the Accounting Authority.

The Treasurer is responsible for the preparation of financial statements which record its financial position as at 31 March 2013, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Board's financial statements present a true and fair view of the financial position.

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"> The accumulated balance of the General Fund of the Board at the point of transfer to the Scottish Fire and Rescue Service was nil. All remaining useable reserves of £7.510 million will be transferred to the constituent authorities. A balance of £2.640 remains for projects legally committed by the Board during 2012-13.
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 have proposed only two adjustments to the accounts and minor presentational adjustments.
Governance	<ul style="list-style-type: none"> Governance arrangements worked well in the run up to the transition to the national fire service, and the former areas of Strathclyde Fire and Rescue now sit within the Scottish Fire and Rescue West Service Delivery Area.
Performance	<ul style="list-style-type: none"> The Board performed well against its Statutory Performance Indicators, with improvement in a number of areas, demonstrating that the final year of operation and the transitional changes required had not had a detrimental effect.

2. Financial Position

The Board faced a challenging year with reduced funding. To cover this position, money was drawn down from reserves, and this was planned for when setting the 2012-13 budget. Spend was broadly in line with budget.

Financial Strategy

When the revenue budget was approved in January 2012, it was set in the context of a very challenging financial settlement with the added challenge of the Scottish Government's intention to create a single Scottish Fire and Rescue Service. The budget was set at £138.677 million, with £123.445 million funded from precepts, £2 million from reserves and £13.232 million ring-fenced grant funding from Scottish Government for employers pension contributions. Included within the Revenue Budget Strategy was a savings target of £986k to be achieved by a number of on-going Budget Initiatives.

In September 2011 the Scottish Government announced a Police and Fire Reform Bill and began progressing plans to merge the eight current police forces into one national service. The Bill received royal assent in August 2012 and the merger took place on 1 April 2013.

Whilst there were a number of staff across the levels at Strathclyde seconded and employed to the new Fire and Rescue service, operational delivery was maintained, and there were no significant financial issues noted as a result of this.

Financial Position

At the 1 April 2013, all useable reserves were due to the requisitioned authorities. Unusable reserves of £1,179 million, largely relating to the pension reserve, will be transferred to the Scottish Fire and Rescue Service on 1 April 2013.

Comprehensive Income and Expenditure Statement

The main changes in the Board's Comprehensive Income and Expenditure during the year was due to actuarial losses on pension fund liabilities. As Table 1, highlights, the Board reported total net comprehensive

expenditure in year of £205.485 million (2011-12: income of £62.996 million). This reflects less favorable actuarial assumptions at 31 March 2013.

Table 1: Financial Results for 2013 and 2012

	2012-13	2011-12
	£'000	£'000
Net cost of services	162,052	168,719
Other operating income	2	(65)
Financing and investment expenditure	57,263	62,017
Taxation & non-specific grant income	(153,751)	(163,540)
(Surplus)/ deficit on the provision of services	65,566	67,131
(Surplus)/deficit on revaluation of property, plant and equipment	(4,325)	(1,711)
Actuarial (gains) / losses on Pension Fund and Injury Benefits	144,244	(2,424)
Total comprehensive (income) and expenditure	205,485	(62,996)

Source: Strathclyde Fire and Rescue Statement of Accounts

Expenditure in 2012-13

The Board largely performed in line with budget. A total of £2.586 million was drawn from revenue reserves. This related to £2 million which was agreed in the budget setting process as a way of reducing requisition from constituent local authorities. A further £800k use of reserves was agreed to fund the uniformed pay award made during the year. £586k of this was used for this purpose, the remainder forming part of the general fund to be returned to be returned to local authorities.

At 31 March 2013, after taking into account the £2.586 million drawdown, the Board had general fund reserves of £7.510 million, which will be returned to the constituent authorities.

Capital Expenditure

Capital grant available to Strathclyde Fire and Rescue in 2012-13 was £6.528 million, a 34% reduction in the level of capital grant received from Scottish Government in 2011-12 due to completion of the Uaill training centre in 2011-12. Therefore after taking into account additional sources of capital funding, planned gross expenditure for 2012/13 within the approved one year Capital Programme totalled £8.797 million.

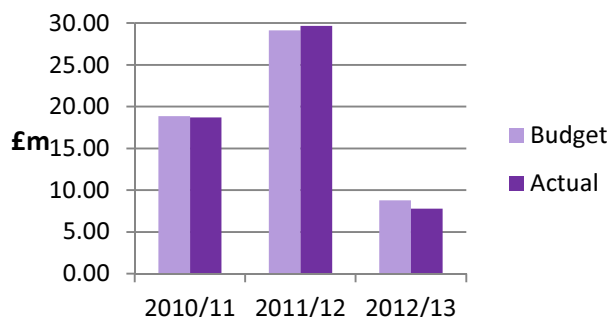
Actual capital expenditure at 31 March 2013 was £7.816 million. Underspends were on building works and equipment. This expenditure was funded from capital receipts brought forward of £0.516 million, government grants and other contributions of £3.888 million, use of capital funds of £0.223 million and revenue funding of £3.189 million.

Capital expenditure predominantly related to the upgrade of assets, including operational land and buildings and vehicles which would remain in use in the new national fire and rescue service. The actual expenditure on the Technical Rescue Zone was £0.355 million, £2.645 million lower than the planned expenditure of £3 million. The remaining funds will be

carried forward to the new Scottish Fire and Rescue Service.

We noted no cases of inappropriate capital expenditure. The Board was informed through the year of changes to the capital budget, and available capital resources.

Figure 3: Capital expenditure was significantly lower in 2012-13 than in previous years.



Source: Strathclyde Fire and Rescue Statement of Accounts

3. Financial Statements

We have issued an unqualified audit opinion on the Board's 2012-13 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 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

Going Concern

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 £1,286 million in 2012-13 predominantly reflects the unfunded Firefighters' pension schemes. 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 out of the Board's funding from Government Grants.

Furthermore, although Strathclyde Fire and Rescue ceased to exist in 1 April 2013, the function of the Fire and Rescue service was transferred to the Scottish Fire and Rescue Service. This is being treated as a Machinery of Government change, therefore this has no impact on the going concern principle.

We therefore agree with the Treasurer's assessment that it is considered appropriate to adopt a going concern basis for the preparation of the financial statements.

Uncertainty and estimates

The Board has drawn attention to the critical judgements and assumptions made in producing the financial statements within Note 3 and 4 to the Accounts. Note 4 highlights that the key uncertainties within the financial statements including the pension liability and the useful life of assets.

Revenue recognition

The predominant sources of revenue for the Board is from precept income and government grants. All revenue grants are matched with the expenditure to which they relate. 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.

Audit Findings

Misstatements

There were two misstatements reported in our Audit Findings Report which management adjusted. A number of minor presentational adjustments were made to the accounts including additional disclosures within the remuneration report.

Control weaknesses

During the course of the audit, we identified one instance where the payment of an invoice was overstated by £18,000. This was due to unique circumstances where a discount had been applied to the invoice by the supplier. This was reported within our Audit Findings Report.

Opinion

We have issued an unqualified opinion on the financial statements for 2012-13.

4. Governance

On the 1 April 2013, responsibility for fire and rescue services in the former Strathclyde Fire and Rescue area transferred to the new national Fire and Rescue Service.

Progress on National Fire and Rescue Service Reform

In June 2012, the Police and Fire Reform (Scotland) Bill passed through Parliament. Under this Act the eight current police and fire boards were abolished and a new single national fire and rescue service established. Strathclyde Fire and Rescue have been closely involved in this process.

A number of staff were involved in the transition, and were seconded to the national fire and rescue service. The Board made good preparations to deal with the changes and was well-prepared for the transition. Although this required an investment of time and resources at a range of levels across the service, no issues with the delivery of service during 2012-13 were noted from this.

Each local area had to produce a fire and rescue plan for the first year following the transition. Strathclyde Fire and Rescue Service was able to use the strong links it had built with its constituent councils to ensure that appropriate fire and rescue plans were built.

Our testing of Internal Controls

As part of our audit work we reviewed the internal control environment in operation at Strathclyde Fire and Rescue. During the course of the audit, we identified one instance where the payment of an invoice was overstated by £18,000. This was due to unique circumstances where a discount had been applied to the invoice by the supplier. This was reported within our Audit Findings Report.

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.

Internal Audit

The Board's Internal Audit service was provided by South Lanarkshire Council. 75 days were planned and completed in 2012-13, comprising four reviews including HR/Payroll, Fuel, Anti-fraud training and IDEA analysis.

As part of our 2011-12 audit we made a number of recommendations to improve communication between the Internal Audit Service and the Performance and Audit Forum. The Internal Audit service responded by presenting the Internal Audit Terms of Reference, the 2012-13 audit plan and 2012-13 progress report to the Performance and Audit Forum in November 2012.

Due to the nature and timing of the reviews carried out during 2012-13, we did not place formal reliance on the work of Internal Audit, but we reviewed their work to highlight where there were control weaknesses.

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

5. Performance

Strathclyde Fire and Rescue was able to maintain service delivery during its final year of operation despite the time and resources required

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.
- Elected members have a difficult role to perform, however, in general they were not found to provide strong, strategic leadership or scrutiny of how services are performing. To some extent, this reflects a lack of training, policy analysis and administrative support provided for them.
- 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.

Corporate Strategy and Integrated Risk Management

The production of an Integrated Risk Management Plan (IRMP) and associated action plans, outlining service delivery, has been a requirement of all Fire & Rescue Services since the introduction of the Fire (Scotland) Act 2005.

Within the Corporate Planning Framework for the 3-year time period 2010-2013, it was agreed to clearly define SFR's overarching service plan (the Corporate Strategy), from those elements directly associated with the delivery of that service in terms of prevention and intervention (the IRMP).

In the Corporate Strategy, SFR outlined 88 objectives to be undertaken over the three year period. Of the 88 action points relating to these objectives, all are in progress or have been completed. Many are now part of business as usual whilst a number of the ongoing actions include:

- review of all existing training courses and develop a suite of courses to fully utilise the resources of the new Training Centre,
- develop an integrated HR and Payroll system,
- risk assessments of standard operating procedures.

The ongoing actions will be further addressed within the new Scottish Fire and Rescue Service

Within the IRMP, 34 objectives were identified to be undertaken over the three year period. Of these 34 action points, 32 are in progress or have been completed and 2 have been fully considered and a decision taken not to progress at this time.

The Progress against the Corporate Strategy and IRMP, based on the annual Action Plans, had been considered by the Board and the Performance and Audit Forum.

Statutory Performance Indicators

Under the Local Government Act 1992, the Board is required to publish a number of 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 and the number of fatal and non-fatal casualties. The number of working days lost per officer has increased by 28% on the previous year, however this indicator has decreased 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 10% increase during 2012-13 in home fire safety visits.

Indicator	2009/10	2010/11	2011/12	2012/13	2012/13 Scotland
Number of incidents resulting in casualties	321	418	311	322	719
Number of incidents resulting in casualties per 10,000 population	1.5	1.9	1.4	1.4	1.4
Number of fatal and non-fatal casualties	430	553	406	381	805
Number of fatal and non-fatal casualties per 10,000 population	1.9	2.5	1.8	1.7	1.5
Number of accidental dwelling fires	2,304	2,349	2,296	2,258	4,828
Number of accidental dwelling fires per 10,000 population	10.4	10.6	10.3	10.1	9.2
Total number of days lost per year through sickness and light duties for fire officers	19,591	15,056	10,326	13,254	30,298
Average days lost per fire officer	11.2	8.5	6.2	8.2	8.6
Total number of days lost per year through sickness for all other staff directly employed by the brigade	10,817	10,231	8,747	6,720	12,796
Average days lost per all other staff	6.9	6.4	7.2	5.5	5.8

Appendix A: "The Small Print"

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton UK LLP, and Strathclyde 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 year 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.

The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transition, Transitory and Savings Provision Order 2013)

The Joint Fire Boards were abolished as at 31 March 2013 by the Police and Fire Reform (Scotland) Act 2012. The above Order provides for the transfer of the Accounting and Reporting obligations of the Board to South Lanarkshire Council as the Accounting Authority.

Responsibilities of the Treasurer and auditors

The Treasurer 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 Treasurer 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 Risk and Audit Scrutiny Forum of South Lanarkshire Council that it has done so.

The Risk and Audit Scrutiny Forum is required to review the Board's internal financial controls. In addition, the Risk and Audit Scrutiny 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 Risk and Audit Scrutiny 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 Risk and Audit Scrutiny 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	42,000
Total audit fees	42,000



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