

Strathclyde Fire and Rescue

Audit Approach Memorandum 2012-13

April 2013



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1. Overview

This report summarises our plan for the 2012-13 external audit of Strathclyde Fire and Rescue.

Introduction

This plan has been prepared for the benefit of discussion between Grant Thornton UK LLP and the administering authority for the Board of Strathclyde Fire and Rescue (the Board). The creation of a national fire service for Scotland on 1 April 2013 means that the year to 31 March 2013 was the final year of the Board. Our plan therefore reflects the specific governance and financial reporting risks associated with the transfer of functions and resources.

- provides the auditor with the right of access to any documents relating to the joint board in the possession of any constituent local authority or the Scottish Fire and Rescue Service
- requires non-financial statistics and performance information to be published.

Scrutiny Arrangements

This is the final year of operation of the Strathclyde Joint Fire Board which ceased to exist from 1 April 2013. In the absence of a formal Board, there has been a change in responsibility for taking forward the scrutiny and authorisation of the 2012-13 annual accounts.

A draft Order has been prepared under the Police and Fire Reform (Scotland) Act 2012 to provide the legislative framework for the closure of joint board accounts. The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transitional and Transitory Provisions) Order 2013 transfers the accounting and reporting obligations from the joint board to the accounting authority (i.e. the constituent local authority where the Treasurer of the joint board is employed). It also







- requires the accounting authority to discharge any functions under section 96 to 102 of the Local Government (Scotland) Act 1973, which includes performance audit activity
- requires the accounts to be laid before a meeting of the accounting authority with copies sent to each constituent local authority and the Scottish Police Authority/Scottish Fire and Rescue Service

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by the Accounts Commission and the Auditor General for Scotland.

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 Statement of Systems in Internal Control, but also on Best Value, use of resources and performance.

The core elements of our work are outlined below:

We provide an opinion on whether the financial statements give a true and fair view of the financial position of the Board and whether they have been prepared in accordance with relevant legislation and the applicable accounting framework.		See audit of the Financial Statements
We have used an interim audit visit to review the control environment relating to areas of higher risk within the financial statement. We have not been required to change our audit strategy as a result of this work.		See Our interim findings
We will review and report on the Board's corporate governance arrangements including the systems of internal control, arrangements to prevent and detect fraud and irregularity and risk management processes. We will also continue to review the local preparations for the merged national service from April 2013.		See Governance
We will review and report on the Board's arrangements to achieve best value and value for money in the use of resources, including a follow up of Audit Scotland's national report on <i>Scotland's Public Finances</i> .		See Performance
We will issue reports which will provide you with the detailed conclusions of our work, culminating in the issue of our Annual Audit Report to the Board. We have used the published 2012-13 Audit Scotland indicative fee range for the Board to set our proposed fee.		See Logistics
We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention.		See Appendix A

2. Audit of the Financial Statements

Audit Approach

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2012-13 accounts of the Board. The plan is based on our risk-based approach to audit planning and uses our assessment of the potential business and audit risks that need to be addressed by our audit and the controls that the Board had in place to mitigate these risks.

The Board's responsibilities

The Statement of Accounts is the key method that the Board uses to report to elected members and the public on how effectively they use public funds. It was the responsibility of the Board to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records.

The administering authority's responsibilities

The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transitional and Transitory Provisions) Order 2013 transfers the accounting and reporting obligations from the joint board to the accounting authority including the requirement to:

- prepare a Statement of Accounts which give a true and fair view of the financial position of the Board and its expenditure and income as at the 31 March 2013 in accordance with International Financial Reporting Standards
- discharge any functions under section 96 to 102 of the Local Government (Scotland) Act 1973, which includes performance audit activity.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question

- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Statement of Internal Control, has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

During 2012-13, we will also continue to review the Board's financial position and efficiency saving targets. We will also monitor the Board's participation in the National Fraud Initiative (NFI), in conjunction with the internal audit team.

Our Audit Strategy

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. Our initial assessment of the higher risk areas, where work will be performed on internal controls during our interim audit visit is set out in Table 1.

Accounting standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. We therefore focus our control review on the higher risk areas of the financial statements. We are also required to assess whether controls have been implemented as intended and have done this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthrough tests.

During our final audit visit we will work with the Finance Team to test and review material balances and disclosures within the financial statements. The extent of testing will be determined by our risk assessment and audit strategy.

Wherever possible, we will work with the internal audit team to minimise duplication of work and the impact on the Finance Team.

National Fraud Initiative (NFI)

The Board participated in the National Fraud Initiative, the Accounts Commission's data-matching exercise designed to prevent and detect fraud in public bodies.

We will review the Board's progress up to 31 March 2013 and actions in following up the matches identified.

Whole of Government Accounts

We will audit the Whole of Government Accounts (WGA) consolidation pack prepared for the Board for consistency with the Statement of Accounts and in line with National Audit Office requirements.

Table 1: Key Areas of Financial Statement Audit Risk

Area of the accounts	Risks identified	Work completed to date	Planned for final visit
Operating expenses	Large numbers of transactions and high levels of expenditure mean that there are inherent risks associated with accounts payable. For 2012-13, there is an additional risk that invoices could be mis-posted between the Board and Scottish Fire Service ledgers.	We have conducted a walkthrough of the controls that we identified and documented during 2011-12, to ensure that they continued to operate effectively.	We will conduct testing to ensure that creditor payments are valid and are reflected within the correct accounting period. We will also test that the expenditure is correctly allocated between the Board and the Scottish Fire Service.
Employee Remuneration	Employee costs account for approximately over 80% of the Board's total costs. Large numbers of employees and transactions mean that there are inherent risks associated with payroll.	We have conducted a walkthrough of the controls that we identified and documented during 2011-12, to ensure that they continued to operate effectively.	We will complete our substantive testing, which includes analytical review, to ensure that payroll costs are in line with our expectations.
Property, plant and equipment	Fixed assets account for the majority of the assets on the Board's balance sheet, with a value of around £224 million. These are generally accounted for as part of year end processes, but will be key to determining the value of assets transferring to the new organisation.	Substantive testing of fixed assets for valuation and completeness will be undertaken as part of our year end processes.	We will review work undertaken to establish valuation of assets at the year end. Detailed testing will also cover additions and disposals in year and the calculation of depreciation.
Grant and Precept Revenues	Government grant and precept income provided the Board with 97% of its income for the year.	We have conducted detailed testing of Scottish Government Grant and Precept Income.	We will complete our substantive testing, which includes testing of deferred grant at the year end.
Management override	Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities. We are required to report on the supporting evidence we have relied on within our Annual Report to the Board.	Our interim work on operating expenses and payroll transactions will be used to support our opinion.	We will review all significant accounting estimates, judgements and decisions made by management to support the financial statements during our final audit visit. We will test a number of journals to ensure that movements are bona-fide.
Revenue recognition	Overstatement of revenue may result in material misstatements due to premature revenue recognition or recording fictitious revenues. This is therefore a presumed risk and will be tested as part of our audit.	We have gained assurance on work completed to date on Grant revenues, however the key risk remains with cut off procedures which will be tested at year end.	The merger on 1 April means that there are additional risks associated with cut off processes at the year end. We will therefore undertake detailed substantive testing during our final audit visit.

Reserves balances

The new Fire Service of Scotland will become operational on 1 April 2013. At 31 March 2013, the uncommitted reserves of the Joint Board will demit to local government. We will continue to monitor arrangements for this transfer of resources, and we will complete targeted testing to gain assurance on estimates and balances at the year end.

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the planning stage to ensure that an appropriate level of audit work is conducted. It is also set at the reporting stage in order to assess the impact of an item on the financial statements. Any identified

errors greater than 5% of materiality will be recorded on a schedule of misstatements, assessed individually and in aggregate, discussed with you and, if not adjusted, signed off by you as part of your letter of representation to us.

Reporting

Our approach will be to report all findings to management. We report only those findings that represent a control weakness to the Risk and Audit Scrutiny Committee and make formal recommendations.

In all cases, we hope to invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Our reporting timetable is set out in Section 6: Logistics.

3. Our interim findings

Introduction

Accounting standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. We therefore focus our control review on the higher risk areas of the financial statements, as identified in Table 1.

We are also required to assess whether controls have been implemented as intended and have done this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthrough tests. We undertake interim testing to support our risk assessment for the final statements audit process.

We carried out our interim visit at Strathclyde Fire in February 2013. During the interim visit we have considered:

- the effectiveness of the internal audit function and the scope of their work on the Board's key financial systems
- walkthrough testing to confirm whether controls are implemented in line with our understanding in areas where we have identified a risk of material misstatement
- controls testing on employee remuneration
- early substantive testing on operating expenses, employee remuneration and income.

Operating Expenses

As part of our interim work on expenditure, we selected a sample of transactions to ensure that the Board's control procedures were in place and operated effectively. We conducted testing to verify that:

- there was a valid invoice on file for each item of expenditure
- expenditure related to the current year

- the invoice had been correctly calculated.

One error was identified during the testing in response we will increase our sample size to gain assurance. We will complete our testing focusing on the final three months of 2012-13 at final accounts.

Employee Remuneration

During our interim visit, we reviewed the payroll control environment to ensure that arrangements are in place to prevent inaccurate or invalid payments being made.

Grant and Precept Income

We have substantively tested Scottish Government grant and precept income received up to the 31 December 2012. No errors were identified during the testing. We will complete our testing focusing on deferred revenue and the final three months of 2012-13 at final accounts.

Miscellaneous Revenue

We reviewed a sample of miscellaneous revenue items to ensure that transactions had been accurately recorded in the ledger.

No errors were identified during the testing. We will complete our testing focusing on the final three months of 2012-13 at final accounts.

Conclusion

Our interim testing and review of the Board's arrangement for internal control have not highlighted any unexpected deficiencies within the control environment. We have not, therefore, been required to amend our risk assessment for the Board.

4. Governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Board was responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The Board's Best Value and Audit Committee has a key role in monitoring these arrangements.

The Code of Audit Practice gives the auditor a responsibility to review and, where appropriate, report findings on the Board's corporate governance arrangements as they relate to:

- the Board's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Board.

This section sets out our approach to auditing key governance developments during 2012-13.

Scrutiny Arrangements

Effective scrutiny was critical to the success of the Board's governance arrangements. Elected members had a key role to hold officers to account for delivering the vision for the area. The Board and its committees ceased to exist on 1 April 2013. We have therefore identified the administering authority's audit committee as 'those charged with governance' under auditing standards. In this case, and in line with The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transitional and Transitory Provisions) Order 2013, our reports on the Board will be considered by South Lanarkshire Council's Risk and Audit Scrutiny Committee.

Statement on the System of Internal Financial Control

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

The Statement is a key document that Boards must prepare that records the governance ethos of the organisation, and assurances around the internal controls and approach to risk management of the Board. Under the Code of Audit Practice, we are required to review and report on the Statement annually. We review and, where appropriate, examine evidence supporting the Statement. This will include any areas of improvement achieved during the year.

Fraud and Irregularity

It is a Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

The Board should also ensure that members, management and employees' attention is drawn to guidance and codes of conduct and that they are made aware that failure to comply may have serious consequences.

We worked with the Board's internal audit team to review specific areas of fraud risk. We also examined the Board's policies, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

We are also required to report any fraud above £5,000 to Audit Scotland. We have agreed with internal audit that they will inform us of any frauds when they are identified.

Reporting

Our work on governance, including the Statement on Systems of Internal Financial Control, will be reported in our Annual Report to Members, scheduled for September 2013.

5. Performance

Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as ‘continuous improvement in the performance of the authority’s functions’. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

The Act also places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and meeting their community planning responsibilities.

Performance information

Statutory Performance Indicators remain one of the key ways that Board performance is measured and reported to the public.

The SPI direction incorporates two requirements that we report:

- a range of sufficient information to demonstrate best value in relation to corporate management
- a range of information sufficient to demonstrate best value in relation to service performance

We will review the Board's and if appropriate the administering authority's arrangements for meeting SPI reporting requirements. Specifically, we will consider whether the range of performance information reported locally is sufficient to demonstrate whether the Board was achieving Best Value. We will also consider whether arrangements are in place to ensure the reliability and accuracy of the information to be reported.

National Studies

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them and action them accordingly. There is an expectation that a Board will review national reports at a committee level and action them accordingly. As external auditors, we are required to consider:

- whether the Board has discussed the national report at committee level
- whether the Board has carried out a self-assessment against the national report
- whether an action plan has been developed as a result of any self-assessment.

In 2012-13, we are required to carry out targeted follow up work on *Scotland's Public Finances: Addressing the Challenges*, published in August 2011. We will produce a local report focused on Audit Scotland's key findings and recommendations. Our report will include a judgement on the extent of progress and with any recommendations for improvement to be taken to the new organisation.

6. Logistics

Audit Outputs

Reports will be discussed and agreed with officers before being issued to the Risk and Audit Scrutiny Committee of South Lanarkshire Council.

Output	Purpose	Issue date
Audit Approach Memorandum	<ul style="list-style-type: none"> Outline audit approach for the accounts and Best Value audits Identify initial high risk areas and our planned response Report the results of the control evaluation of our audit and its impact on our planned audit approach Confirm focus areas for the audit of the accounts based on our risk assessment 	April 2013
Scotland's Public Finances	<ul style="list-style-type: none"> Local report to follow up progress locally against Audit Scotland's national report on the financial resilience of local government bodies. 	September 2013
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> Highlight key issues arising from the audit and the resolution of the key audit risks affecting the financial statements. Communication of adjusted and unadjusted audit differences Improvement recommendations resulting from audit procedures 	September 2013
Annual Audit Report	<ul style="list-style-type: none"> Our final audit report will summarise the key issues arising from our 2012-13 audit across each areas of the Code of Audit Practice. The report will be presented to the Risk and Audit Scrutiny Committee of South Lanarkshire Council. 	September 2013
Whole of Government Accounts	<ul style="list-style-type: none"> Conclusion of our work on WGA, including sign off of the Board's WGA submission to Scottish Government 	September 2013

Audit Fee

The indicative fee range is set by Audit Scotland each year for each audit. It represents Audit Scotland's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

Placement within the fee range depends on the level of work we consider requires to be undertaken and is influenced by the nature and extent of risks facing the Board.

The external audit fee for 2012-13 will be £38,000 (£36,400 in 2011-12).

The fee reflects the risks associated with the final year of the organisation, including arrangements for confirming and transferring balances. The plan will be subject to continuous review and may be revised if significant new audit risks during the audit or if we are unable to progress as planned due to the timing or quality of information provided by management.

Appendix A: Independence and objectivity

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Accounts Commission are required to comply with the Commission's Code of Audit Practice, which defines the terms of our appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice and Standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client

■ confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.



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