

# Strathclyde Fire and Rescue

## Audit Findings Report 2012-13

September 2013

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**Risk and Audit Scrutiny Forum**

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To the Risk and Audit Scrutiny Forum,

**Audit Findings for Strathclyde Fire and Rescue for the Year ended 31 March 2013**

This Audit Findings report highlights the significant findings arising from the audit of Strathclyde Fire and Rescue's financial statements for the year ended 31 March 2013. The Report is for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management, or those charged with governance, of their responsibilities for the preparation of the financial statements.

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.

Yours sincerely

Gary Devlin

for and on behalf of Grant Thornton UK LLP

**Chartered Accountants**

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# 1. Executive Summary

## Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and Risk and Audit Scrutiny Forum of South Lanarkshire Council (the Committee). The purpose of this report is to highlight the key issues arising from the audit of the Strathclyde Fire and Rescue's (the Board) financial statements for the year ending 31 March 2013.

This report meets the mandatory requirements of the International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Committee.

The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transitory and saving Provisions) Order 2013 places responsibility for the preparation of the 2012-13 Statement of Accounts on South Lanarkshire Council and its officers.

We are responsible for undertaking an audit and reporting whether, in our opinion, the financial statements present a true and fair view of the financial position and to confirm that the expenditure and income in the financial statements was incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

## Financial Statements

Subject to the completion of our outstanding procedures, we expect to provide an unqualified opinion on the Board's 2012/13 financial statements, and conclude that financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting 2012/13 ("The Code").

## Audit Adjustments

Our audit identified one financial accounting matter, being the mis-classification of a debtor between central government and local government, which has been amended by management. Further details can be found in section 6 to this report.

In addition to this financial accounting matter, our audit also identified a small number of presentational and disclosure issues impacting the financial statements. The most significant of these related to the Statement of Responsibilities and the disclosure of exit packages. Further details on these matters, which has now been corrected, can be found in section 3 to this report. All other disclosure matters have been communicated to management and are considered to be trivial. These will be reflected in the final version of the Statement of Accounts.

## Design effectiveness of internal controls

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

We reported our findings from our review of the internal control systems as part of our Audit Approach Memorandum. One further control deficiency in respect of over payment of an invoice has been identified during our year end audit procedures. Refer to section 4 for further detail.

### Use of this Report

The contents of this report relate only to those matters which 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. Our audit is not designed to test all internal controls or identify all areas of control weakness. Where we identify any control weaknesses as part of our testing, we will report these to you. Our work cannot, therefore 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 do not accept any responsibility for any loss to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

### Acknowledgements

The Board's draft financial statements and working papers were presented for audit in line with our audit timetable and were of a high quality. The Finance Team has been responsive and supportive throughout the audit process. We would like to record our thanks to the finance team and the other staff involved in the accounts and audit process for their help and support.

Grant Thornton UK LLP  
17 September 2013

## 2. Key Audit Issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

### Status of the Audit

The following areas were outstanding at the time of discussion:

- The finalisation of audit procedures in respect of employee remuneration.

### Matters identified at the planning stage

In the conduct of our audit we have not had to alter or change our audit plan, which we communicated to the South Lanarkshire Risk and Audit Scrutiny Forum, in our Audit Approach Memorandum (AAM).

Our responses to the matters identified at the planning stage are detailed in Table 1 below.

**Table 1: Matters identified at the planning stage**

	Area of the accounts impacted	Risks identified in our AAM	Commentary
1	Operating Expenses	Large numbers of transactions and high levels of expenditure mean that there is inherent risks associated with accounts payable. For 2012-13, there is an additional risk that invoices could be mis-posted between the Board and the Scottish Fire and Rescue Service ledgers.	<p>Sample based testing has been conducted to ensure that creditor payments are valid and are reflected within the correct period.</p> <p><b>Conclusion</b></p> <p>We identified one instance where controls over the payment of an invoice had failed, further details are included in section 4.</p> <p>We did not identify any other matters to report.</p>

## 2. Key Audit Issues

**Table 1: Matters identified at the planning stage (continued)**

	Area of the accounts	Risks identified in our AAM	Commentary
2	Employee Remuneration	Employee costs account for approximately 80% of the costs incurred by the Board. Large numbers of employees and transactions mean that there are inherent risks associated within payroll.	<p>In response to these risks we have reviewed and tested payroll systems and controls, including those surrounding joiners and leavers and review of procedures around exception reporting.</p> <p>A wages rationalisation test was performed which indicated that costs were in line with expectations.</p> <p>We have not completed our substantive testing on individual payroll transaction.</p> <p><b>Conclusion</b></p> <p>Our work completed to date on the payroll system and wages rationalisation has not identified matters to report.</p>
3	Property, plant and equipment	Property, plant and equipment 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.	<p>We have substantively tested property plant and equipment to gain assurance over the valuation and completeness of assets. We have reviewed the work of the valuer and tested the reasonableness of the depreciation charge. We have carried out detailed testing of additions and disposals in year.</p> <p><b>Conclusion</b></p> <p>Our work completed to date has identified no exceptions to report.</p>

## 2. Key Audit Issues

**Table 1: Matters identified at the planning stage (continued)**

	Area of the accounts	Risks identified in our AAM	Commentary
4	Revenue recognition	At the planning stage we identified a risk relating to revenue recognition, being that premature revenue recognition could potentially lead to material misstatement.	<p>In addition to substantively testing the receipt and recognition of significant revenue grants we have performed detailed substantive sample testing on material other revenue streams. Cut-off testing has also been performed in the immediate period surrounding the year end.</p> <p><b>Conclusion</b> Our work has identified no issues in respect of this area.</p>
5.	Grant and Precept Revenues	Government grant and precept income provide the board with circa. 97% of income.	<p>We have conducted a walkthrough of the controls in place surrounding accounting for major grant and precept revenues. We have also performed substantive testing to verify the existence of grant income reported in the Statement of Accounts.</p> <p><b>Conclusion</b> Our work has returned no exceptions in this area. We are satisfied that the appropriate adjustments have been made in line with the Scottish Government guidance on the treatment of year end reserves.</p>

## 2. Key Audit Issues

**Table 1: Matters identified at the planning stage (continued)**

	Area of the accounts	Risks identified in our AAM	Commentary
6	Reserves balances	The Scottish Fire and Rescue Service of Scotland became operational on 1 April 2013. Guidance issued by Scottish Government required that the uncommitted reserves of the Joint Board at 31 March 2013 were to be demitted to local government.	<p>As per the guidance issued by Scottish Government the uncommitted reserves are required to be cleared to £nil at the year end, with all unspent reserves being returned to Local Authorities. We have reviewed the adjustments and disclosures made in the Statement of Accounts in respect of reserves transfers against the guidance issued by Scottish Government.</p> <p><b>Conclusion</b></p> <p>We have confirmed that the correct accounting treatment for the reserves has been applied.</p>



## 2. Key Audit Issues

**Table 1: Matters identified at the planning stage (continued)**

	Area of the accounts	Risks identified in our AAM	Commentary
7	Management override	Under ISA 240 there is a presumed risk of management override of controls present in all entities.	<p>We have discussed the potential areas of fraud in the financial statements and have reviewed the processes in place to detect fraud. Specific procedures have been performed around adjusting journal entries posted to the ledger in the year to 31 March 2013.</p> <p>Our work has not indicated any evidence of fraud impacting on the financial statements.</p> <p>We have also reviewed areas of significant estimates or judgements by management in order to assess any likelihood of accounts manipulations.</p> <p><b>Conclusion</b></p> <p>Our work has not identified any issues in respect of fraud to date.</p>

## 3. Financial Reporting Matters

### **Review of principal accounting policies**

There have been no changes in accounting policies in the current financial year. We have reviewed the accounting policies and have concluded that we are satisfied that the stated policies are compliant with accounting standards.

### **Review of disclosures**

As part of our work on the financial statements we reviewed disclosures in the financial statements against the disclosure requirements of the Code. We identified a small number of areas where disclosure could be improved, these have been adjusted by management. Our findings and actions taken are outlined in Table 2 in Section 3 of our report.

### **Other Communication Matters**

We are required under ISA 260 to communicate specific matters to those charged with governance. Where no issues have been encountered as part of the audit we are required to provide confirmation of this. The other communication matters have been disclosed at section 5.

## 3. Financial Reporting Matters- Continued

**Table 2: Financial reporting matters arising**

Accounting area	Issue	Management Comments
<b>Statement of Responsibilities</b>	<p>The Statement of Responsibilities does not reflect the revised responsibility requirements as a result of the Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transition, Transitory and Savings Provisions Order 2013).</p> <p>The Statement should be revised to reflect the provisions of the Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transition, Transitory and Savings Provisions Order 2013).</p>	Agreed and amended by management
<b>Remuneration Report</b>	We identified that two agreed exit packages had erroneously been omitted from 2012-13 exit package table and that one exit package had been omitted from the 2011-12 exit package table.	Agreed and amended by management

## 4. Internal Control Matters

### Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the internal controls of Strathclyde Fire and Rescue, but it is designed primarily for expressing our opinion on the financial statements of the entity. However, where as part our testing we identify control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include possible improvements in internal control.

We have reported to you in our Audit Approach Memorandum the position of internal control matters previously highlighted. During our final audit procedures we identified one further matter, being in respect of an over payment to a supplier.

**Table 3: Control issues arising**

Accounting area	Issue	Management Comments
Operating Expense	<b>Controls over invoice payment</b> 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 an isolated incident. We have taken steps to ensure the overpayment was recovered.

## 5. Other Communication Matters

**Table 4: Other Communication matters**

	Issue	Comments
1.	Matters in relation to fraud	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedure
2.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	The Police and Fire Reform (Scotland) Act 2012 provided the creation of a single Scottish Fire and Rescue Service from 1 April 2013. In light of this legislation we are satisfied that, steps have been taken to ensure compliance with the guidance on transition, including steps to demit uncommitted reserves back to local government and all other aspects of the transfer of resources have been fairly stated.
4.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking institutions with whom funds were held. This permission was granted and the confirmations were returned which agreed with balances held in working papers.
5	Discussion with management	We have received all necessary assurances from management for the purposes of our audit. Our discussions did not highlight any other issue which may have a potential impact on the financial statements.

## 6. Audit Adjustments

### Misstatements

We are required to communicate all uncorrected misstatements to you other than those considered to be clearly trivial.

There are no unadjusted misstatements to report

### Impact of misstatements

All adjusted misstatements are set out in detail in table 5 below.

A number of presentational adjustments to the Statement of Accounts have been suggested, these have been agreed with management and will be updated in the final draft of financial statements.

**Table 5: Other Communication matters**

	Detail	Statement of Financial Position		Statement of Comprehensive Net Expenditure		Deficit effect
		Dr	Cr	Dr	Cr	
1	Dr Receivables: Other Local Authorities Cr Receivables: Central Government bodies Being the correction of a misclassification of a debtor in relation to the Local Government Pension Scheme.	£1,443k	£(1,443k)			nil

## 7. Fees, non-audit services and independence

	Fees
Financial Statements Audit	£38,000
<b>Total Audit Fees</b>	<b>£38,000</b>

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required to, or wish to, draw your attention to. 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.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and teams within the Grant Thornton International network providing services to Strathclyde Fire and Rescue. There were no non-audit services provided in the current year.

## Appendix 1 Proposed Auditor's Report

### **Independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of Strathclyde Fire and Rescue for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the body as at 31 March 2013 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## **Opinion on other prescribed matters**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

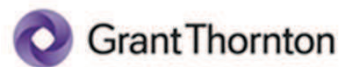
We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2012/13 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

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[DATE]



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