



**SCOTTISH**  
**FIRE AND RESCUE SERVICE**

Working together for a safer Scotland

**Report to:** SCOTTISH FIRE AND RESCUE BOARD  
AUDIT & RISK ASSURANCE COMMITTEE

**Date:** 26 JUNE 2013

**Report By:** Grant Thornton UK LLP

**Subject:** EXTERNAL AUDIT PLAN - 2012/13 ACCOUNTS

## **1 PURPOSE**

- 1.1 The purpose of this report is to provide the Audit and Risk Assurance Committee with the 2012-13 Audit Plan for the Scottish Fire and Rescue Service.

## **2 RECOMMENDATION**

- 1) The Board is asked to note the 2012/13 external audit plan

## **3 BACKGROUND**

- 3.1 Under International Standard on Auditing (ISA) 260, we are required to communicate:
- the respective responsibilities of the auditor and management/those charged with governance
  - an overview of the planned scope and timing of the audit
  - confirmation of independence and objectivity

#### **4 AUDIT PLAN**

- 4.1 The audit plan is appended to this report. The audit plan details the risks we have identified and how we plan to gain assurance on those risks, the timing of the audit work and the key aspects of the stages of the audit cycle are explained. We have also looked forward to the key issues for 2013-14.

#### **5 EMPLOYEE IMPLICATIONS**

- 5.1 None

#### **6 FINANCIAL IMPLICATIONS**

- 6.1 The proposed audit fee is £18,500

#### **7 LEGAL IMPLICATIONS**

- 7.1 None

#### **8 EQUALITY IMPACT ASSESSMENT AND CONSULTATION ARRANGEMENTS**

- 8.1 None

**ROBIN BAKER  
GRANT THORNTON**

**17 June 2013**



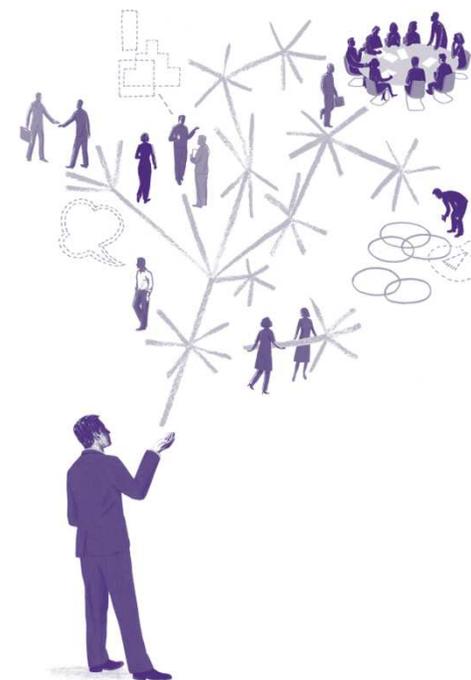
# The Audit Plan for the Scottish Fire and Rescue Service

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**Year ended 31 March 2013**

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26 June 2013

Dear Sirs

**Audit Plan for the Scottish Fire and Rescue Service for the Year ended 31 March 2013**

We are delighted to be engaged as external auditors to the Scottish Fire and Rescue Service for the year ending 31 March 2013.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

This Audit Plan highlights the key elements of our proposed audit strategy 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. The Audit Findings report will be issued prior to approval of the financial statements and will present our significant findings and other matters arising from the audit. We will communicate any significant adverse or unexpected findings affecting the audit on a timely basis, either informally or through an interim memorandum.

We look forward to working with you during the course of the audit.

**Yours faithfully**

Robin Baker

Audit Director

For Grant Thornton UK LLP

**Chartered Accountants**

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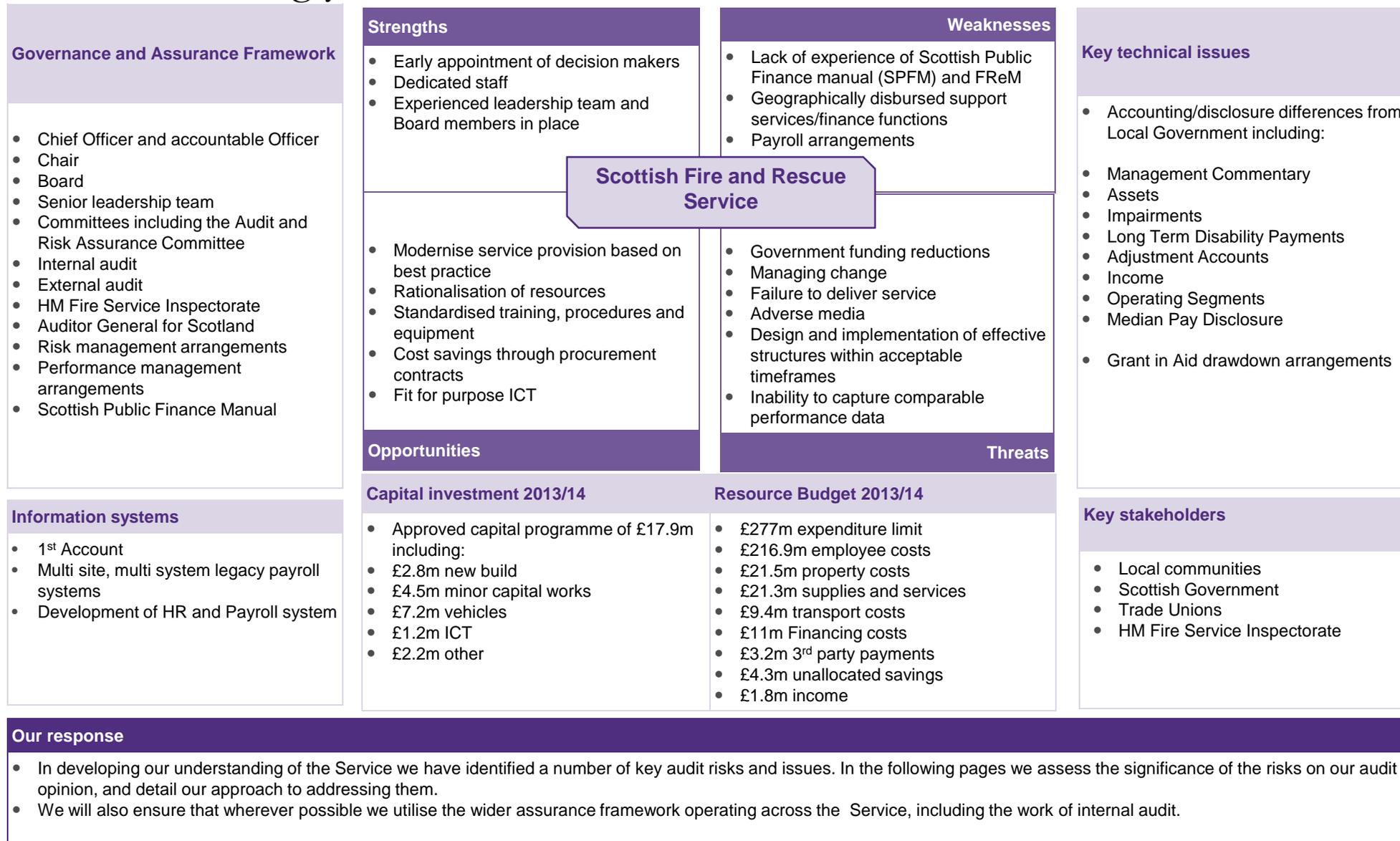
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. 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 do not accept any responsibility for any loss occasioned 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.

# 1. Understanding your business



## 2. Significant risks identified

“Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.” (ISA 315)

Significant risk	Description	Substantive audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Walkthrough of key controls on significant revenue streams</li> <li>• Performance of substantive testing on material revenue streams.</li> </ul>
<b>Management over-ride of controls</b>	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	To ensure that we gain reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, the work we will perform in this area will include: <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• a review of the controls in place over the accounting system and other key IT software applications by the IT members of our audit team</li> <li>• testing of a sample of journals entries which will be determined through the use of our data interrogation software (IDEA) which enables our audit team to focus on higher risk journal postings</li> <li>• identification of the related parties of the Service and a review of the procedures in place to ensure that any related party transactions are approved, captured and correctly presented within the financial statements</li> <li>• review of unusual significant transactions.</li> </ul>

### 3. Other areas of particular focus in the audit

“The auditor should evaluate the design and determine the implementation of the entity’s controls, including relevant control activities, over those risks for which, in the auditor’s judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures.” (ISA 315)

Risk	Description	Planned audit procedures
<b>Operating expenses</b>	Operating expenses were incurred and processed on behalf of the Service by the demising bodies.	We will: <ul style="list-style-type: none"> <li>• develop an understanding of the systems and controls in place surrounding the accounts payable system</li> <li>• perform attribute testing on expenditure recorded in year to ensure the accuracy and occurrence of the transaction</li> <li>• Perform cut-off testing to ensure expenditure has been recorded in the correct year</li> <li>• enquire of accounting staff as to the possibility of unrecorded liabilities and examine any unmatched goods received records and unprocessed invoices for unrecorded creditors</li> <li>• select creditor balances, (based on large purchase activity and/or large balances) and agree to supporting records</li> </ul>
<b>Staff costs</b>	Staff costs will make up the largest proportion of expenditure and will include secondment costs and directly employed officers and members.	We will: <ul style="list-style-type: none"> <li>• develop an understanding of the systems and controls in place surrounding the management of staff changes and the calculation and processing of the payroll</li> <li>• analytically review payroll expenses in comparison to budgets and investigate any significant or unexpected variances and review the reconciliation of payroll reports to the ledger</li> <li>• test all staff members to supporting documentation (including contracts) to gain assurance over the correct calculation of remuneration and processing of staff changes, including salary changes</li> <li>• agree secondment costs to supporting information</li> <li>• review the relevant disclosures relating to staff costs within the financial statements including the remuneration report</li> </ul>

### 3. Other areas of particular focus in the audit (cont)

Risk	Description	Planned audit procedures
<b>Pension costs</b>	The Service has transferred in a number of employees from across Scotland, all belonging to different pension schemes.	We will review the treatment and associated disclosures in relation to the pension schemes. We will assess the work of the actuaries engaged and review the assumptions and estimates used in determining the actuarial valuations.
<b>Grant in aid from Scottish Government</b>	Grant in aid is the sole source of funding for the Service.	As part of our work in this area, we will review the grant in aid recorded in the draft accounts against notification letters from Scottish Government.
<b>Presentation and Disclosure</b>	As a central government body, the Scottish Fire and Rescue Service will be required to prepare its accounts under the Government Financial Reporting Manual which includes the requirement to produce a Management Commentary and an Annual Governance Statement.	We will review the draft accounts against the requirements of : <ul style="list-style-type: none"><li>• the Government Financial Reporting Manual (FReM)</li><li>• Annual Governance Statement best practice</li><li>• Remuneration report guidance</li></ul>

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## 4. Fees and related matters

### Fees

Scottish Fire and Rescue Service	£
Financial Statements Audit	18,500
<b>Total</b>	<b>18,500</b>

In advance of presenting the audit fee, Audit Scotland has been consulted and agreed the proposed fee for the 2012/13 audit. The Audit Fee reflects our assessment of the time required to complete an audit that meets professional standards. The fee reflects the relatively high proportion of senior staff input in this initial engagement.

### Our fee assumptions include:

- Our fees are inclusive of VAT and out of pocket expenses
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- You will make available management and accounting staff to help us locate information and to provide responses to our queries

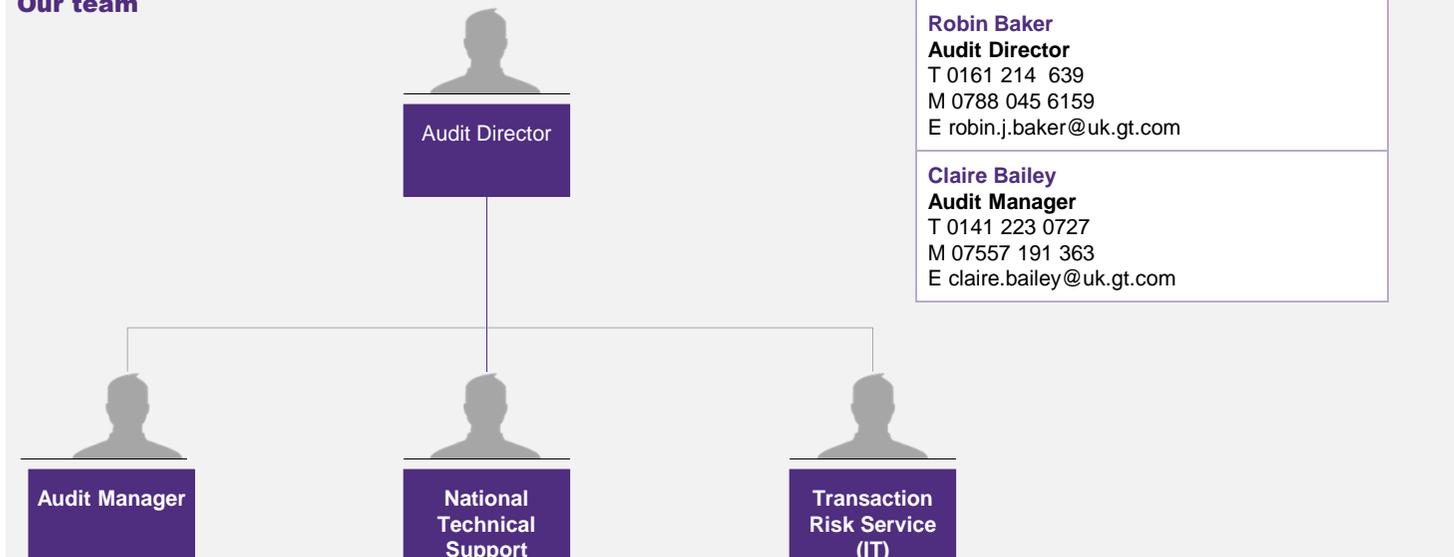
### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and saving
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates

## 5. Logistics and our team



### Our team



## 5. Logistics and our team (cont)

### Planning

#### Key elements

- Planning meeting with management to set audit scope
- Agree timetable and deliverables with management and audit committee
- Issue the Audit Plan to management and Audit Committee
- Attendance at Audit Committee to discuss the Audit Plan

### Fieldwork

#### Key elements

- Audit teams onsite to complete fieldwork and detailed testing of:
- Staff Costs
- Operating Expenses
- Grant Income
- Year end balances
- Journals

### Completion/ reporting

#### Key elements

- Audit Findings meeting with management
- Draft the Audit Findings and Annual Report to Members issued to Audit Committee
- Audit Findings and Annual Report to Members presentation to Audit Committee
- Finalise and sign financial statements

## 6. Communication of audit matters with those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓

International Auditing Standard (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), 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.

# 7. Looking forward

## Managing the transition

### Asset and liabilities transfer

The assets and liabilities of the antecedent Fire and Rescue Joint Boards will be transferred in to the Scottish Fire and Rescue Service.

### Establishment of Governance Framework

Governance arrangements need to be designed, implemented and embedded including:

- Risk management                      Oversight structure
- Performance management            Management structure

### Development of Service plans and sustainable budgets

The Service has approved the 2013/14 budget of £277m. Effective arrangements for monitoring and reporting against the budget will need to be established. Sustainable medium term financial plans will need to be developed in line with anticipated funding reductions.

### Performance and Best Value

The Service need to establish a performance management framework and establish and monitor KPI's. Current performance monitoring data capture needs to be reviewed to ensure comparability for consolidation purposes.

Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

## Our response

### Audit of asset and liabilities transfer

- We will distribute specified procedures to the auditors of the antecedent Fire and Rescue Joint Boards and the Fire College to gain assurances on balances at the 31 March 2013
- We will audit the transfer as a separate exercise from the final accounts audit

### Governance Framework

- We will review the process for the establishment and embedding of the governance arrangements
- We will review the arrangement against the requirements of the SPFM and best practice

### Service plans and sustainable budgets

- We will review the setting and monitoring of budgets and how savings required of £4 million are identified and monitored
- We will review how the Service has responded to challenges identified in the Audit Scotland report: Scotland's Public Finances

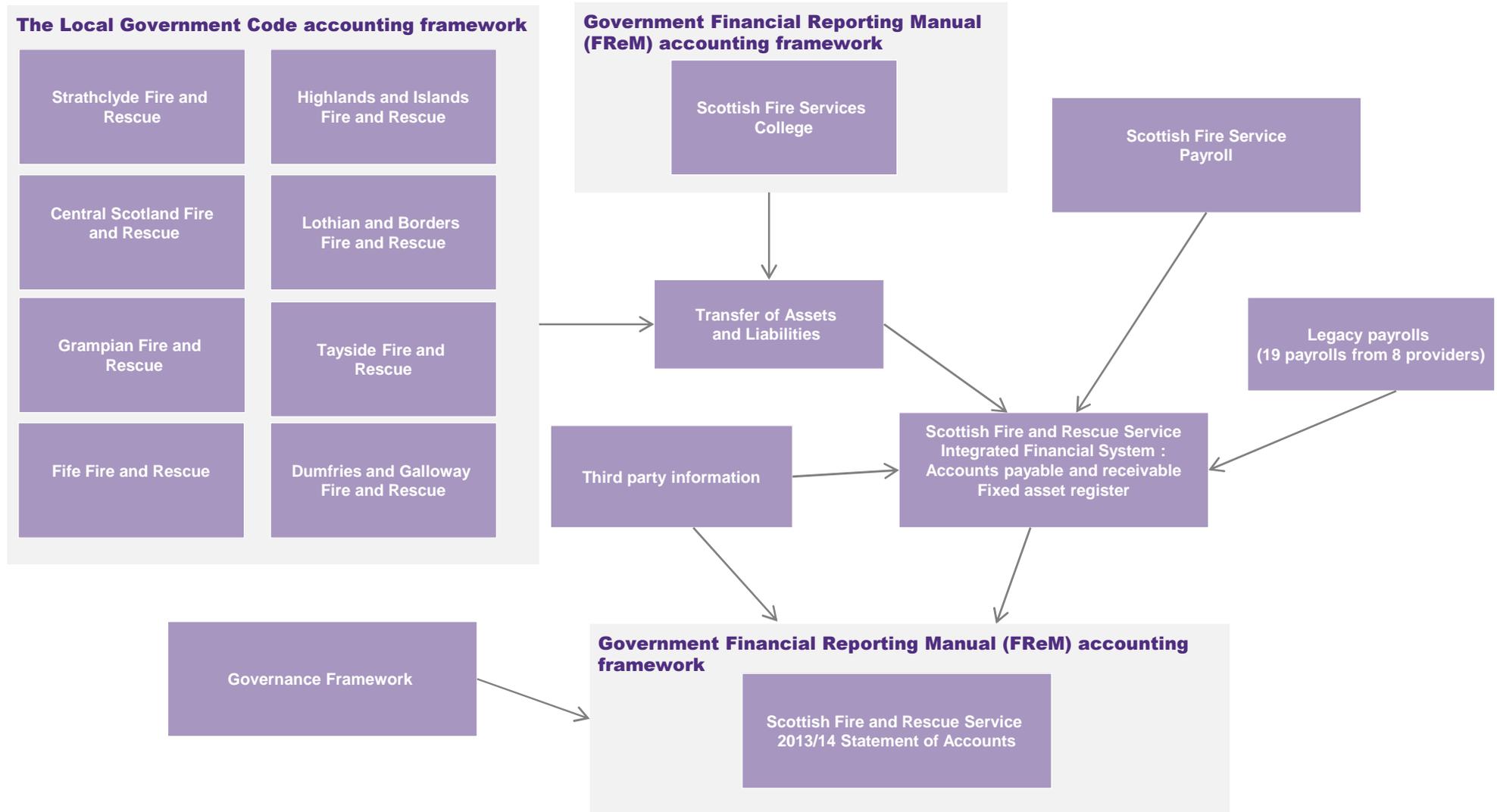
### Performance and Best Value

- We will review how the Service has made arrangements to capture, monitor and report performance information
- We will review how the Service's strategic plan aligns to the National Performance Framework
- We will review how the Service respond to Audit Scotland national reports
- We will review how the Service has made arrangements to secure and demonstrate Best Value

**Whilst, for independence reasons, we cannot assist you in carrying out the transition process, we will support you in managing the transition by:**

On going discussion	Training and guidance	Technical releases
We will continue to discuss the transition and their plan with management. As part of this we will share our views on the transition process and current thinking both internally and across the Sector	We have already held a training event to highlight the key differences that finance staff need to be aware for completing the 2012/13 Annual Report and Accounts due to move from the Local Government Code to the FReM and the implications of following the SPFM. We will continue to support staff and members in providing guidance were required.	We will keep you informed of accounting developments and annual changes to the FReM.

# 7. Looking forward



# 7. Looking forward

## Proposed audit timeline 2013-14

**November 2013**  
Planning and  
Systems  
Documentation

**July 2014**  
Financial  
Statements Audit  
Fieldwork

2013

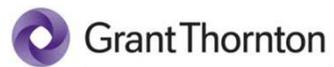
2014

Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
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**December 2013**  
Audit of transferred  
assets and  
liabilities

**March 2014**  
Interim Audit

**September 2014**  
Completion and  
reporting



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