



SCOTTISH
FIRE AND RESCUE SERVICE

Working together for a safer Scotland

Report To:	AUDIT AND RISK ASSURANCE COMMITTEE
Report No:	C/ARAC/02-14
Date:	13 MARCH 2014
Report By:	GRANT THORNTON UK LLP

Subject:	EXTERNAL AUDIT PLAN 2013 - 2014
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1 PURPOSE

- 1.1 The purpose of this report is to provide the Audit and Risk Assurance Committee with the 2013-14 Audit Plan for the Scottish Fire and Rescue Service.

2 RECOMMENDATION

- 1) The Committee is asked to note the 2013-14 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 TEXT

- 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.
- 4.2 Our responsibilities under the Code of Audit Practice require us to also report on Performance and Governance, our planned approach to these aspects of our work are included in the audit plan.
- 4.3 Appendix 2 provides a more detailed time line for the audit.

5 EMPLOYEE IMPLICATIONS

- 5.1 None

6 FINANCIAL IMPLICATIONS

- 6.1 The proposed audit fee is £115,000.

7 LEGAL IMPLICATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSMENT AND CONSULTATION ARRANGEMENTS

- 8.1 None

**ROBIN BAKER
GRANT THORNTON
5 March 2014**



The Audit Plan For The Scottish Fire and Rescue Service

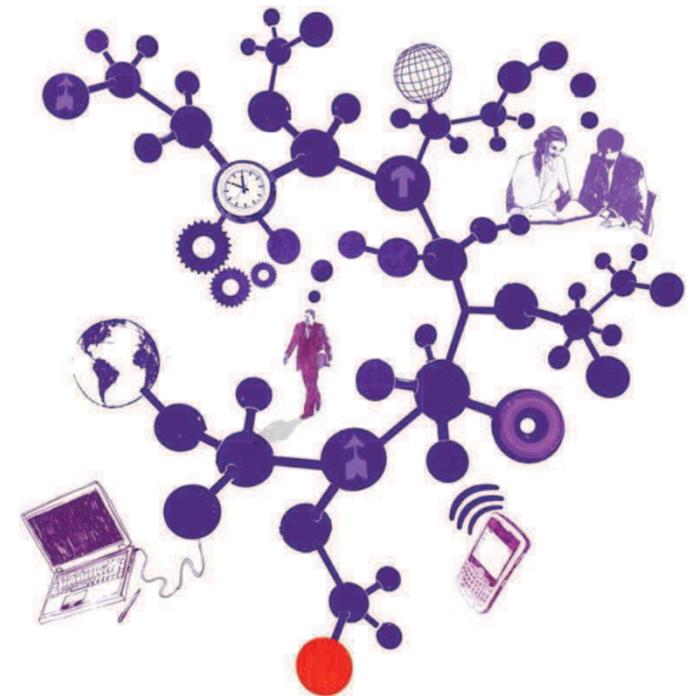
Year ended 31 March 2014

20 February 2014

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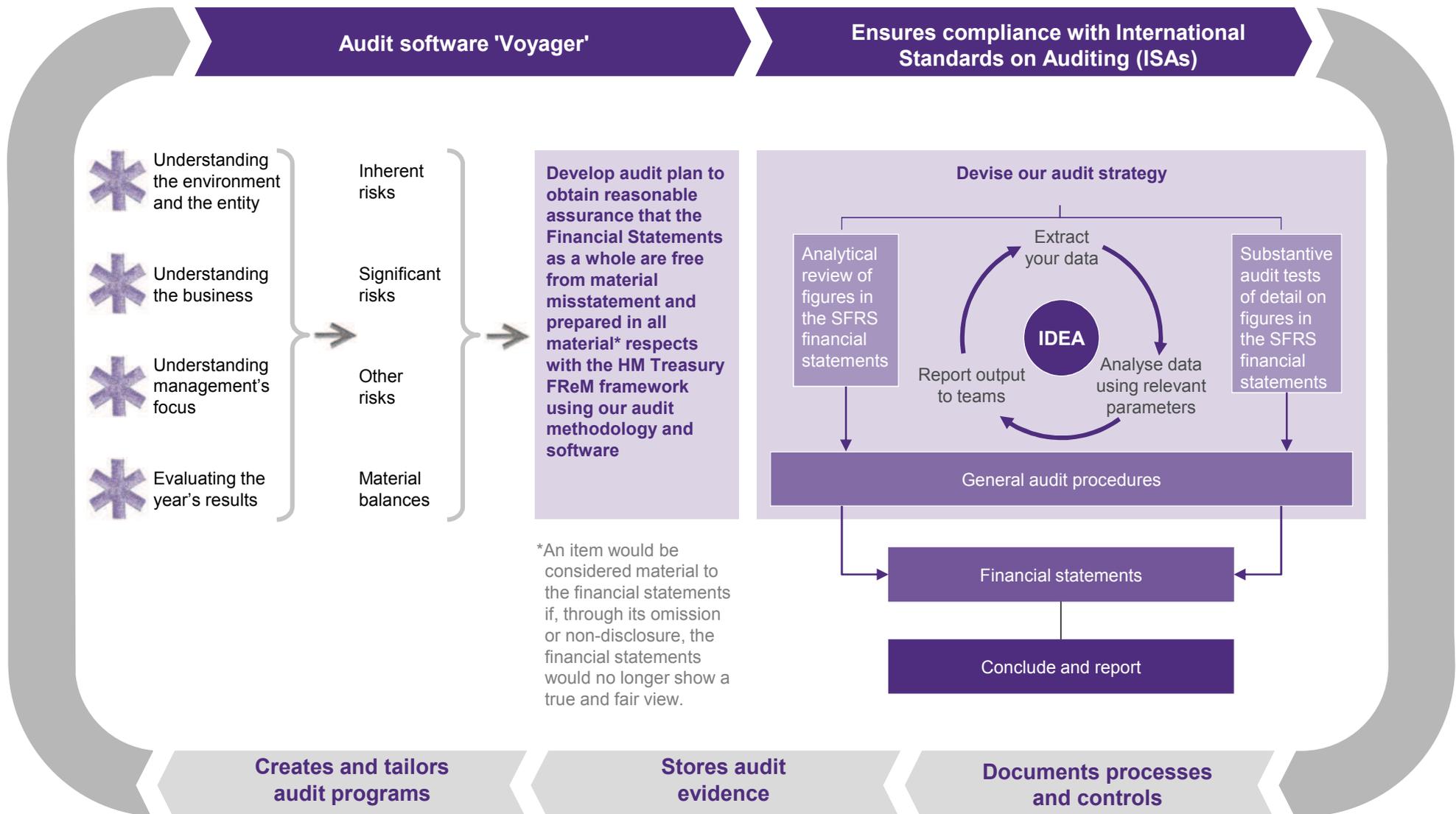
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Understanding the Organisation

In planning our audit we need to understand the challenges and opportunities Scottish Fire and Rescue Service (SFRS) is facing. We set out a summary of our understanding below.

Developments and other requirements			
<p>1. Fire Reform</p> <ul style="list-style-type: none"> The merger of the eight former fire and rescue services on 1 April 2013 has presented management with a number of operational challenges Indications suggest that the merger has gone well so far There is still more work for SFRS to do to amalgamate internal policies and processes to maximise efficiencies As part of this merger, a new financial system has been implemented The eight payroll systems inherited from the former services remain in use The merger brings a number of budget challenges 	<p>2. Financial Reporting</p> <ul style="list-style-type: none"> The applicable financial reporting framework is the HM Treasury Financial Reporting Manual (FReM) This is the second year SFRS will be reporting under the FReM, and the first year that the full organisation will be accounted for as one entity The reporting requirements of the FReM are significantly different to those that applied to the former services There are one-off complex accounting transactions associated with accounting for inherited balances 	<p>3. Governance Frameworks</p> <ul style="list-style-type: none"> The Scottish Public Finance Manual (SPFM) provides useful guidance on governance Management and oversight structure are in place and continue to develop There are a number of one-off risks associated with the merger – good risk management will allow SFRS to understand and mitigate these risks A key priority for the Board is to safely reduce costs by putting in place budgets and management frameworks that promote good financial management. 	<p>4. Performance and Best Value</p> <ul style="list-style-type: none"> Assessing and managing performance is a key duty of SFRS A number of performance measures have been set, which include challenging targets in the Fire and Rescue Framework Audit Scotland ask us to consider and report on performance, governance and Best Value, and responsiveness to Audit Scotland national reports Audit Scotland are considering their own work programme including a potential review of SFRS HMFSI review and inspection
			
Our response			
<ul style="list-style-type: none"> We will engage with the HM Fire Service Inspectorate (HMFSI) and consider the impact of their work for our audit We will review the effectiveness of the new finance function as part of our audit, and recommend any improvements in controls We will perform detailed audit testing of the payroll figures and the impact of the new arrangements in place to capture financial information 	<ul style="list-style-type: none"> We will work with the finance team to ensure the disclosures meet the NAO FReM disclosure checklist We have engaged with management early to discuss how the fully operational service will be reported in the financial statements We will continue to work with management, focussing on transferring assets and liabilities which form the 2013-14 opening balances 	<ul style="list-style-type: none"> We will review the Annual Governance Statement and other information published within the Annual Report for consistency with requirements and the financial statements We will review the arrangements against the requirements of the SPFM and best practice We will review the process for the embedding and development of the governance arrangements 	<ul style="list-style-type: none"> We will review how SFRS has made arrangements to capture, monitor and report performance information We will review how SFRS strategic plan aligns to the National performance framework We will review how SFRS respond to Audit Scotland national reports We will review how the SFRS has made arrangements to secure and demonstrate Best Value

Our audit approach



Our audit approach explained

Our approach will be to report all findings to management so that SFRS can choose to secure improvement opportunities. We only report those findings that represent a control weakness to the Audit and Risk Assurance Committee.

We 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.

We have a detailed programme of substantive audit tests planned which will address the risk of material mis-statement in SFRS's financial statements.

In addition we give a regularity opinion on SFRS expenditure, and report to you on governance, performance and fraud issues.

Planning

- Updating our understanding of SFRS through discussions with management and review of reports presented to the Board and Audit and Risk Assurance Committee

Controls Evaluation

- Reviewing the design, implementation and effectiveness of internal financial controls including IT controls, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Reviewing governance and performance management arrangements against good practice standards

Substantive Audit Procedures

- Reviewing and advising on material disclosure issues in the financial statements
- Performing analytical review of transactions
- Performing sample testing of income and expenditure balances
- Verifying all material income, expenditure and balances, taking into consideration whether audit evidence is sufficient and appropriate
- Reviewing the Annual Governance Statement for compliance with Scottish Government guidance and whether disclosures are consistent with information gathered from our audit work

Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit and Risk Assurance Committee through our ISA 260 Audit Findings Report

Significant risks identified

The International Standards on Auditing (ISAs) outline two presumed significant risks of material misstatement which are applicable to all audits. According to ISA 315: "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."

These significant risks are listed below, and relate to the financial statements as a whole. We have not identified any additional significant risks relating specifically to SFRS.

Significant risk	Description	Substantive audit procedures
The revenue cycle and Statement of Comprehensive Net Expenditure may contain fraudulent transactions	Under ISA 240 there is a presumed risk that revenue in the Statement of Comprehensive Net Expenditure may be misstated due to the improper recognition of revenue.	Work planned to address this risk: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Performance of substantive testing on any material revenue streams• Review of any unusual significant transactions• Testing of journal entries• Review and testing of accrued income and expenditure at the year end
Management over-ride of controls may result in material misstatement	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Work planned to address this risk: <ul style="list-style-type: none">• Walkthrough of controls associated with key financial systems• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions• Agreement of the financial statements and disclosures against financial data in the general ledger

Reasonably possible risks of material mis-statement identified

In addition to the standard significant risks identified on the previous page, we have considered the other risks of material mis-statement in SFRS's financial statements. ISA 315 states:

"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).

In this section we outline the other risks of material misstatement which we have identified from our planning work. We label these as 'reasonably possible risk of material mis-statement.'

Other risks	Description of risk	Work planned
Payables and accruals within the operating expenditure cycle	Payables and accruals may be understated or not recorded in the correct period: There is an element of estimation uncertainty around accruals, and an inherent risk that payables may not be identified in the correct year	<ul style="list-style-type: none"> • Walkthroughs of expenditure cycle controls have been performed to gain an understanding of SFRS's processes and test that they are designed effectively. No errors or deficiencies were noted in the design of the controls • We will test a sample of expenditure transactions to ensure they are correctly accounted for • We will also test a sample of payables and accruals • We will complete 'cut-off' testing of expenditure recorded in the 2014-15 ledger to assess for understated payables and accruals
Employee remuneration	Employee remuneration accruals may be understated: Large numbers of employees and payroll transactions mean that there are inherent risks associated with SFRS's payroll costs, particularly associated with year-end accruals. SFRS currently operate eight payroll systems, seven of which are provided externally. Budgeted payroll costs are £213 million (78% of total expenditure).	<ul style="list-style-type: none"> • Walkthroughs of payroll controls have been performed to gain an understanding of SFRS's processes and test that they are designed effectively. No errors or deficiencies were noted in the design of the controls • We will review IT controls relating to the interface of the payroll systems and general ledger • We will review year end reconciliations between the payroll systems, the general ledger and the financial statements • We will substantively test salary payments to timesheets, HR records and contracts • We will substantively test year end payroll accruals • Detailed testing of the remuneration report and exit package disclosures will be completed, including any accrued amounts • We will complete analytical reviews of employee expenses • We will additionally agree information disclosures, including staff numbers, to supporting records

Reasonably possible risks of material mis-statement (continued)

Other risks	Description of risk	Work planned
Pension accounting entries in the financial statements	<p>Accounting entries for defined benefit pension schemes may be incorrect: The assets, liabilities and associated pensions movements may be incorrectly valued or recorded in the financial statements</p>	<ul style="list-style-type: none"> • We will review the arrangements in place to obtain actuarial valuations of the Firefighters' schemes and the Local Government Pension Schemes • We will communicate with the auditors of the Pension Funds to consider if there are adequate controls in place to accurately process SFRS employee data and pass this to the actuaries • We will assess the independence and professional competence of the actuaries involved • Where different actuaries use inconsistent assumptions we will consider the reasonableness of these assumptions and the adequacy of the disclosures of these assumptions • We will communicate with the auditors of the Pension Funds to consider whether there are adequate controls in place to correctly process SFRS data • We will test whether the actuaries' figures have been correctly accounted for in the financial statements and disclosure notes
Property plant and equipment and other balances inherited from the eight former services	<p>PPE figures and other inherited balances in the financial statements may be materially mis-stated: Accuracy and completeness errors may occur as a result of errors in the transfer of balances into the SFRS general ledger, in particular non-current assets transferred into the asset register without a formal valuation</p>	<ul style="list-style-type: none"> • We will review the qualifications, competence and independence of the valuers used to provide year-end property valuations for the assets SFRS is revaluing in the year • We will review the scope of the valuation and any judgements or assumptions made about the carrying value of inherited assets and liabilities • We will assess the completeness of data transferred to the new asset register and general ledger • We will test a sample of depreciation and asset lives, focusing on those assets that have been revalued • We will test the value of new additions if material, and consider SFRS's impairment review of these assets • We are considering the impact of assets not revalued in year and assess processes in place to ensure that transferred assets are materially correctly valued . We are currently discussing this with management

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 SFRS Board is responsible for ensuring proper arrangements are in place for:

- compliance with applicable guidance
- ensuring the legality of activities and transactions
- monitoring the adequacy and effectiveness of these arrangements in practice

The Audit Scotland Code of Audit Practice gives the auditor a responsibility to review and, where appropriate, report on SFRS's corporate governance arrangements. We will review and, where applicable, report findings relating to financial governance, strategic financial planning and financial control. Specifically we will review:

- the systems of internal control, including its reporting arrangements
- how these systems are developing since the merger
- the prevention and detection of fraud and irregularity
- the standards of conduct, and arrangements in relation to the prevention and detection of corruption
- risk management procedures
- the financial position of SFRS

Regularity Opinion

The SFRS Board is responsible for ensuring that public money is used only for its approved purpose. SFRS should therefore have systems of internal control in place to ensure the regularity of transactions.

The Code of Audit Practice requires us to provide an opinion on the regularity of the income and expenditure of SFRS. We will therefore consider whether there are adequate controls in place over expenditure and substantively test transactions to ensure they are in line with approved purpose.

Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records your governance ethos and assurances around the achievement of the strategic objectives. The AGS summarises the internal control framework, arrangements for risk management, financial governance and accountability.

Under the Code of Audit Practice, we are required to review and report on the AGS annually. We will assess SFRS's external reporting of governance, through the 2013-14 Annual Governance Statement and management commentary in the accounts against best practice.

As this is the first year SFRS have been fully operational, governance systems are still developing. We will continue to monitor the progress SFRS is making with these systems as part of our audit.

We will use the Scottish Public Finance Manual (SPFM), the key source of guidance on governance for Scottish central government bodies, to assess compliance against good practice. This will enable us to identify areas where SFRS is performing well and areas where there is scope to improve external reporting in 2013-14 and beyond.

Reporting

Our work on governance, including the Annual Governance Statement, will be reported in our Annual Report to Members, scheduled for October 2014. If we have any concerns regarding governance we will report these to management or the Audit and Risk Assurance Committee as appropriate throughout the year.

Performance

Introduction

Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of 'Best Value' in the use of resources. The objective of Best Value is to ensure that bodies 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 SFRS operates
- ensuring equal opportunities in the delivery of services.

Audit Scotland national reports

Audit Scotland undertake a number of national studies each year, and the reports that result from these studies may be of interest to SFRS. During our audit, we will consider the response by SFRS to relevant national reports issued during the year.

For 2013-14, auditors are expected to report on a targeted follow-up of the *Managing ICT Contracts* report, which was published in August 2012, on selected public sector bodies. We are awaiting confirmation that SFRS are included in the targeted follow-up work. Any follow up work will be based on a pro-forma questionnaire provided by Audit Scotland.

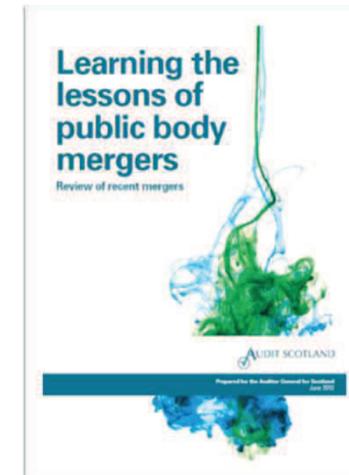
We have also reviewed the Audit Scotland *Learning the Lessons of Public Body Mergers* report and recommended to management that it is considered by SFRS. We will use this report as a framework in assessing the performance of SFRS after the merger and the governance arrangements in place to monitor performance.

Audit Approach

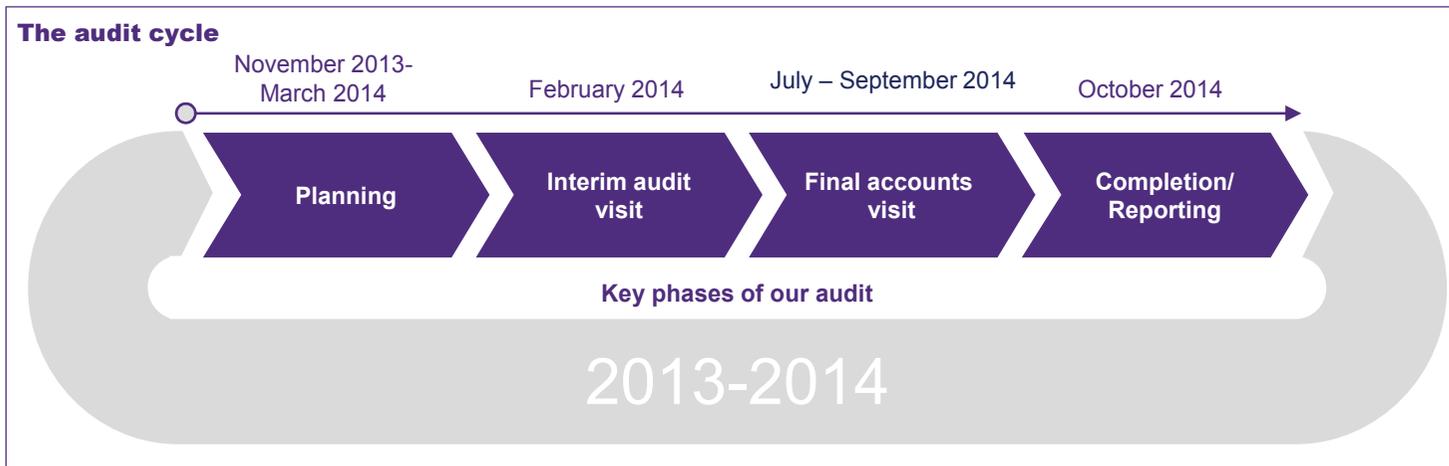
As part of our audit, we will consider Scottish Fire and Rescue Service's approach to Best Value. Our work in this area will be conducted on a risk based approach and will be assisted by the Best Value toolkits developed by Audit Scotland. As far as possible we will work jointly with Audit Scotland in this area.

We will also review the performance monitoring and reporting that SFRS use to assess performance against 2013-14 aims and objectives. This work is predominantly based on assessment of the arrangements SFRS have in place to report on and manage performance.

We will consider the performance information reported to the Board and the work of Internal Audit to form a view on performance. We will report our overall findings in our Annual Report to Members, scheduled for October 2014.



Logistics and our team



Date	Activity
Nov 13 to Feb 14	Planning meetings held with management
Feb 14	Interim audit testing and review of the transferred balances
Mar 14	The Audit Plan is presented to the Audit and Risk Assurance Committee
July 14 to Sept 14	Substantive audit of the financial statements and AGS
Oct 14	Audit Findings presented to Audit Committee
Oct 14	Annual Report to the Board

Our team

Robin Baker
Engagement Lead
T 0161 214 6399
E robin.j.baker@uk.gt.com

Robin is the Engagement Lead and Grant Thornton's national fire lead, bringing his extensive public sector expertise to SFRS. Robin will be a key contact for the Chief Fire Officer, the Director of Finance, other senior officers and the Audit and Risk Assurance Committee. Robin is responsible for the overall delivery of the audit including the quality of output and signing the audit opinion.

Claire Bailey
Manager
T 0141 223 0727
E claire.bailey@uk.gt.com

Claire is responsible for the audit strategy, planning and liaison with key contacts to ensure the smooth running of the audit delivery of the overall audit plan. Claire will review the quality of audit outputs prior to presentation to officers and the Audit and Risk Assurance Committee.

Neil Hart
Audit Team Leader
T 07854 828673
E neil.hart@uk.gt.com

Neil is an experienced auditor of fire services and clients reporting under the FReM. Neil is responsible for leading the audit of the financial statements and is the main contact for the Accounting Manager. He will provide feedback throughout the audit process and is the first point of contact for resolving technical accounting issues. Neil will also liaise with internal audit to minimise duplication of work.

Raul Rodriguez
IT Audit Manager
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Raul is responsible for review of IT systems to complement the financial accounts process.

Fees and independence

Fees

	£
Scottish Fire and Rescue Service	115,000

Our fee assumptions include:

- Supporting schedules to all figures in the financial statements are supplied by the agreed dates and in accordance with the agreed upon information request list
- Data is provided in a suitable format and is accurate and complete
- Management will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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 completing our independence procedures we have identified that a close family member of the Audit and Risk Assurance Committee chair is an employee of Grant Thornton. We have safeguards in place to ensure that Grant Thornton remain objective and independent. The member of staff has not and will not be involved in any services we provide to the Scottish Fire and Rescue Service.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards Auditing (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 a report to management or the Audit and Risk Assurance Committee.

Respective responsibilities

We have been appointed as the independent external auditor of the Scottish Fire and Rescue Service by Audit Scotland, the body responsible for appointing external auditors to Central Government bodies in Scotland. As external auditors, we have a broad remit covering finance, performance and governance matters.

Our annual work programme is set in accordance with the Audit Scotland Code of Audit Practice ('the Code'), which includes nationally prescribed and locally determined work. Our work considers the Board's key risks when reaching our conclusions under the Code.

It is the responsibility of the Scottish Fire and Rescue Service to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how SFRS is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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 entity's accounting and financial reporting practices, significant matters and issues 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 others 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		✓



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Appendix 2 – Timeline

