

Scottish Fire & Rescue Service

Annual Report to the Board and the Auditor General for Scotland 2015 – 16

FINAL

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Executive summary

2015-16 was another positive year for the Scottish Fire & Rescue Service (the Service). The Service continues to build on the firm foundations established through service transformation and has successfully implemented key milestones within the Strategic Intent Programme and the new single HR and Payroll System. The Service delivered its key financial target to spend within budget and achieved a small underspend. The Strategic Plan 2016 – 19 builds on the previous Plan. The Service has made good progress in developing a longer term financial strategy as an integral part of strategic planning to enable it to react positively and quickly as funding levels are confirmed. Looking forward the Service recognises that it continues to face a tightening financial position as set out in the Strategic Plan. Current budget monitoring for 2016 – 17 (as at 31 July 2016) is forecasting a year end overspend of £0.29m. It is important the Board and Senior Leadership Team continues to look at new ways of working to help drive efficiency in the short term if it is to achieve a break even position by 31 March 2017.

ISA 260 requirements: Financial Statements

We issued an unqualified opinion on both the financial statements and on the regularity of transactions for the 2015/16 financial year.

The draft financial statements, which were received in early August 2016 were of good quality and we identified no significant errors or misstatements. The quality review process put in place by the senior finance team has been successful in helping to ensure error free accounts. We experienced some delays obtaining supporting information.

We reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with FReM requirements.

Public Sector audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011).

Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015-2018.

Financial management and sustainability

The Service continue to prepare budgets annually with timely and robust management and Board review. The Service lived within its delegated resource budget in 2015/16 of £280.481m and delivered a small underspend of £0.248m against the Delegated Expenditure Limit (DEL).

In 2016/17 the Service is facing some financial pressures. At the end of July 2016 the Service is forecasting a year end overspend of £0.285m. It is important that appropriate action is taken to manage the forecast overspend.

Looking further ahead the financial position is more challenging. The Audit Scotland report identified that future cost pressures and reductions in funding could result in a potential funding gap of £47.2m by 2019/20. Effective action has been taken to seek to address the situation and in particular the leadership team are considering a number of potential scenarios for the future and what this means for the Service.

Governance and transparency

The Service reported through their Governance Statement that there was a generally sound system of risk management and internal control in place during 2015-16. Our audit work supports this assessment.

We have reviewed the processes and procedures for preparing the Annual Governance Statement to ensure compliance with the Scottish Public Finance Manual and found the assurance arrangements to be well structured and properly evidenced.

The Service's Internal Auditors, the Scottish Government's Internal Audit Service, provided 'reasonable assurance' on the adequacy of the Service's risk management, control and governance framework. The final Internal Audit opinion was presented at the October Audit and Risk Assurance Committee meeting.

Arrangements to prevent and detect fraud and corruption were reviewed with no issues identified. Arrangements for standards of conduct are deemed appropriate, with an up to date Code and Registers of Interests for all Board members and Senior Management in place.

Best value and performance

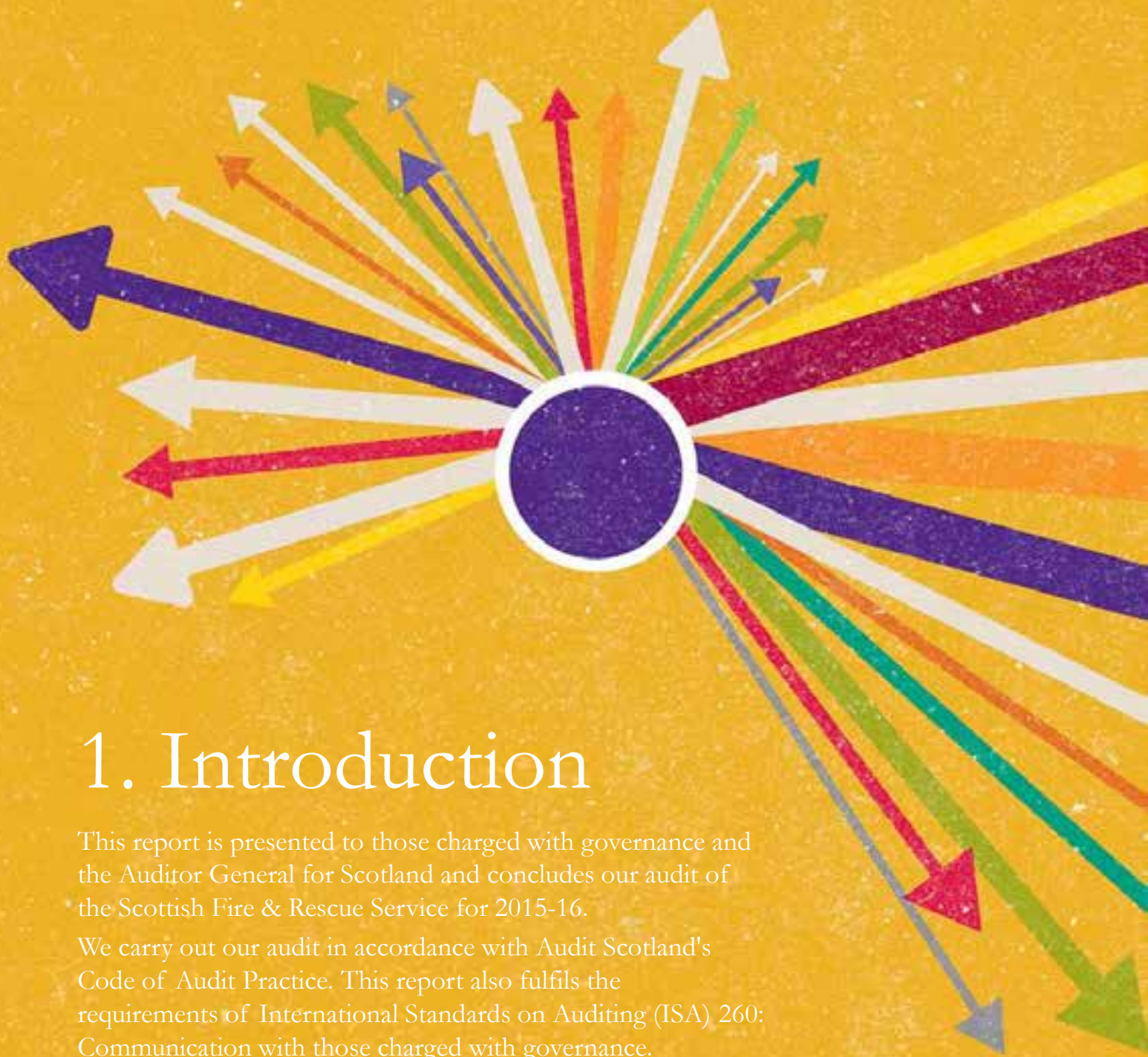
Performance in 2015/16 was variable with deterioration in all but one of the operational targets and priorities. The Service has developed targeted initiatives that has seen encouraging results and plans are being developed to extend these practice to other areas.

A new Strategic Plan has been developed which recognises the uncertainty about future funding levels and the need to look for further efficiencies going forward.

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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Fire & Rescue Service for 2015-16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of the Scottish Fire & Rescue Service ('the Service') for the period to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the Service, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit and Risk Assurance Committee on 15 March 2016.

The Service's responsibilities

It is the responsibility of the Service and the Accountable Officer to prepare the financial statements in accordance with the HM Treasury Government Financial Reporting Manual (the FReM).

This means the Service must:

- prepare financial statements which give a true and fair view of the financial position of the Service and its income and expenditure for the year to 31 March 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Service is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by Audit Scotland and Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and Annual Governance Statement. Under the Code we are also required to review and report on the governance arrangements, Best Value, use of resources, and performance.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with Those Charged with Governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the Service, together with previous reports to the Audit and Risk Assurance Committee throughout the year, discharges our ISA 260 commitments.



Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Chief Officer, Director of Finance & Contractual Services and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements 

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of the Service
 - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of expenditure and income

Corporate governance 

- Review and report on the Service's corporate governance arrangements as they relate to:
- the Service's corporate governance and systems of internal control, including reporting arrangements
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance 

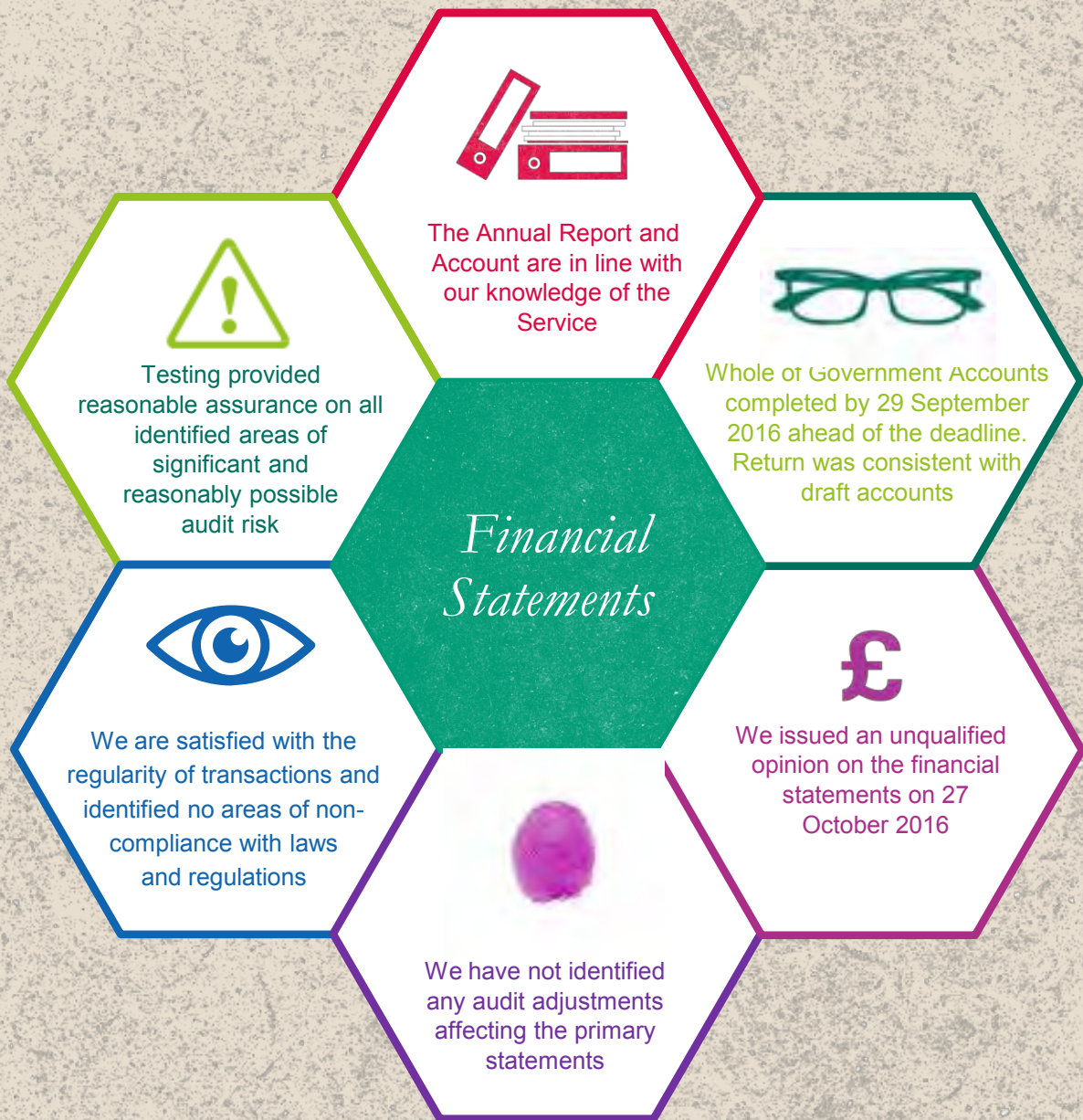
- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the Service and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Service at a local level or a review of the Service's response to national recommendations.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. ISA 260 Requirements: Financial Statements



ISA260 Requirements: Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 15 March 2016.

Our Review of the Financial Statements

We received the draft financial statements and accompanying working papers on 4 August 2016 in accordance with the agreed timetable. The Finance Team prepared the draft statements over a much shorter timescale than in previous years and is well placed to achieve earlier closure of accounts. The Finance Team should be commended for their efforts. However, we experienced some delays obtaining supporting information in relation to pension and payroll samples as the supporting records were often held by the legacy bodies. This had some impact on the completion of the audit.

Our audit is complete and we have concluded all of the planned audit procedures.

As part of our work on the financial statements we are required to review the narrative elements of the Annual Report and Accounts. We review the narrative elements for compliance with required FReM disclosures, which introduced new alterations to disclosure requirements this year (we set out the key changes in our Audit Plan), for consistency with other areas of the financial statements and our knowledge of the Service.

Based on our review of the narrative elements of the Annual Report and Accounts, we are satisfied it is consistent with the requirements of the Government Financial Reporting Manual (the FReM), other areas of the financial statements and our knowledge of the Service.

Financial Statements Opinion

We issued an unqualified opinion on the financial statements of Scottish Fire and Rescue Service for the year ended 31 March 2016 on 27 October 2016.

Our audit did not identify any material numerical errors or misstatements. We did however identify some minor disclosure changes to enhance the quality of the Annual Report and Accounts.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

Whole of Government Accounts

In accordance with the WGA guidance we completed the required assurance statement and submitted to the National Audit Office (NAO) on 29 September 2016 ahead of the deadline.

Our Audit Plan: a reminder

Scope of the Audit

Our Audit Plan outlined that we operate a risk based approach to the audit of the financial statements. We consider the inherent risks to the Service and how these may result in a material misstatement in the accounts. At the planning stage we identified four areas with increased risk of material misstatement as outlined on pages 10 and 11.

Our audit approach requires increased audit focus on those areas where we have identified an increased risk of misstatement which includes consideration of the control environment for systems linked to those areas. Our substantive procedures include analytical review, confirmations with third parties and sample testing. Where we have identified a significant or other risk we require a higher level of testing to provide assurance. In performing those tests we have due regard to materiality as outlined below.

We recognise that planning is a continuous process and we monitor events at the Service for any areas which may impact our planned audit work. In 2015-16 we did not identify any new areas of risk which would require us to change from the approach outlined in our Audit Plan

Significant risks identified:

- management override of controls
- revenue recognition (basis of risk rebuttal was set out in our Audit Plan)
- valuation of pension fund liability
- valuation of property, plant & equipment

Other risk identified:

- Operating Expenses
- Employee Remuneration
- Fire Fighters Pension Scheme.

Overall materiality has been set at £4.948 million as set out in the Audit Plan. We have considered this level appropriate and made no changes to our overall materiality.

Performance materiality aims to reduce the possibility of uncorrected/undetected misstatements exceeding materiality and is set at £3.711 million.

Application of Materiality

We outlined in our Audit Plan that we had adopted a planning materiality threshold of £4.948 million based upon planned resource expenditure.

In addition to overall materiality we also establish a level for performance materiality, which is defined by ISA 320 as the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 75% of materiality which gave a measure of £3.711 million.

It is normal practice for auditors to subsequently consider their materiality thresholds again following receipt of draft financial statements and updated outturn information. We have considered whether the levels remained appropriate during the course of the audit and have made no changes to our overall or performance materiality.

At all times throughout the audit we have assessed the impact on the financial statements. Items which were considered material by nature (eg cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny. We did not identify any item where a separate materiality level was appropriate.



Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards and we identified two additional significant risks. However, as shown in the table below, we have rebutted the risk around revenue recognition leaving three significant risks applicable to the Service.

Table 1: Significant risks identified at the planning stage

Risks identified in our Audit Plan	Work completed	Assurances and issues arising
<p>1 Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • Testing of journal entries • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK&I) 240 and the nature of the revenue streams at the Service, we determined the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of central government, including the Service, mean that all forms of fraud are seen as unacceptable. <p>The most significant area of revenues was grant funding totalling £287 million (>90% of income). We substantively agreed grant funding to award letters.</p>	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements and this risk has been rebutted.</p>



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 (UK&I) 315).

Audit findings against significant risks - continued

Table 1 continued: Significant risks identified at the planning stage

Risks identified in our Audit Plan	Work completed	Assurances and issues arising
<p>3 Valuation of pension fund liability</p> <p>There is a risk that accounting entries for defined benefit pension schemes may be incorrect. The Service's pension fund liability represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none"> • updated our understanding of controls put in place to ensure the accuracy of the pension fund liability and document their effectiveness • review the Service's disclosure of pension amounts and review consistency with information provided by the scheme actuaries. • review the qualifications of scheme actuaries, basis of their assessment and the assumptions employed in their work in estimating the movements and balance of pension liabilities. • review the Service's accounting entries within the general ledger to account for movements in the pension obligation. 	<p>Our work did not identify any significant issues in relation to this risk.</p>
<p>4 Valuation of property, plant & equipment</p> <p>The Service has undertaken a large exercise in recent years to revalue all items of land and property. Following this exercise, a rolling 3 year program is in place to assess movements in valuation.</p> <p>There is a risk that revaluation measurements are not appropriately reflected in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review management's processes and assumptions surrounding asset valuation. • review the competence, experience and objectivity of the experts used by management to deliver year end valuations. • review the instructions issued to valuation experts and the scope of their work. • discussions with the valuer about the basis upon which the valuation is carried out and challenge around the key assumptions employed. • review of the information provided to the valuer. • testing of revaluations in the year to ensure the Service's accounting appropriately reflects movements in valuation, taking into account previous impairments and revaluations. 	<p>Five yearly valuations of Land and Buildings are carried out as part of a rolling programme, on the basis of current market value for land and depreciated replacement cost for buildings. During the year, 46% of Land and Buildings were revalued.</p>



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 (UK&I) 315).

Audit findings against other identified risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Other risks identified at the planning stage

Trans cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	<p>Operating expenses/payables and accruals are understated or not recorded in the correct period.</p> <p>There is an element of estimation uncertainty for accruals which may require estimation techniques and management judgment.</p> <p>There is an inherent risk that payables may not be posted in the correct financial year.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> review and walkthrough of the purchase ledger processes and controls in operation tested a sample of expenditure, year end creditors and accrual transactions to ensure they have been appropriately accounted for complete "cut-off" testing of expenditure recorded in the initial periods of 2015-16 for unrecorded liabilities. 	<p>We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of creditors. Our work included testing a sample of 15 expenditure items incurred during the year and a sample of 15 year end creditors to ensure they were appropriately accounted for.</p>
Employee remuneration	<p>Employee remuneration accruals understated:</p> <p>The Service has a large number of employees and related payroll transactions. Payroll is now processed using one system following a phased migration of payroll systems between April and August 2016.</p> <p>Given the number of transactions included within the cycle and the aggregate material nature of staff costs to the service we have assessed a medium level inherent risk of misstatement.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> review and walkthrough of the processes and controls in operation for payment of staff substantive testing of payroll accruals at the year end substantive testing of a sample of payroll transactions to confirm the accuracy of the transaction and existence of the employee review of the Remuneration Report and exit package disclosures review of staff information disclosures to supporting records. <p>We reported in June 2016 that the reconciliation between the ledger system and payroll reports was not available during the interim visit, though it had been completed by the meeting date.</p>	<p>Our work to date has not identified any significant issues in relation to this risk. We will notify the Committee should any issue arise from the conclusion of our work. Our work included testing a sample of 59 payroll transactions to confirm the accuracy of the transaction and existence of the employee.</p> <p>We experienced some delays obtaining supporting information in relation to our sample of payroll records which were often held by the legacy bodies.</p> <p>We reviewed the year end reconciliation between the ledger system and payroll reports. Our work has not identified any significant issue in respect of the payroll reconciliation.</p>
Fire fighters pension scheme	<p>Payments to pensioners are incorrectly calculated or contributions are incorrectly recognised.</p> <p>Payments to retiring officers are low in volume but high in value and the Service is reliant upon effective controls both within and outside the organisation to ensure that payments made are valid and accurate. Contributions are lower in value but high in volume given the nature of the payroll cycle.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> review and walkthrough of the processes and controls in operation for administering the pension payrolls and payments to retirees test lump sum payments for eligibility and accuracy completed predictive analytical review of pension payroll expenditure. 	<p>Our work to date has not identified any significant issues in relation to this risk. We will notify the Committee should any issue arise from the conclusion of our work.</p> <p>We experienced some delays obtaining supporting information in relation to our sample of pension data records which were often held by the legacy bodies.</p>





Accounting estimates and significant judgements

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	Grants receivable: Grant in Aid received for revenue, capital and running costs purposes and other Government grants are regarded as financing and are credited to the income and expenditure reserve (Note 1 Accounting Policies).	<ul style="list-style-type: none"> • The accounting policies for 2015/16 were approved by the Audit and Risk Assurance Committee on 15 March 2016 • The revenue recognition policies are appropriate under the Government Financial Reporting Manual • The disclosure in the draft accounts was found to be reasonable and in line with prior years. 	 Green
Property, Plant and Equipment	<p>Land and buildings are re-valued from initial recognition in line with guidance (5 year programme).</p> <p>All Buildings are depreciated on a straight line basis over their expected useful lives between 10-64 years. Other assets have a range of useful lives from 3-20 years.</p>	<ul style="list-style-type: none"> • The revaluation programme is deemed to be reasonable. The current year's valuation was undertaken by the in-house Estates and Valuations Surveyor, a RICS qualified chartered surveyor • Depreciation and capitalisation policies are considered to be reasonable and in line with the FReM. 	 Green
Pension fund valuations and liabilities	The Service recognises the cost of providing pensions to former employees over the period in which entitlement to the benefits is earned. An adjustment is then made to reflect the charges required under IAS 19.	<ul style="list-style-type: none"> • The employee benefit accounting policy is appropriate • We have reviewed the competence, capability and objectivity of Hymans, Robertson Mercers, Barnett Waddingham and the Government Actuary Department, who were used as management's experts during the year • We have relied on an auditors expert, PriceWaterhouseCoopers (PwC) UK LLP, to provide assurance over the reasonableness of assumptions and judgements applied by the actuary • We are satisfied pensions have been disclosed appropriately. 	 Green
Other accounting policies	We have reviewed Service's policies against requirements of the FReM and accounting standards.	<ul style="list-style-type: none"> • Disclosures were in line with the FReM and considered reasonable. 	 Green

Other areas of audit focus

Internal controls

We update our understanding of the Service's operations and key financial control systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During the course of the audit, we undertook walkthrough testing related to:

- property plant and equipment valuation
- employee remuneration
- fire fighters pensions
- operating expenditure
- journal entries
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above.

Going Concern

The accounts have been prepared on the basis the Service is a going concern. We have considered this and obtained assurance through:

- confirmation from the sponsor Department that there is no reason the accounts should not be prepared on a going concern basis
- review of financial factors including levels of debt, liabilities, and operating cash flows forecasts to December 2017
- review of budget allocation from Scottish Government for 2016/17.

IT control environment

Our testing identified a number of potential deficiencies (defined as risk of inconsequential misstatement) relating to the IT control environment which have been reported in a separate letter to the ICT Technical Strategy Manager.

We received management responses to each of the recommendations. There are no significant findings to bring to the Committee's attention.

Sustainability reporting

The FReM requires central government bodies to include a section in their annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports was published by the Scottish Government and outlines the minimum reporting requirements covering areas such as:

- greenhouse gas emissions
- waste minimisation and management
- finite resources
- action on biodiversity
- sustainable procurement

The Service's Sustainability report is included in the Annual Report and Accounts and is in line with the reporting requirements of the Scottish Government.

Related Parties

The Service is required to disclose material transactions with bodies that have the potential to control or influence the Service or to be controlled or influenced by the Service.

In year, the Service disclosed related party transactions with other Government bodies.

From the work we carried out, we have not identified any related party transactions which have not been disclosed.

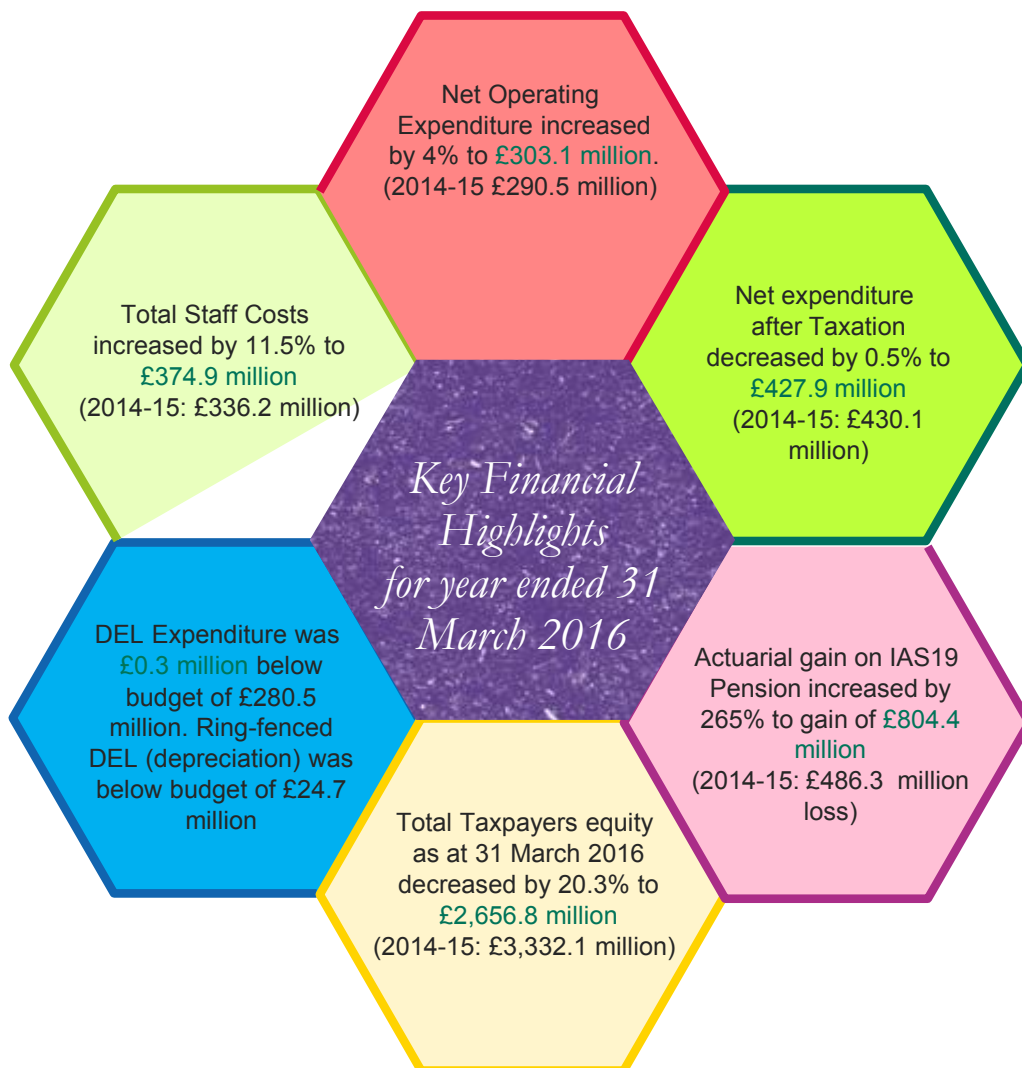
3. Financial Management

Introduction

Good financial management is underpinned by sound budgetary process and a robust control environment. In order to be financially sustainable the Service will continue to require robust financial management in the short term but will also need to look forward to the medium and longer term to establish the ability to deliver services with declining available resources and economic uncertainty.

In this section we review and comment on the Service’s achievement of financial objectives and assess the financial management and sustainability arrangements.

Key Financial Statement highlights for the financial year ended 31 March 2016 were:



2015-16 Outturn and 2016-17 Budget

The Service successfully delivered its 2015/16 services within the combined resource and capital Department Expenditure Limit (DEL) budget of £280.481m, achieving a total underspend of £0.248m.

For 2016/17, the Service was set a resource budget of £259.221m by the Scottish Government. The latest outturn position reported to the Board in August 2016 shows an underspend to July 2016, however the year end forecast is an overall overspend of £0.285m. Both the capital DEL budget (£10.8m) and the ring-fenced DEL budget (£24.679m) remain unchanged from the budget the Service was notified at the start of the year.

With just 6 months to year end to implement any efficiency plans, we recommend the Strategic Leadership Team explore plans to bring the 2016 17 expenditure within the resource DEL.

Looking ahead it is anticipated that the Service will continue to face a tightening financial position as set out in the Strategic Plan. The Service is developing a long term financial strategy as an integral part of its strategic planning. The process is hampered as the level of year on year funding receivable from the Scottish Government isn't assured. However, the Service's purpose in preparing a longer term plan is to use whatever resources and assets available. The longer term benefit for the Service is that once future budgets are certain, key decisions and detailed plans can be put in place very quickly.

4. Governance and transparency



Governance and transparency

Introduction

Under the Code of Audit Practice, we have a responsibility to review the Service's corporate governance arrangements.

In May 2015, the Scottish Government published the updated [On Board](#) guidance for Board members, which provides support on key areas including corporate governance, ethics and standards of behaviour and effective financial management.

Annual Governance Statement

Under the Treasury's Financial Reporting Manual (FRM), the Board must prepare an Annual Governance Statement (AGS) within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the Annual Governance Statement as it forms a key summary of the Service's governance ethos, and provides assurances around the achievement of the organisation's strategic objectives.

The SPFM does not prescribe a format for the Annual Governance Statement, but sets out minimum requirements for central government bodies. The process undertaken by the Directors included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the AGS.

We reviewed the Service's Annual Governance Statements as part of our audit procedures and concluded that the disclosures were in line with the FRM and guidance issued from Scottish Ministers, through the SPFM. The Governance Statement is sufficiently balanced, reflecting key aspects of the Service's governance structure.

Board and Audit and Risk Assurance Committee

During 2015/16, the Board undertook further work on its annual review of effectiveness of the Board along with a review of the committees. In particular, the Board set up a working group to review the existing structure. Arising from the review was a need to align future scrutiny needs with priorities, outcomes and ambitions of the Service. The working group fed back to the Board in September 2016. The key recommendations to be implemented are:

- a revised committee structure with 4 committees reporting to the Board – Staff Governance, Service Delivery, Service Transformation and Audit & Risk Assurance committees
- a transition period running up-to March 2017 to be put in place
- development of an implementation plan to manage the transition
- demising Engagement and Performance Committees to advise on the development of implementation plans and integrating their scrutiny and assurance role across the proposed new committee structure.

The working group has set out a number of priorities to enable a smooth transition to the new structure. The final proposal will be presented to the Board for approval at the October 2016 meeting.

The Board is supported by the Audit and Risk Assurance Committee (ARAC). The ARAC scrutinises the systems and processes in place across the Service providing the Board and Accountable Officer with assurance that it is effectively governed.

The ARAC comprises five Non-executive Members with representatives from both external and internal auditors attending each meeting. ARAC is supported by the Accountable Officer and other senior officers, including the Director of Finance and Contractual Services who attend the meetings regularly.

Our own observations of ARAC are good. The Committee is well-attended, both by Members and by senior officers. The committee conducts a self-assessment of its effectiveness often identifying areas for further improvement.

Internal audit

The Service has a co-resourced Internal Audit function (managed by the Scottish Government Internal Audit Directorate) which is supported by two in house internal auditors. Internal Audit has confirmed compliance with Public Sector Internal Audit Standards as part of their Annual Report.

Internal Audit is required to provide an annual opinion to the Audit Risk and Assurance Committee on the assurance framework. At the June 2016 ARAC meeting, they issued an Interim Reasonable Assurance opinion for 2015/16. At the time, four reviews were in progress with fieldwork completed and the outcomes being concluded. The reviews were:

- Risk Management, Business Continuity and Insurance arrangements
- iTrent Remit 1: Roll out and migration project
- iTrent 2: New Central Payroll Controls
- Environmental Responsibilities.

As set out in our Audit Plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2015-16.

Internal Audit have now completed their plan for 2015-16 as agreed with the Audit and Risk Assurance Committee and provided a final 'reasonable assurance' opinion to the committee on the assurance framework at the October 2016 meeting.

Additionally, Internal Audit followed up 25 recommendations during 2015/16 to determine whether they had been implemented satisfactorily and thus give assurance over the on-going improvement of internal control.

The majority of audit actions have been completed satisfactorily. From the 25 recommendations tested, 12 (48%) were found to have been completed satisfactorily, 11 (44%) were found to be part implemented or in progress and 2 (8%) not implemented or superseded.

Risk management

Each Directorate and project has its own risk register which are reviewed by the Senior Leadership Team (SLT). The SLT continues to be responsible for identifying those risks which are strategically important for inclusion in the Corporate Risk Register (CRR).

The CRR is reviewed regularly by the Audit and Risk Assurance Committee (ARAC) and was last reviewed by the ARAC committee in June 2016. The current CRR includes 15 strategic risks.

Recent developments on the CRR includes the introduction of risk appetite impact assessments. This risk appetite has introduced an additional layer of scrutiny particularly of lower priority risks and requires responsible officers to maintain awareness and ownership of these risk areas.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds continues to be a key concern for the Service and auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The Service Anti-Fraud Policy is designed to promote an anti fraud culture and is supplemented by a Whistleblowing policy which complies with the requirements of the Public Interest Disclosure Act 1998. The Service also participates in Audit Scotland's National Fraud Initiative.

The Chief Officer has overall responsibility for ensuring there are adequate controls in place for managing the risk of fraud.

Our enquiries of management found that there were no internal frauds identified during 2015-16.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Service has established a Code of Conduct for Board Members, which was approved in 2014. Declarations of interest are maintained annually for each member of the Board and requests are made at the commencement of each Board meeting for members to declare any interests held.

In addition a code of conduct for all staff is in place. We are not aware of any specific issues that we need to bring to the committee's attention.

5. Best Value and Performance



Best value and Performance

Audit Scotland Review of the Scottish Fire and Rescue Service

We reported the key findings arising from Audit Scotland's review of the Service in our report last year. The main findings were:

- the Scottish Government and the Scottish Fire and Rescue Service managed the merger of the eight fire and rescue services effectively. There are however significant challenges ahead
- the Board of the Scottish Fire & Rescue Service is starting to perform well and is committed to continue improving how it performs
- the delivery of expected savings is on track however future cost pressures and reductions in funding result in an potential funding gap of £42.7m in 2019/20
- the Service needs to develop a longer-term financial plan with detailed options identified for delivering the likely level of savings and efficiencies.

The Strategic Leadership Team and the Board continue to address the findings of the report in a number of ways including undertaking further work on the effectiveness of the Board and sub committees (refer page 16). A final proposal on the committee structure is due to be decided at the October 2016 Board meeting.

Other steps being taken include undertaking a public consultation from stakeholders on the next three year Strategic Plan which is developed within the framework set by Scottish Ministers. The Plan continues to recognise that public spending challenge in Scotland is the reality for all government bodies over the next few years and the Service will no doubt bear it's share of this burden. As a result, the Leadership view is clear that to protect and improve service delivery outcomes it will need to transform how it operates.

To help the Service achieve its longer term goals, it set itself six key strategic priorities that defines the direction of travel. Feedback from stakeholders including staff show broad support for the Plan which bodes well for the future of the Service.

Service Transformation

The service transformation programme which started in June 2013 consisted of a number of projects that was closely aligned to the Service 2013 - 16 Strategic Plan. The programme has now served its purpose with majority of the projects completed or about to be completed. Some of the key projects successfully concluded during the year included the implementation of a new single HR and Payroll System. As part of our accounts audit, we walk through the controls and tested employee costs included in your Statement of Comprehensive Net Expenditure. The results of our testing is set out on page 12.

The Service isn't resting on its laurels and is committed to moving forward and taking the next steps along the transformation journey. The 2016 -19 Strategic Plan sets out the plan for the short to medium term. The Plan is due to be ratified by the Board in October 2016.

Looking forward, the Service is working on the development of a new Performance Management Framework (PMF) to meet the priorities set out in the National Fire and Rescue Framework for Scotland 2016 (National Framework 2016) as well as the 2016 - 19 Strategic Plan. The benefits of the PMF include better performance measures to track progress against the National Framework and drive further service improvements going forward. The first draft of the PMF is expected to be completed by April 2017.

Workforce Planning

Staff costs accounts for 84% of total expenditure. With increasing financial pressures, there is a need for the Service to have an effective and efficient workforce in order to maintain service delivery while meeting budget requirements.

The Service is continuing to review how its resources are deployed in the future in line with the Long Term Financial Strategy. A new common flexible duty system is planned to be implemented in April 2017 to provide the opportunity to build capacity around how staff will be managed to meet the current and future demands profile. A revised Workforce Plan is currently being developed.

Performance monitoring, reporting and improvement

The Service are required to report against the six targets that they must comply with as part of the Fire and Rescue Framework. These are included in the Annual Report and Accounts and summarised below:

Indicator	Target	Result	Rating
Reducing fire fatalities and casualties by 5% a year	961	1,035	● amber
Reducing special services casualties	2,152	2,367	● amber
Reducing accidental dwelling fires by 10% each year	4,419	5,067	● red
Reducing the number of non-domestic fires	2,317	2,494	● amber
Reducing firefighter injuries	52	40	● green
Improving attendance a) Firefighter shifts lost b) Other staff days lost	Data comparison not available following amalgamation of 8 HR/Payroll into one single one		n/a

Key:

The Service has met its intended target



The Service has delivered broadly in line with target



The service has not met its intended target



Performance and action taken

In four out of the five measurable targets, performance was worse than the previous year. In particular, some incidents on the increase that is of concern to the Service included increase in the number of people choosing to commit suicide by using fire (Target 1) and total number of accidental dwelling fires (target 3).

The Service is taking steps to further analyse the results to better understand trends and develop targeted initiatives that will reduce incidences. Some initiatives were undertaken during the year to tackle the rises including outreach programmes (Target 1) such as 'week of action' which focused on vulnerable groups by drawing attention to common risks such as cooking and smoking and installing additional smoke detectors in bedrooms. The Service recorded sharp falls in accidental fires reported and attended at sheltered accommodation paving the way for future preventative measures and initiatives. Other actions included:

- classifying accidental fires between those of low, medium and high severity (Target 3). Extending the analysis back over the last couple of years indicate incidents of medium and high severity continue to decline, and
- working with the National Farmers Union to develop a rural risk survey to encourage members to take precautions to protect their farms (Target 4). The Service has plans in place to extend the practice to more conventional workplaces.

The 2016 – 19 Strategic Plan sets out at a high level steps the Service will be taking to improve performance with a commitment to report annually performance against each target in the Annual Report and Accounts.



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Appendix A



Action Plan

The table below provides details of issues identified during the audit.

	Issue and Risk	Priority	Recommendation
1.	The latest outturn position reported to the Board in August 2016 shows an underspend to July 2016, however the year end forecast is an overall overspend of £0.285m.	High	The Strategic Leadership Team should continue to explore opportunities to bring expenditure in line with RDEL budget.

Appendix B



Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	96,540	96,540
Total audit fees	96,540	96,540

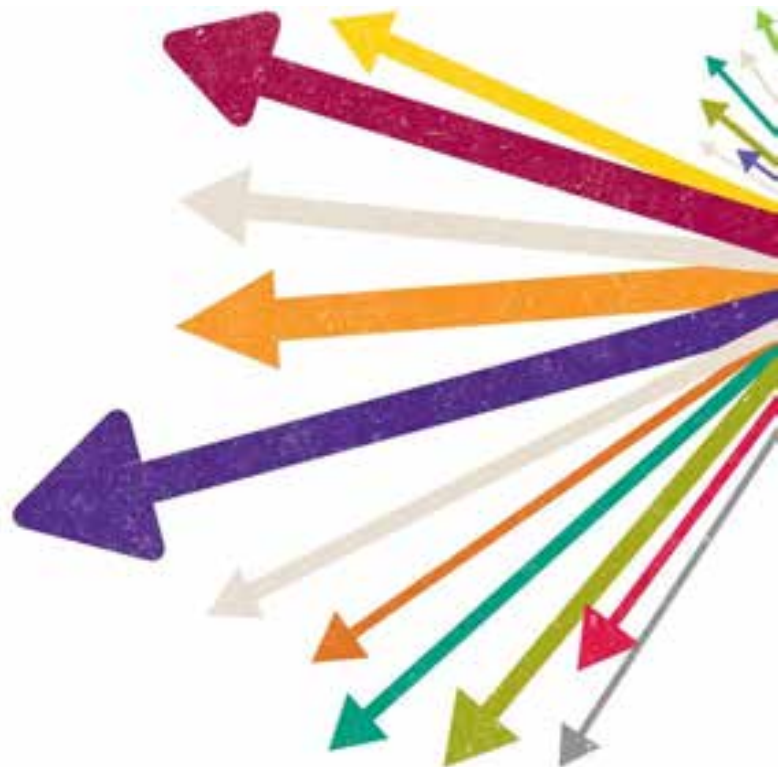
Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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



Appendix C



Draft Independent Auditors Report

Independent auditor's report to the members of the Scottish Fire and Rescue Service, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of the Scottish Fire and Rescue Service (the Service) for the year ended 31 March 2016 under the Police and Fire Reform (Scotland) Act 2012. The financial statements comprise Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity 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 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Chief Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Chief Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. 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 Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

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 Chief Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Independent Auditors Report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2016 and of its net operating cost 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 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report and Accountability Report 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 and Staff 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 Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Robin Baker, (for and on behalf of Grant Thornton UK LLP)
Level 8
110 Queen Street
Glasgow . G1 3BX

Appendix D



Letter of Representation

Grant Thornton UK LLP
95 Bothwell Street
Glasgow
G2 7JZ

Date- Same date as accounts

Dear Sirs,

The Scottish Fire and Rescue Service Financial Statements for the Year Ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of the Scottish Fire and Rescue Service (the Service) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000, the Police and Fire Reform (Scotland) Act 2012, the Government Financial Reporting Manual (the FReM) and the Scottish Public Finance Manual (SPFM).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities, as set out in the Police and Fire Reform (Scotland) Act 2012 for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000, the FReM and International Financial Reporting Standards. In particular the financial statements give a true and fair view of the Service's state of affairs in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Service and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. We are satisfied that the material judgments used in the preparation of financial statements are soundly based, in accordance with International Financial Reporting Standards and the FReM, and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- i. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Service have been assigned, pledged or mortgaged
 - c. there are no material prior year changes or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and International Financial Reporting Standards.
- vii. All events subsequent to the date of the financial statements and for which the FReM and International Financial Reporting Standards requires adjustment or disclosure have been adjusted or disclosed.
- viii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the FReM.
- ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

- x. We have provided you with:
 - a. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xi. We have confirmed there were no deficiencies in internal control of which management is aware.
- xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xiii. We have considered the risk that the financial statements may be materially misstated as a result of fraud and I am not aware of any such fraud or misstatement.
- xiv. We are not aware of any fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xv. We have confirmed we have no knowledge of any allegations of fraud, or suspected fraud, affecting the Service's financial statements communicated by employees, former employees, regulators or others.
- xvi. We have confirmed to you there are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xvii. We have disclosed to you the identity of all of the Service's related parties and all the related party relationships and transactions of which we are aware.

- xviii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Report

- xix The disclosures within the Annual Report fairly reflect our understanding of the Service's financial and operating performance over the period covered by the financial statements.

Annual Governance Statement

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Service's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Service's Board at its meeting on [DATE] October 2016.

Yours faithfully

<Name and title>

Date:

Signed on behalf of the Board



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