



Scottish Fire and Rescue Service

Final report to the Members of the Audit and Risk Assurance Committee and the Auditor General for Scotland on the 2016/17 audit

Contents

01 Our final report

Director introduction	3
Responsibilities of the Audit and Risk Assurance Committee	8
Our audit explained	9
Significant risks	10
Other significant findings	15
Your annual report	17
Wider scope requirements	18
Purpose of our report and responsibility statement	27

02 Appendices

Audit adjustments	29
Action plan	30
Fraud responsibilities and representations	31
Independence and fees	32
Events and publications	33

Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Assurance Committee of the Scottish Fire and Rescue Service (SFRS) for the 2017 audit.

As detailed in our plan presented to the Committee on 29 March 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits, sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on performance report, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting including Best Value*

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

The significant risks, as identified in our audit plan, related to:

- achievement of expenditure resource limits;
- valuation of property assets; and
- management override of controls.

A summary of our work on the significant risks is provided in the dashboard on page 10.

We issued an unmodified audit opinion.

Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words.
- We have raised an insight regarding the Technology One system; for more information see page 16.

Status of the audit

The audit is complete.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FReM), confirming that the annual report and accounts comprise a performance report, an accountability report (which includes the remuneration and staff report and the governance statement) and the financial statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - the performance report has been prepared in accordance with the accounts direction;
 - the information given in the governance statement is consistent with the financial statements;
 - the governance statement has been prepared in accordance with the accounts direction.
- We issued unmodified opinions on the above.
- In addition to the opinions, we have read the performance report and accountability report (including the governance statement) and confirm that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit, and was not otherwise misleading.
- We have also audited the auditable parts of the remuneration and staff report and confirm that it has been prepared in accordance with the accounts direction.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Financial Sustainability

Based on our review of the annual capital and resource budget setting processes, we are content that annual financial planning and monitoring is applied on a robust basis, with accurate and timely reporting throughout the year.

With the majority of funding coming from the Scottish Government via Grant in Aid, and the fact that year-on-year the SFRS has been able to achieve financial balance without any significant variation in the funding received, we are comfortable that assuming the Scottish Government continues to fund SFRS and that the SFRS continues to focus on identifying solutions to the key challenges as set out in the 2016-19 Strategic Plan, financial sustainability should be achievable.

The SFRS has requested that Deloitte undertake a short review of their Financial Planning Tool to inform their future service redesign modelling. The tool satisfies the requirements of the Scottish Government that SFRS have a robust planning tool which is linked to their operational modelling. This tool is capable of presenting detailed financial information to the Board on a wide range of potential operating models impacting the expenditure of the Service and also a number of different funding scenarios, making it a key element in ensuring that the SFRS remains financially sustainable going forward.

The SFRS 2016-19 Strategic Plan covers the medium term stating that the Service would be mindful of the financial challenges facing the SFRS and other public services, and lays out its approach to financial challenges. The Strategic Plan 2016-19 raises the following challenges: Financial austerity; Public service reform; Social issues; Climate change; and International terrorism. In the longer term the SFRS has a Long Term Financial Strategy which is currently at the draft stage but which will consider the financial goals of the SFRS to 2026. The Financial Planning Tool will help finalise this longer term plan and financial goals.

Financial Management

From our testing throughout the audit we are content that the Board has adequate systems of internal controls in place. We have also reviewed internal audit reports issued in the year.

We have also noted the Board's financial monitoring arrangements and conclude that these are robust enough to sufficiently identify any changes in the achievement of financial targets. There is also sufficient financial capacity and skills and a strong mix of qualified and experienced accountants in the finance team.

We are comfortable with the fraud arrangements in place and confirm that we have not been made aware of any financially significant frauds in the year. We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance and transparency

We confirm that we have reviewed the arrangements and have identified no issues in this regard.

- From our review of the internal audit plan for 2016/17 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action taken.
- We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.
- We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

Value for money

We are content that during the year the quarterly performance reporting under four thematic headings (Community Safety, Firefighter Safety, People, and Service Delivery), including six Scottish Government mandated targets, adequately measure the SFRS's performance.

Additional performance reporting against a revised Annual Operating Plan confirm 33 out of 44 objectives have been successfully completed, as at Q4 of 2016/17. We noted that this performance reporting is afforded attention by management and the positive impact that having outcome-focussed performance management objectives will have on the Service going forward.

Pat Kenny
Audit Director

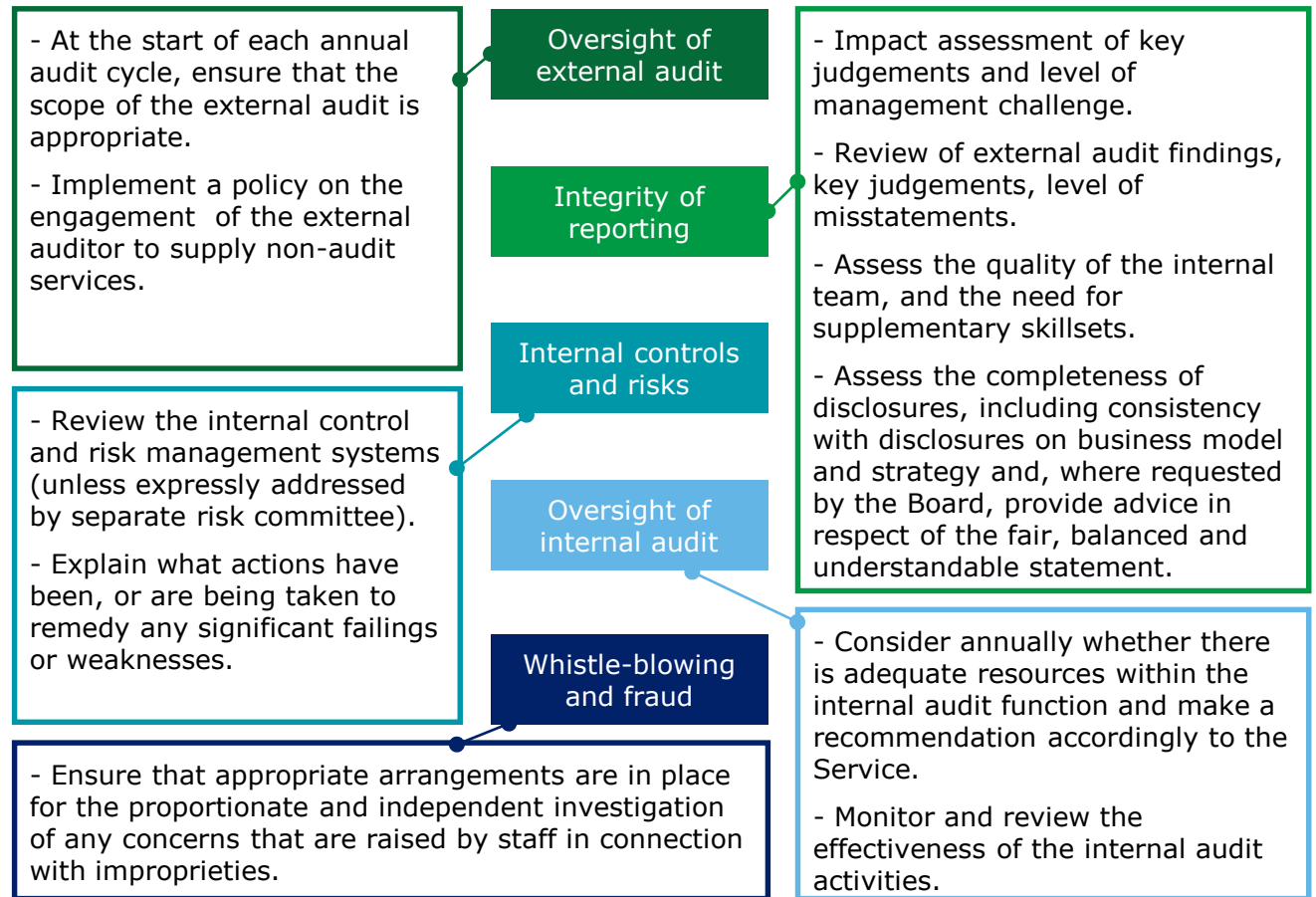
Responsibilities of the Audit and Risk Assurance Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit and Risk Assurance Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit and Risk Assurance Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit and Risk Assurance Committee with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit and Risk Assurance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Risk Assurance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Risk Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions, being:

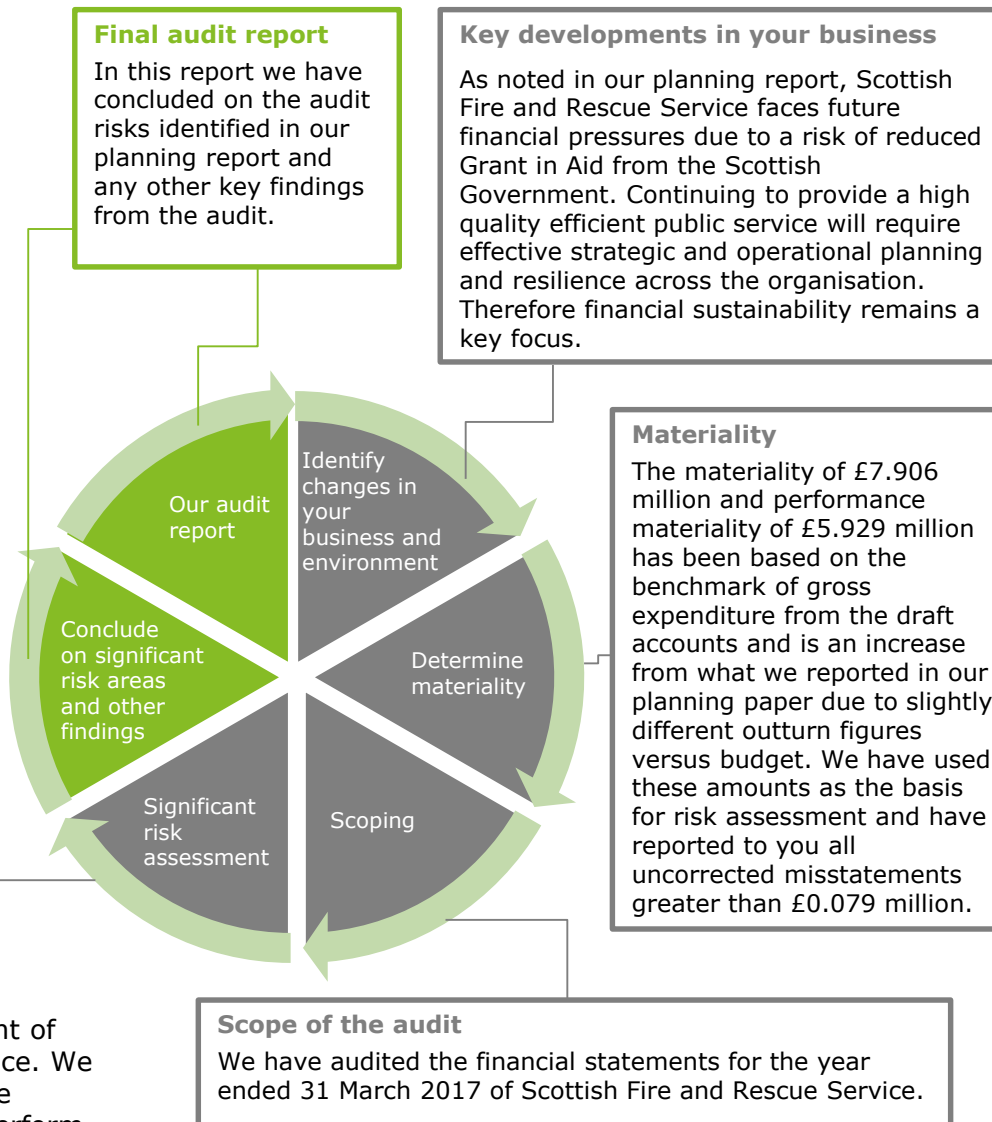
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of Scottish Fire and Rescue Service. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017

December 2016 – January 2017
Meetings with management and other staff to understand the processes and controls.

22 February 2017
Presented planning paper to the Audit and Risk Assurance Committee

September 2017
Review of draft accounts, testing of significant risks and performance of substantive testing of results.










31 March 2017
Year end

22 September 2017
Audit close meeting

5 October 2017
Audit and Risk Assurance Committee

5 October 2017
Accounts sign off

Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Valuation of property assets			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	13
Achievement of expenditure resource limits			D+I	Satisfactory		Satisfactory	14



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Valuation of property assets

Risk identified

SFRS holds property assets at market-based evidence of fair value; where this evidence does not exist, depreciated replacement cost is used. All other buildings are held at existing use value. The valuations are by their nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them



SFRS held £512.7 million of property assets at 31 March 2017. SFRS has a rolling programme in which 50% of the portfolio will be revalued each year, as well as any new build assets and assets with significant capital additions in the year (over £0.1 million). Revaluation is undertaken by the Service's internal Royal Institute of Chartered Surveyors (RICS) qualified Valuer.

The revaluation performed in 2016/17 resulted in a net decrease in the property portfolio of £1.752 million.

Deloitte response



We have performed the following:

- review of revaluations performed in the year, assessing whether they were performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- consider material changes of assets not subject to full revaluation during the year;
- consider assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS and the FReM; and
- involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the Service's Valuer, including sample testing of inputs to the valuations.

Significant risks (continued)

Valuation of property assets (continued)

Deloitte view

For those assets revalued during 2016/17, the valuation assumptions are in line with similar bodies and fall within the expected range highlighted by our property specialists. However, we noted errors with the reversal of the impairment of assets that had previously had a revaluation increase, with the amounts being included in the revaluation reserve instead of being included in the Statement of Comprehensive Net Expenditure. These errors were adjusted for in the final version of the accounts and the impact on prior year was considered and determined it to be immaterial, therefore did not warrant a prior year adjustment.

Our review of the accounting for the revaluations and impairments noted high level of manual intervention caused by shortcomings in the Technology One system's fixed asset register, such as: not IFRS 5 compliant, no historic costing amounts retained post revaluation and limited reporting functionality, which was the root cause for the errors noted above.

From our property specialists review of the valuations performed in the year, only minor points for consideration have been provided in relation to the valuation process. With the exception of a correction made for Johnstone Fire Station, Renfrewshire & Inverclyde, Deloitte did not find any material issues with the asset valuations and the property specialists team confirmed that the valuations were prepared to a good standard. Additionally, minor points for consideration were passed to the Internal Valuer and Capital Accountant in relation to the valuation process.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- SFRS's results throughout the year were projecting to exceed budget and this was closely monitored by the Board. The year-end financial outturn against budget was a small underspend of £0.126 million due to an underspend in employee staff costs, relating predominantly to vacancies in support staff.
- Senior management's remuneration is not tied to financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.



Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the organisation.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have then used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. No inappropriate or unusual activity has been identified. No issues have been identified from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, we have carried out a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements. No issues have been identified from our testing.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Significant risks (continued)

Achievement of expenditure resource limits

Risk identified

The key financial duty for the SFRS is to comply with the Departmental Expenditure Limit (DEL) requirement set by the Scottish Government. Given the current budget position for the Service and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of expenditure within these limits.

The risk is therefore that the SFRS materially misstates expenditure, including year end transactions, in an attempt to achieve a breakeven position.

Key judgements and our challenge of them



We have provided an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Government, examining in which period expenditure should fall and whether it relates to DEL.

Deloitte response



We have performed the following:

- obtained an understanding of the design and implementation of the key controls in place in relation to recording of expenditure, including year-end transactions;
- reviewed the total of repairs and maintenance expenditure and concluded that as it only equalled £3.844 million this could not conceal a material error. Therefore we concluded that there was no further risk of material misstatement in this population;
- performed focused cut-off testing of expenditure;
- reviewed and challenged the assumptions made in estimating key accruals to assess completeness and accuracy of recorded expenditure, testing ongoing; and
- obtained independent confirmation of the resource limits allocated to SFRS by the Scottish Government.



Deloitte view

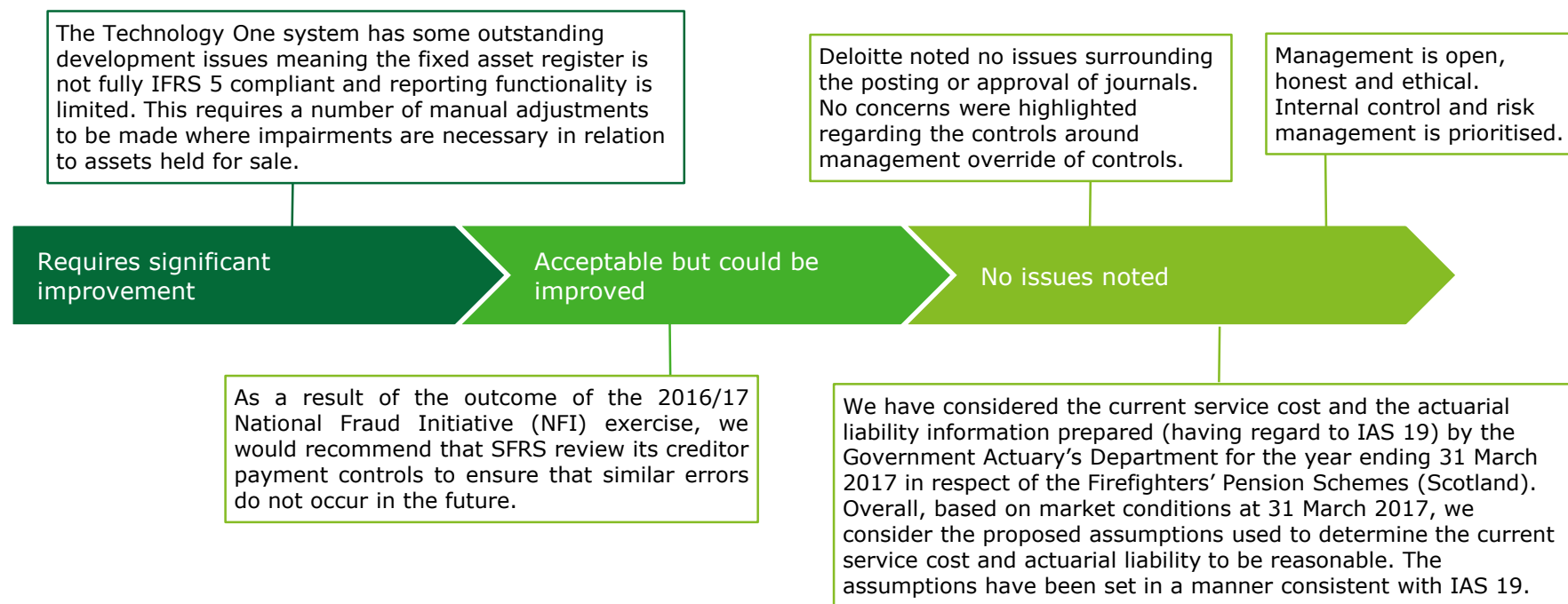
We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.

We confirmed that SFRS has performed within the limits set by the Scottish Government and therefore in compliance with the financial targets for the year.

Other significant findings

Internal control, risk management and judgements

ISA 315.12 (UK and Ireland) requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.



Deloitte view

In our view, financial management, governance and general control at SFRS are of a reasonable standard. The Pension Scheme assumptions are reasonable. However, significant improvement is required around the capability of the Technology One system's fixed asset register.

Other significant findings (continued)

Insights delivered

We welcome this opportunity to set out for the Audit and Risk Assurance Committee our observations from our substantive audit procedures. Below are other insights we have identified from our audit.

Insight

Deloitte response

SFRS has a Long Term Financial Strategy which is currently at the draft stage but which will consider the financial goals of the SFRS to 2026.

Deloitte recommend that the Long Term Financial Strategy be completed without delay as the SFRS have effectively only a forward view to the end of 2019, afforded by The Strategic Plan 2016-19.

The Technology One system has some outstanding development issues meaning the fixed asset register is not fully IFRS 5 compliant and reporting functionality is limited. This requires a number of manual adjustments to be made where impairments are necessary in relation to assets held for sale.

Deloitte recommend that SFRS works closely with the developers of the Technology One system to improve the system so less manual intervention is required going forward.

As a result of the outcome of the 2016/17 National Fraud Initiative (NFI) exercise, we would recommend that SFRS reviews its controls around creditor payments to ensure that appropriate controls are in place to prevent similar errors happening in the future.

Deloitte noted that 11 errors were identified from the 2016/17 NFI exercise relating to duplicate creditor payments; duplicate records by invoice number and amount but different creditor reference and name; duplicate records by name, invoice number and amount but different creditor reference. This resulted in a £110,913.87 payment being recovered. We would recommend that SFRS reviews its controls around creditor payments to ensure that appropriate controls are in place to prevent similar errors happening in the future.

Your annual report

We welcome this opportunity to set out for the Audit and Risk Assurance Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirements	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Service also focusses on the strategic planning context.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
Annual Governance Statement	The FReM requires a governance statement to be published with the financial statements and guidance on content is provided in the SPFM.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.
Remuneration and Staff Report	Management has ensured that the Remuneration and Staff Report meets the requirements of the FReM.	We have confirmed that it has been prepared in accordance with the FReM.

Wider scope requirements

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the date the financial statements are approved. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response



We have reviewed SFRS' actions and processes in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.

As part of the wider scope requirements, Deloitte undertook a short review of the SFRS Financial Planning Tool which was developed to inform the SFRS of the future service redesign modelling and satisfy the requirements of the Scottish Government that the SFRS have a robust planning tool which is linked to their operational modelling.

Wider scope requirements (continued)

Financial sustainability (continued)

Short Term Financial Planning

The key measure of financial performance is the comparison of expenditure against the Departmental Expenditure Limit (DEL) funding provided by the Scottish Government. An underspend of £0.126 million in resource expenditure was achieved in 2016/17. The main source of income was grant in aid funding of £274.857 million, which was drawn down from the Scottish Government for both capital and resource purposes.

The total proposed Resource Budget for 2017/18 is £262.821 million, in line with resource budget funding from the Scottish Government (£259.221 million) plus the surplus on property sales (£3.600 million).

The following two key risks to achieving financial sustainability within 2017/18 have been identified:

- there is a risk to SFRS where decisions regarding crewing and shift arrangements are not taken/implemented effectively to enable overtime to be contained (risk rating: 16); and
- there is a risk to SFRS where the failure of aging assets leads to higher than budgeted unplanned maintenance costs (risk rating: 12).

SFRS is fully aware of this risks and is in process of addressing them.

Medium Financial Planning

We are satisfied that annual financial planning and monitoring is applied on a robust basis, with accurate reporting throughout the year. The Strategic Plan 2016-19 raises the following challenges:

- Financial austerity – pressure on Scotland’s public spending going forward;
- Public service reform – collaboration between public services to improve outcomes that matter most to people and to prevent social and economic problems that drive demand for these services;
- Social issues – social and economic inequality and a rising number of older people.
- Climate change – marked increase in the last few years in extreme and unpredictable weather conditions;
- International terrorism

The Strategic Plan 2016-19 is a matter of regular consideration by management and the Board.

Wider scope requirements (continued)

Financial sustainability (continued)

Long Term Financial Planning

SFRS has prepared a long term financial plan to 2026. This plan is still at draft stage, with finalisation anticipated in the near future. Based on our initial review of this document it does appear to demonstrate:

- A good understanding of the business model and related costs;
- Scenario planning (within the Financial Planning Tool);
- Assets/liabilities and consideration of capital investment; and
- Consideration of potential risks.

Deloitte will revisit this long term financial plan when it is finalised and recommend that it should be completed without delay.

Financial Planning Tool

The SFRS has requested that Deloitte undertake a short review of their Financial Planning Tool to inform their future service redesign modelling. The tool satisfies the requirements of the Scottish Government that SFRS have a robust planning tool which is linked to their operational modelling.

This tool is capable of presenting detailed financial information to the Board on a wide range of potential operating models impacting the expenditure of the Service and also a number of different funding scenarios, making it a key element in ensuring that the SFRS remains financially sustainable going forward.

Review of Financial Planning Tool

The scope of this short review was agreed to cover:

- a review of the structure and content of the financial planning Tool;
- a review of the base assumptions identified as inputs to the planning Tool;
- a trace through of a sample of scenarios affecting both the Funding and Service Redesign inputs; and
- consideration of the applicability of the chosen scenarios against the request from Scottish Government.

Our key conclusions from undertaking this review are that:

- a sample test of the ability of the Tool to cope with unusual, but valid, input values confirmed that the Tool would react as anticipated when flexing key driver assumptions, zeroing an assumption, and setting an assumption to the opposite signage; and adding or subtracting a unit amount, did not identify any irregular results.
- the Tool adopts logical assumptions in line with current business expectations;
- the Tool provides the specified outputs to inform the impacts of the service redesign modelling, and whilst consideration should be given to findings documented at section 3, there were no significant issues identified;
- the Tool appears to provide an adequate means of capturing the scenarios requested from the Scottish Government.

Wider scope requirements (continued)

Financial sustainability (continued)

Deloitte view

Per a review of the annual capital and resource budget setting processes, we are satisfied that annual financial planning and monitoring is applied on a robust basis, with accurate and timely reporting throughout the year. The SFRS 2016-19 Strategic Plan covers the medium term stating that the Service would be mindful of the financial challenges facing the SFRS and other public services, and lays out its approach to financial challenges.

In the longer term the SFRS has a Long Term Financial Strategy which is currently at the draft stage but which will consider the financial goals of the SFRS to 2026. It is of note that the SFRS utilises a robust Financial Planning Tool which will help achieve these longer term financial goals.

With the majority of funding coming from the Scottish Government via Grant in Aid, and the fact that year-on-year the SFRS has been able to achieve financial balance without any significant variation in the funding received, we are satisfied that assuming the Scottish Government continues to fund SFRS and that the SFRS continues to focus on identifying solutions to the key challenges as set out in the 2016-19 Strategic Plan, financial sustainability should be achievable.

Wider scope requirements (continued)

Financial management

Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Areas considered

- Systems of internal control
- Budgetary control system
- Financial capacity and skills
- Arrangements for the prevention and detection of fraud

Deloitte response



We have reviewed the annual budget and monthly budget monitoring reporting to the Board during the year to assess whether financial management and budget setting is effective.

We have liaised with internal audit in relation to their work on the key financial controls, and we have reviewed governance arrangements in place.

Our fraud responsibilities and representations are detailed on page 31.

Deloitte view

From our testing throughout the audit we are content that the Board has adequate systems of internal controls in place. We have also reviewed internal audit reports issued in the year.

We have noted that the Board has financial monitoring arrangements and these are robust enough to sufficiently identify any changes in the achievement of financial targets. There is sufficient financial capacity and skills as well as a strong mix of qualified and experienced accountants in the finance team.

We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year. We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

Wider scope requirements (continued)

Governance and transparency

Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Areas considered



- Governance arrangements
- Scrutiny, challenge and transparency on decision making and financial and performance reports
- Quality and timeliness of financial and performance reporting

Deloitte response



We have reviewed the governance arrangements. This includes appropriate delegation to relevant sub-committees which are responsible for communicating significant matters to the Board.

There is effective scrutiny, challenge and transparency on decision making, which is facilitated by the timely dissemination of financial and performance information from various sub-committees.

We have reviewed the financial and performance reporting to the Board during the year and noted no issues with the quality and timeliness of these reports.

We have reviewed the minutes of all Committee meetings to assess the effectiveness of the governance arrangements and the level of scrutiny and challenge. Our attendance at the Audit and Risk Committee has also informed our work in this area.

Wider scope requirements (continued)

Governance and transparency (continued)

Internal Audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audit reports presented to the Audit and Risk Assurance Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

We are also pleased to note the reasonable assurance provided in 2016/17 by internal audit in their Annual Assurance Report with respect to risk, management, control and governance arrangements.

In addition to this, Her Majesty's Fire Service Inspectorate (HMFSI) also did not identify any significant issues with regards to the control environment in 2016/17.

Deloitte view

We confirm that we have reviewed the arrangements and have identified no issues in this regard.

- From our review of the internal audit plan for 2016/17 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action being taken.
- We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.
- We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

Wider scope requirements (continued)

Value for money

Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

Areas considered



- Value for money in the use of resources
- Link between money spent and outputs and the outcomes delivered
- Improvement of outcomes
- Focus on and pace of improvement

Deloitte response



We have gained an understanding of SFRS's performance reporting arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

Performance management

SFRS performance for 2016/17 is reported via performance reports on a quarterly basis. The report is presented under four thematic headings: Community Safety, Firefighter Safety, People, and Service Delivery. This includes internally reported measures as well as six broad targets set by the Scottish Government's Fire and Rescue Framework for Scotland 2013.

The year-on-year flat cash budget position, and Q4 performance reporting results of Amber (Target 2 – reducing special services casualties) and Red (Target 4 – reducing accidental dwelling fires) against two of the six Scottish Government targets is consistent with the broader strategic challenges as set out in the Strategic Plan 2016-19, i.e. financial austerity and social and economic inequalities.

A new Annual Operating Plan (AOP) has been developed to align with the new Strategic Plan introduced in October 2016 and in line with the Fire and Rescue Framework for Scotland 2016. Performance reporting was also updated as a result of the new AOP for quarters 3 and 4 of 2016/17. The Q4 report confirms that 33 out of 44 outcome-focussed objectives have been successfully completed. Progress is currently also being made on drafting a new performance framework.

Deloitte view

We are content that the quarterly performance reporting under four thematic headings, including six Scottish Government mandated targets, adequately measure the SFRS's performance.

During 2017/18 the Service Delivery Committee replaced the functions of the Performance Committee. Certain reports have not been submitted to Committee on as timely a basis as is normal; however these have now been brought back up to date. This includes reporting on a new AOP which confirms 33 out of 44 outcome-focussed objectives have been successfully completed as at Q4. We note the positive impact that having outcome-focussed performance management objectives will have on the Service going forward.

Wider scope requirements (continued)

National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation in the National Fraud Initiative (NFI) and progress during 2016/17 and completed an NFI audit questionnaire by 30 June 2017.

A summary of the matches reported in the NFI system is provided in the table.

National Fraud Initiative	Total
Total matches flagged	1,600
Total recommended matches to be investigated	119
Total processed	491
Frauds	0
Errors	11
Outcome	£110,913.87

Deloitte view

SFRS are engaged with the NFI exercise. The key contact has used the self-appraisal checklist published in the 2016 Report to help monitor progress with the 2016/17 exercise. We also noted Internal Audits involvement in the NFI exercise and that the finds are shared with the Audit and Risk Assurance Committee.

From the analysis above, we noted that 11 errors were identified from the 2016/17 NFI exercise relating to duplicate creditor payments, which resulted in £89,606.24 (5 errors) payments being recovered, duplicate records by invoice number and amount but different creditor reference and name, which resulted in £20,782.03 (5 errors) payments being recovered and duplicate records by name, invoice number and amount but different creditor reference, which resulted in £525.60 (1 error) payment being recovered. We would recommend that SFRS review its controls around creditor payments to ensure that appropriate controls are in place to prevent similar errors happening in the future.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- results of our work on key audit judgements and our observations on the quality of your Annual Report;
- our internal control observations; and
- other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need in order to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan circulated to you on 22 February 2017.

This report has been prepared for the Audit and Risk Assurance Committee and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

Glasgow

December 2017

Appendices



Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Debit/ (credit) Assets £m	Debit/ (credit) Liabilities £m	Debit/ (credit) Reserve £m	Debit/ (credit) CIES £m	If applicable, control deficiency identified
None noted.					

No uncorrected disclosure deficiencies were noted from our audit work.

Action plan

Recommendations for improvement

	Recommendation	Management Response	Responsible person	Priority
Technology One system's fixed asset register	The Technology One system has some outstanding development issues meaning the fixed asset register is not fully IFRS 5 compliant and reporting functionality is limited. This requires a number of manual adjustments to be made where impairments are necessary in relation to assets held for sale.	We have recognised the limited reporting functionality for some years and the resulting need for manual adjustments to ensure our Accounts are IFRS 5 compliant. Work is therefore ongoing with the system provider to improve the number and quality of the reports available, while also working on system compliance with IFRS 5.	Tracey-Anne Morrow	High
National Fraud Initiative (NFI)	As a result of the outcome of the 2016/17 NFI exercise, we would recommend that SFRS review its creditor payment controls to ensure that similar errors do not occur in the future.	We are committed to reviewing our controls to reduce payment errors, including managing the supplier database and running reports to highlight duplicates. Many of the matches reported in the NFI exercise and checked to date were found to relate to different invoices or were already known and corrective action had been taken.	Alan Duncan	Medium
Long term financial strategy	SFRS has a Long Term Financial Strategy which is currently at the draft stage but which will consider the financial goals of the SFRS to 2026.	Deloitte recommend that the Long Term Financial Strategy be completed without delay as the SFRS have effectively only a forward view to the end of 2019, afforded by The Strategic Plan 2016-19.	John Thomson	High

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in complying with expenditure resource limits, management override of controls and valuation of property assets as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit and Risk Assurance Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £105,316.</p> <p>No non-audit services fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



Events and publications

Our events and publications to support the Service

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

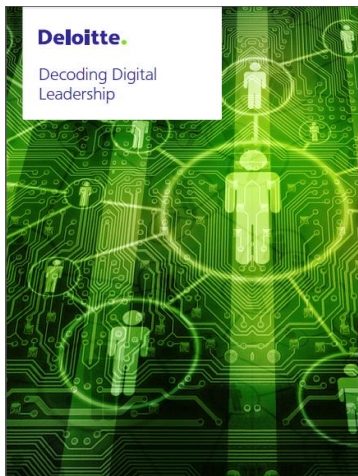
Perspectives: Deloitte Public Sector Analytics - Informed decision-making

In the current economic climate of costs and workforce cutting, if public bodies are to continue delivering the core public services their citizens require they must become more efficient than ever in the way they operate. Read the full blog post here: <https://www2.deloitte.com/uk/en/pages/public-sector/solutions/public-sector-analytics.html>

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here: <http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications



Decoding Digital Leadership Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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