



Scottish Fire and Rescue Service

Report to the Audit and Risk Assurance Committee (ARAC) and the Auditor General for Scotland on the 2017/18 audit

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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 Scottish Fire and Rescue Service (SFRS) for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officer's duty to secure best value.



Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Valuation of property assets;
 - Achievement of expenditure resource limits; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified audit adjustments from our procedures to date which have been corrected by management, further detail is included on page 11.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.
- During our testing of the auditable parts of the remuneration report we identified some adjustments which management have amended.
- We have issued an unmodified audit opinion.

Insights

- We have included on page 31 insights raised as part of the current year audit, with an update on the prior year audit recommendations on pages 32 and 33.

Status of the audit

- The audit is complete.

Introduction (continued)

The key messages in this report – audit dimensions

The following two pages set out the key messages of this paper in relation to the four audit dimensions:

Financial sustainability

Based on our review of the annual resource and capital budget setting process, we are content that annual financial planning and monitoring arrangements are effective, with accurate and timely reporting throughout the year.

SFRS is mainly funded by the Scottish Government in the form of Grant-in-Aid. SFRS has a proven track record of achieving financial balance without any significant variation to the funding received. Assuming that the Scottish Government continues to fund SFRS and SFRS maintains financial balance, we are satisfied that SFRS is financially sustainable.

SFRS met all of its financial targets in 2017/18 and achieved an underspend of £2.497 million against its cash Departmental Expenditure Limit (DEL). The budget for 2018/19 is £264.407 million for resource DEL and £32.500 million for capital DEL.

2017/18 final outturn position reported an underspend against resource and capital DEL of £2.497 million.	A balanced budget for 2018/19 was approved in March 2018. This included £6.000 million of additional VAT income as a result of the changes to the VAT legislation, which will permit SFRS to recover VAT on purchases.	SFRS have achieved £50.500 million of recurring savings during the period 2013/14 to 2017/18.	SFRS's Long Term Financial Strategy estimates a worst case funding gap of £37.200 million for the period 2020/21.
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Financial management

SFRS has robust financial monitoring arrangements in place. Throughout the year budget monitoring reports (resource and capital) are provided to the Board and budget holders. The information presented in these reports is appropriate and sufficiently detailed to support effective scrutiny.

We noted that period 12 monitoring reports have not yet been presented to the Board. Historically these reports are not presented until October following the previous financial year-end. This is not considered to be best practice. Period 12 monitoring reports should be presented to the Board in a timely manner following the year-end.

From our testing throughout the audit we are content that the Board has adequate systems of internal controls in place. From our review of the internal audit report for 2017/18 and associated audit reports throughout the year, 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.

There is sufficient financial capacity and skills as well as a strong mix of qualified and experienced accountants in the finance team.

SFRS have adequate arrangements in place for the prevention and detection of fraud and confirm that we have not been made aware of any significant financial frauds during the year.

Introduction (continued)

The key messages in this report – audit dimensions (continued)

Governance and transparency

SFRS's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership. The relationship between board members and officers is good, and there is evidence of effective challenge from board meetings.

The Board is open and transparent in its decision making with all minutes available through the Board's website. The Board also encourages people to get involved in decisions about services and spending public money.

Value for Money

SFRS performance is reported on a quarterly basis to the Service Delivery Committee. Performance reports are presented under three thematic headings: Community Safety and Wellbeing, People and Service Delivery. We are content that the quarterly performance reporting under the three thematic headings, adequately measure the SFRS's performance.

Pat Kenny
Audit Director

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:

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

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

The SFRS continues to face future financial pressures due to a risk of reduced Grant in Aid from the Scottish Government. Continuing to provide a high quality efficient public service will require effective strategic and operational planning and resilience across the organisation. Therefore financial sustainability remains a key focus.

Materiality

The materiality of £8.197m (2016/17: £7.906m) and performance materiality of £6.147m (2016/17: £5.929m) has been based on the benchmark of gross expenditure and is an increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.250m.

Scope of the audit

We will audit the financial statements for the year ended 31 March 2018 of Scottish Fire and Rescue Service.



Timeline 2017/18

November 2017 – February 2018

Meetings with management and other staff to update understanding of the processes and controls.

March 2018

Presented planning paper to the ARAC.

March 2018

Year end

September 2018

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

12 September 2018

Audit close meeting

9 October 2018

ARAC meeting

25 October 2018

Accounts sign off










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.

Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Valuation of property assets			D+I	Satisfactory		Satisfactory	10
Achievement of expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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)

Risk 1 – 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.

During the prior year audit, Deloitte 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 prior year accounts.



Key judgements and our challenge of them

As the valuation of property assets is inherently judgemental and there are multiple inputs in to this valuation.



Deloitte response

We have performed the following:

- reviewed any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- considered material changes of assets not subject to full revaluation during the year; and
- considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS and the FReM.

Deloitte view

We have concluded that the revaluation of property assets including the VAT adjustment has been performed satisfactorily.

Significant risks (continued)

Risk 2 – Achievement of resource expenditure 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 Scottish Fire and Rescue Service materially misstates expenditure through the accruals balance, including year end transactions, in an attempt to achieve a breakeven position.



Key judgements and our challenge of them

We will evaluate the results of our audit testing in the context of the achievement of the target set by the Scottish Government.



Deloitte response

We have completed the following in relation to the achievement of resource expenditure limits:

- obtained an understanding of the design and implementation of the key controls in place in relation to recording of accruals including year end transactions;
- assessed whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance;
- obtained independent confirmation of the resource limits allocated to SFRS by the Scottish Government;
- we have performed focused testing of the accruals balance; and
- we have reviewed and challenged the assumptions made in estimating key accruals to assess completeness and accuracy of recorded expenditure.

Deloitte view

We have completed our work in this area, and note that there have been misclassifications in relation to the analysis within the trade and other payables note, which have been corrected by management in the final accounts.

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.



Deloitte response

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

- we have tested journals, using our data analytics tool and focussed our testing on higher risk journals;
- we have reviewed accounting estimates for bias that could result in material misstatements due to fraud; and
- we have obtained an understanding of the business rationale of significant transactions that we have become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

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.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

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.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 16.

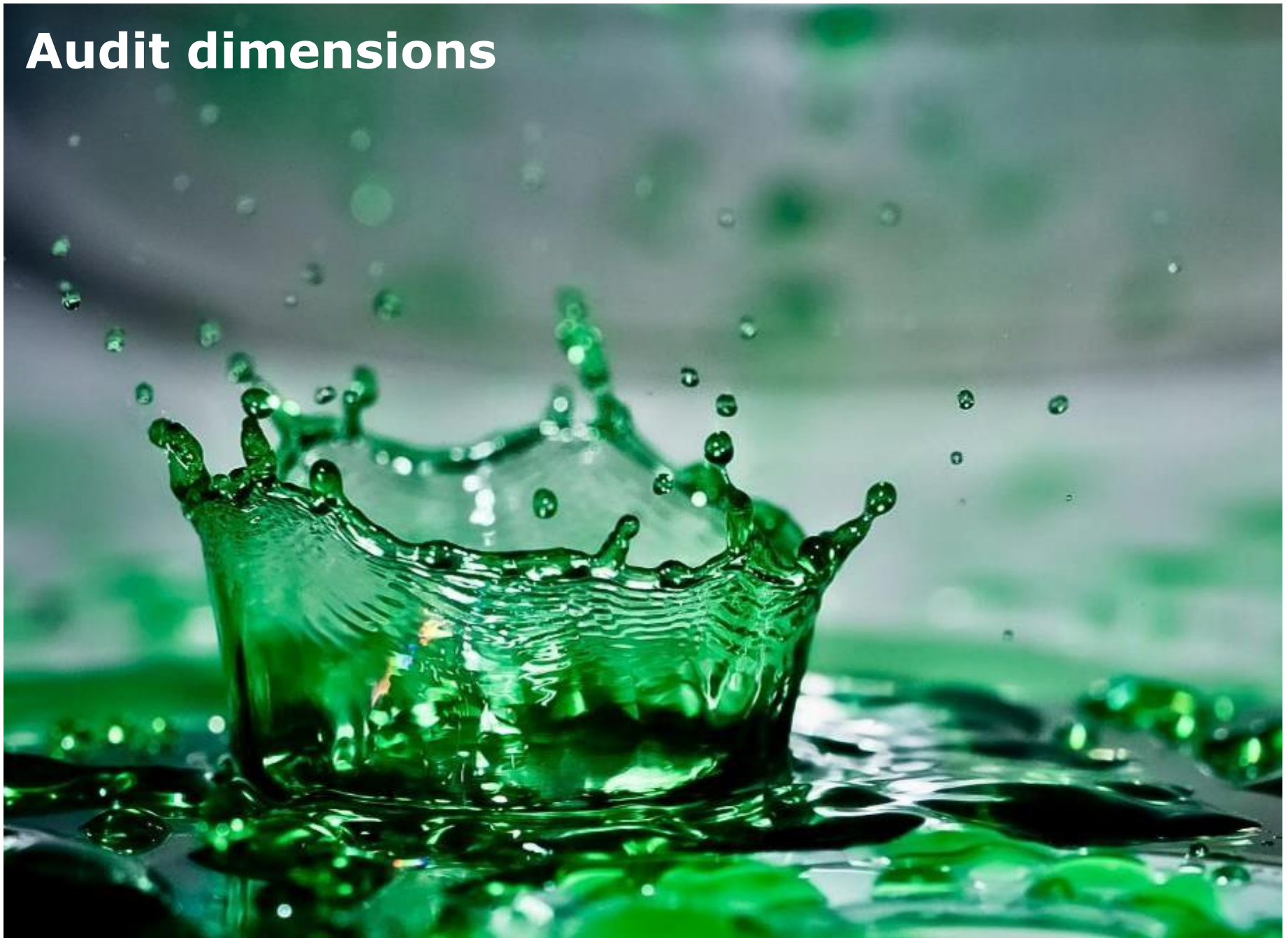


Your annual report

We welcome this opportunity to set out for the Audit Risk and 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.

	Management response	Deloitte response
The Performance Report	The report outlines Scottish Fire and Rescue Service performance, both financial and non-financial. It also sets out the key risks and uncertainty.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report 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.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report 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.</p> <p>We have also audited the auditable parts of the remuneration and staff report and note this is in line with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that the 2017/18 Local Term Financial Strategy was approved by the Board at its meeting on 14 December 2017 and included scenario plans for 2018/19 to 2026/27. We have concluded that the strategy is sufficiently robust to demonstrate that Scottish Fire and Rescue will be a going concern for 12 months from signing the accounts.

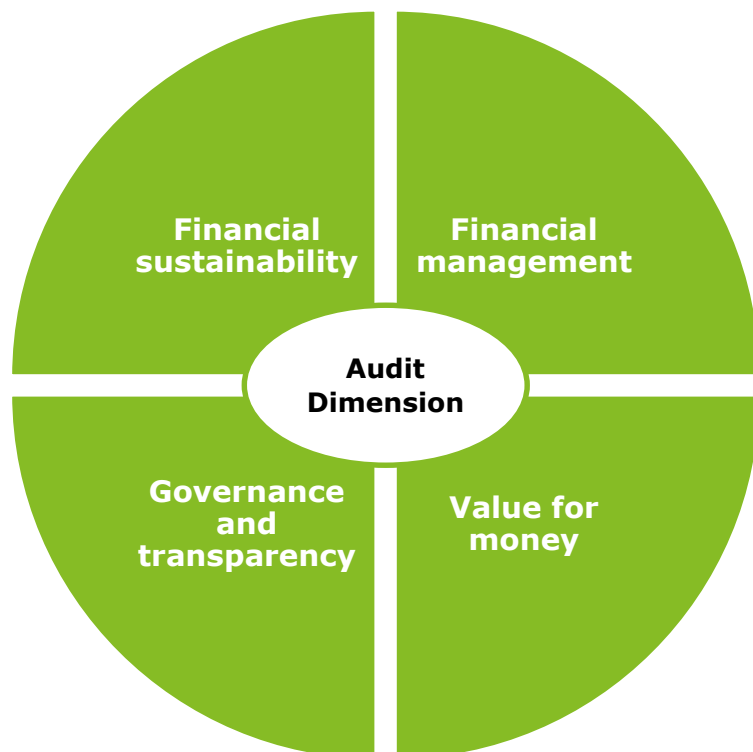
Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

- SR 1** – EU Withdrawal
- SR 2** – New Financial Powers
- SR 3** – Ending public sector pay cap
- SR 4** – Cyber security risk
- SR 5** – Openness and transparency

Audit dimensions (continued)

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 end of the financial year. 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; and
- The affordability and effectiveness of funding and investment decisions made.

Deloitte response



From our work in 2016/17, we made a recommendation to the Board to review and approve the draft long-term financial strategy as soon as possible. This year we have assessed progress in relation to this recommendation. This is further discussed on page 33.

We also reviewed SFRS' actions and processes in respect of its short and medium term financial plans to assess whether short term financial balance can be achieved and if investment is effective.

Deloitte view

Audit Scotland's report "Scotland's public finances – a follow-up audit: Progress in meeting the challenges (June 2014)", highlighted that public bodies need to develop effective longer-term financial plans which identify potential risks and ensure spending decisions are affordable. Our 2016/17 audit identified that the SFRS had prepared a draft long-term financial strategy to 2026 and we recommended that this was reviewed and approved by the Board as soon as possible. In response to our recommendation, the Board approved the long-term financial strategy at its meeting in December 2017. Long term financial planning will be essential if SFRS is to achieve a sustainable financial position.

From a review of the annual capital and resource budget setting processes, we are satisfied that annual financial planning and monitoring is effective, 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.

SFRS is mainly funded by the Scottish Government in the form of Grant-in-Aid. SFRS has a proven track record of achieving financial balance without any significant variation to the funding received. Assuming that the Scottish Government continues to fund SFRS and SFRS maintains financial balance, we are satisfied that SFRS is financially sustainable.

Audit dimensions (continued)

Financial sustainability (continued)

Short term financial position

The key measure of financial performance is the comparison of expenditure against the cash Departmental Expenditure Limit (DEL) funding provided by the Scottish Government. The main source of funding is from the Scottish Government via Grant-in-Aid. The total resource and capital cash DEL budget for 2017/18 was £287.974m of which £285.477 million was expended during the year, resulting in an underspend of £2.497 million.

The 2018/19 budget was approved by the Board on 29 March 2018. The total resource and capital cash budget for 2018/19 is £264.407 million and £32.500 million respectively.

The budget takes into consideration pay awards, incremental progression, harmonisation of terms and conditions for all staff and legislative compliance requirements. In total, expenditure on employees is anticipated to rise by around 3%.

The following two key risks to achieving financial sustainability within 2018/18 have been identified:

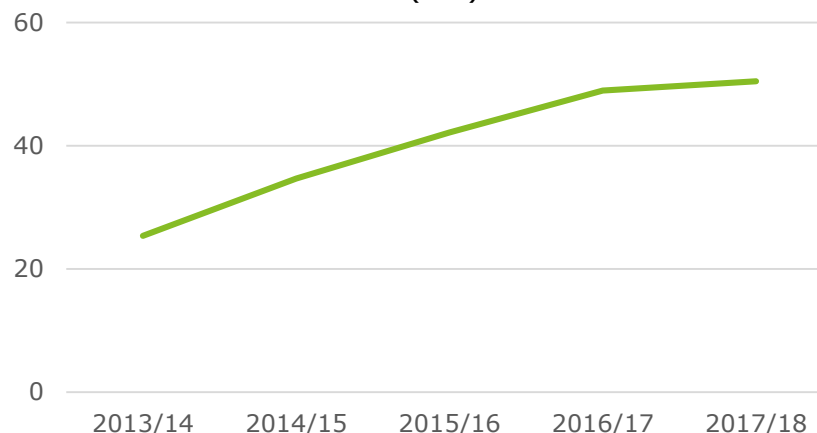
- there is a risk to SFRS where decisions regarding crewing and shift arrangements are not taken/implemented effectively to enable overtime to be contained (risk rating: 16); and
- there is a risk to SFRS where the failure of aging assets leads to higher than budgeted unplanned maintenance costs (risk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

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

Medium to long term financial sustainability

SFRS has achieved significant savings over the last 5 years, however due to increasing demand for services and the continuing restraint in relation to public sector funding, it will have to consider how it can fundamentally transform service delivery in order to meet current and future priorities and risks.

Cumulative recurring savings achieved 2013-14 to 2017-18 (£m)



SFRS recognises that if it continues with current service levels and delivery models, there will be a funding gap over the next three years. Based on a number of assumptions, including grant funding, pay inflation, demand pressures and known policy positions, it has estimated the funding gap could be as much as £37.200 million for the period 2020/21. The mid-point of the funding gap estimate is £9.400 million. By 2021 this would require savings of around 3.6% of SFRS's current resource departmental expenditure limit.

Audit dimensions (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

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



Deloitte response

We have reviewed the annual budget and regular monitoring reports to the Board during the year and the year-end position to assess whether financial management and budget setting is effective.

We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team.

Our fraud responsibilities and representations are detailed on page 34.

Deloitte view

SFRS has robust financial monitoring arrangements in place. Throughout the year budget monitoring reports (resource and capital) are provided to the Board and budget holders. The information presented in these reports is appropriate and sufficiently detailed to support effective scrutiny.

We noted that period 12 monitoring reports have not yet been presented to the Board. Historically these reports are not presented until October following the previous financial year-end. This is not considered to be good practice. Period 12 monitoring reports should be presented to the Board in a timely manner following the year-end.

From our testing throughout the audit we are content that the Board has adequate systems of internal controls in place.

From our review of the internal audit plan for 2017/18 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.

There is sufficient financial capacity and skills as well as a strong mix of qualified and experienced accountants in the finance team.

SFRS have adequate arrangements in place for the prevention and detection of fraud and confirm that we have not been made aware of any significant financial frauds during the year.

Audit dimensions (continued)

Financial management

Budgetary control systems

The Board has effective financial planning and management arrangements in place. Senior management and board members regularly review progress. As discussed on page 19, the Board review financial performance regularly.

The finance team is led by the Director of Finance and Contractual Services with support from the Head of Finance and Procurement, Accounting Manager, Decision Support Manager and Financial Systems Manager, who are all experienced in central government finance roles. We have not identified any issues with the financial skills, capacity and capability of the finance team.

Financial performance

The 2017/18 Annual Report & Accounts reported an underspend of £2.497 million against the cash DEL. The Board's performance against resource limits and other allocations set by the Scottish Government are as follows:

Expenditure Type	Resource Limit (£m)	Actual (£m)	Var (£m)
Resource DEL	255.474	254.142	(1.332)
Capital DEL	32.500	31.335	(1.165)
Total Cash DEL	287.974	285.477	(2.497)
Non-Cash DEL	24.679	12.706	(11.973)
Total DEL	312.653	298.183	(14.470)
Annual Managed Expenditure (AME)	19.500	23.888	4.388
Total Allocation	332.153	322.071	(10.082)

SFRS has a good track record of delivering services within budget over the last 3 years. SFRS reported a year-end underspend for 2017/18 of £10.082 million, in its 2017/18 Annual Report & Accounts against its total allocation. There were a number of significant under/overspends that contributed to the £10.082 million underspend within the different lines and the main contributors are as follows:

Underspends

- £1.386 million underspend against expenses within Property and Supplies and Services;
- £1.165 million of capital underspend as a result of SFRS being able to re-claim VAT; and
- £11.973 million underspend against depreciation as a result of revaluation exercise carried out in March 2018 as a result of the change in VAT legislation.

Overspends

- £0.597 million overspend following legislative changes that require overtime to be paid during periods of holiday;
- £5.361 million overspend of impairment due to changes in VAT legislation; and
- £1.300 million overspend due to IAS 19 adjustments.

Audit dimensions (continued)

Financial management

Systems of internal financial control

As discussed on page 19, we have evaluated the Board's key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The 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.

No material weaknesses have been identified from our audit work performed. Insights have been made (see page 31) where we have identified areas for improvement.

Fraud and irregularity

We have reviewed the SFRS's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the SFRS's arrangements to be operating effectively.

In accordance with Audit Scotland planning guidance, we are required to monitor SFRS's participation and progress in the National Fraud Initiative (NFI) during 2016/17 and 2017/18. An NFI audit questionnaire was completed and submitted to Audit Scotland on 28 February 2018, which concluded that the Board was fully engaged in the exercise.

Internal Audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. We do not have any significant findings to report.

The internal audit function continued to be provided by an in-house team during 2017/18. It aims to provide assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. The audit plan was agreed by the Audit and Risk Assurance Committee at the start of the year, and regular progress reports have been provided to the Committee throughout the year.

During the year, we have reviewed all internal audits 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.

From our review of the internal audit reports issued during 2017/18, we have noted a small number of "High Risk" graded recommendations, including issues identified from internal audit around inadequate internal controls. We note that no frauds have been identified as a result of these issues.

Audit dimensions (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; and
- Quality and timeliness of financial and performance reporting.

Deloitte response



We have reviewed the governance arrangements. This includes appropriate delegation to relevant standing 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 standing 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 financial and performance reporting to the Board during the year as well as minutes of Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at the Audit and Risk Assurance Committee meetings has also informed our work in this area.

Deloitte view

SFRS's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership. The relationship between board members and officers is good, and there is evidence of effective challenge from board meetings.

The Board is open and transparent in its decision making with all minutes available through the Board's website. The Board also encourages people to get involved in decisions about services and spending public money.

Audit dimensions (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; and
- 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.

Deloitte view

There is a clear framework in place to ensure that SFRS performance is monitored and reported.

Performance information is readily available to citizens via the SFRS website.

SFRS performance is reported on a quarterly basis to the Service Delivery Committee. Performance reports are presented under three thematic headings: Community Safety and Wellbeing, People and Service Delivery. We are content that the quarterly performance reporting under the three thematic headings, adequately measure the SFRS's performance.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>SFRS has noted that this is unlikely to have a significant impact on its operations and have committed to keep up-to-date with developments in this area.</p>
New financial powers	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. SFRS should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
Ending public sector pay cap	<p>As discussed on page 18, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.</p>

Wider scope audit work (continued)

Specific risks (specific risks)

Risk identified	Response
Cyber security risk	<p>SFRS have a Digital Steering Group in place which is tasked with ensuring that adequate arrangements are in place for cyber security. SFRS regularly liaise with the Scottish Government and other public bodies regarding cyber security and are also members of the Cyber Security Information Sharing Partnership (CiSP) where they receive information from other public sector organisations.</p> <p>The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. This actively encourages public sector bodies to seek independent assurance of critical technical controls, which in their view, is achieved by obtaining Cyber Essentials or Cyber Essential Plus accreditation. The SFRS are currently working towards achieving Cyber Essentials Plus accreditation and are one of the early adopters in this field.</p>
Openness and transparency	From our audit work, we are satisfied that SFRS is appropriately open and transparent in its operations and decision making.

Technical update



Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FRM). These new standards are not expected to have a significant impact on SFRS.

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to SFRS from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Potential impact on the Board

Per the SFRS' accounts, future minimum lease payments total £1.974m for land and buildings and £1.391m for vehicles, plant and equipment. It is unlikely that IFRS 16 will have a material impact on the presentation of leases in the accounts. However, it is still recommended that SFRS prepare a briefing paper and commence reviewing their leases agreements that they currently have in place to ensure they are prepared for the above changes.

Appendices



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 Assurance Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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
- 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 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.

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.



for and on behalf of Deloitte LLP
Glasgow
October 2018

Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by International Standards on Auditing (UK and Ireland).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
There are no disclosure misstatements		

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Disclosure notes	<p>We identified a number of misclassifications in Note 10 Trade and Other Payables between accruals and trade and other payables.</p> <p>We have also identified issues with regards to the processing of manual journals, whereby amounts have not been reversed in the period which have needed to be.</p> <p>We recommend that this process is reviewed to ensure that items are correctly classified and also journals are reviewed to ensure that they are appropriately reversed.</p>	SFRS will review the year end processes to include specific items to check the reversal of the previous year accruals.	Decisions Support Manager	30 June 2019	Medium

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Priority	2017/18 Update
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.	Capital Accountant	High	SFRS has made some improvement in the year regarding the fixed asset process and a new workaround was delivered by Technology One. This change resulted in all information related to assets being entered directly into fixed asset register. SFRS continues to work with supplier to turn this into a permanent solution that avoids the need for this workaround. SFRS has requested this change is in place for the 2018/19 year end.

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Priority	2017/18 Update
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.	Accounting Manager	Medium	Implemented – SFRS recognises the inherent risks around supplier set up and amendments including bank amendments. A robust bank amendments process has been developed in conjunction with SFRS’ internal auditors and is a very prescriptive process.
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.	While detailed financial projections have been prepared to 2025/26 and shared with the Scottish government and the Board, it is important that financial planning is consolidated into a formal long term financial strategy which is reviewed and approved by the Board as soon as possible.	Head of Finance and Procurement	High	Implemented – a long term financial strategy has been put in place for 2017-2027, which was approved by the Board in December 2017.

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 are not aware of any fraud or suspected fraud 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 recognition of grant income and management override of controls 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 2017/18 is £100,150 as detailed in separate correspondence.</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 company'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 publications and insights to support the Board

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



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: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation **Five lessons from the private sector**

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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