

## **Scottish Fire and Rescue Service**

Report to the Audit and Risk Assurance Committee and the Auditor  
General for Scotland on the audit for the year ending 31 March 2020

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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 (“the Committee”) of Scottish Fire and Rescue Service (“the Service”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted owing to the response to the COVID-19 pandemic. We recognise the extra pressure faced by Service staff in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to work to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions based on our work 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 Officers’ duty to secure best value.



# Introduction (continued)

## The key messages in this report (continued)

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

### **Conclusions from our testing**

Our audit is complete and we have issued an unmodified audit opinion.

The impact of COVID-19 has led to a material uncertainty being identified by the Service's property valuers in relation to the valuation of the Service's assets, which is consistent with RICS guidance. This is a common feature of valuation reports prepared to 31 March 2020. As a result, we have included an 'Emphasis of Matter' paragraph within our audit report.

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 Service.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 9.

### **Status of the financial statements audit**

Our audit is complete.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland.

Our detailed report is included on page 15 of this paper and sets out our findings and conclusions on each dimension.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While our reports makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the Service at this stage.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

**Financial Management** - The Service has strong financial management arrangements. The financial position and variances were transparently reported to the Board throughout the year.

**Financial sustainability** - The Board achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The budget for 2020/21 was set prior to assessing the financial impact of COVID-19, and as such it is recommended that the Board continues to undertake scenario planning and monitors the position closely.

**Governance and transparency** - the Board'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 committee meetings. The Board is open and transparent in its decision making with all key strategy documents and key Board/sub-committee minutes available through the Board's website.

**Value for money** - performance in line with the recently revised Performance Management Framework is largely in line with target or is improving, with no major issues identified.

### Best Value

We note that the Service has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

Our conclusions and detailed findings are included in this report.

### Added value

Our aim is to add value to the Service by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Service promote improved standards of governance, better management and decision making, and more effective use of resources.

As information has emerged as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, the Service will be invited to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

**Pat Kenny**  
Audit Director

# Financial statements audit












# Quality indicators

## Impact on the execution of our audit

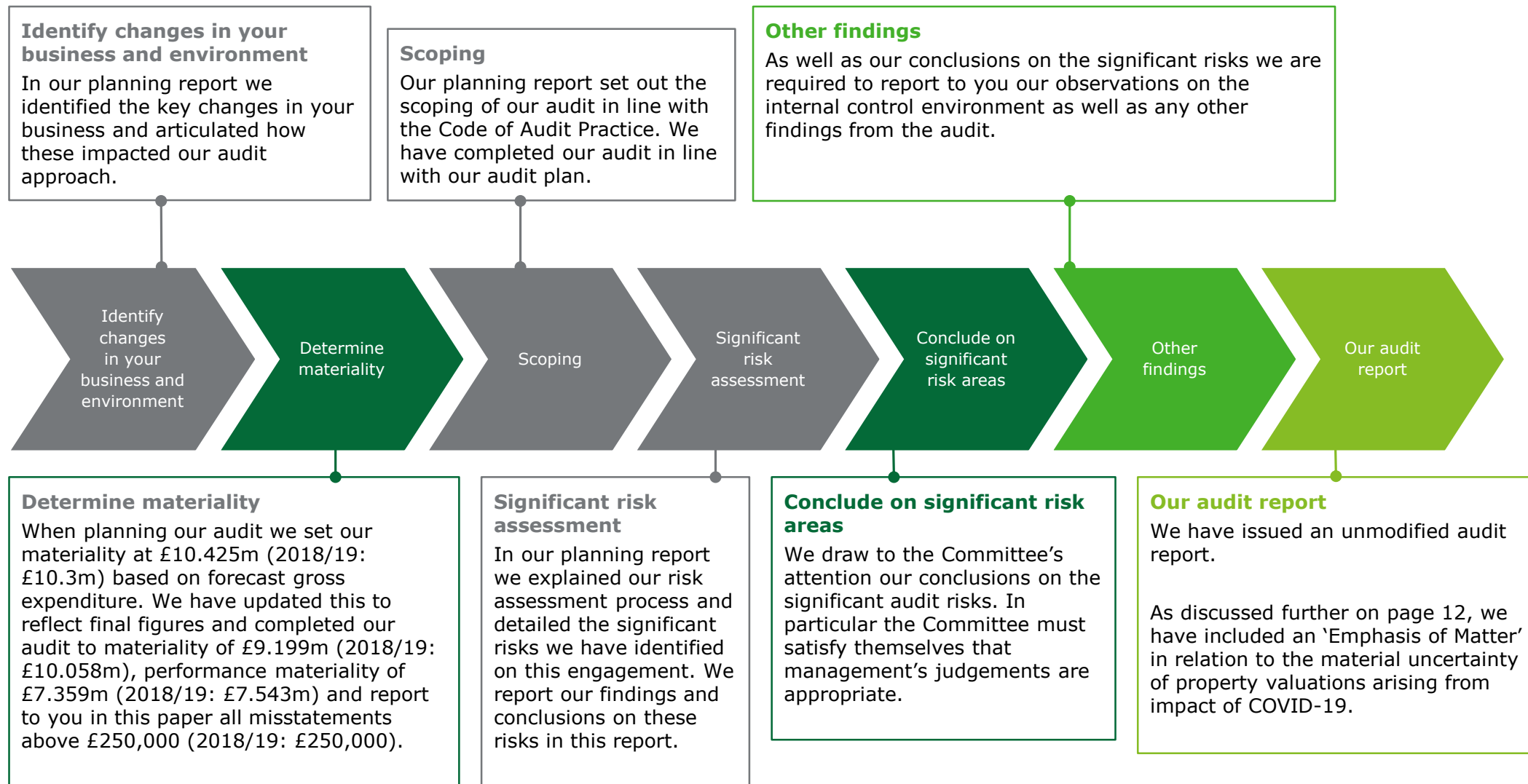
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

| Area   | Grading   | Reason  |
|--|---|---|
| Timing of key accounting judgements                  |    | Key accounting judgements, such as net defined benefit pension asset support was provided on time and was of good quality, and questions were raised early by management.   |
| Adherence to deliverables timetable                  |    | Key deliverables were provided as part of our fieldwork, with a draft of the financial statements received prior to the audit visit.  |
| Access to finance team and other key personnel       |    | Deloitte and the Service have worked together to facilitate remote communication during the audit. This has included effective use of technologies such as Skype.   |
| Quality and accuracy of management accounting papers |   | On the whole documentation provided has been a good standard. Supporting breakdowns for balances such as debtors and creditors could be clearer in order to facilitate audit testing. This has been discussed with management and we are working with them to design a revised work paper for the 2021 audit. |
| Quality of draft financial statements                |  | A full draft of the annual report and accounts was received for audit on 21 August 2020. The draft was of a high standard with limited changes required.  |
| Response to control deficiencies identified          |  | No control deficiencies were identified in the current year.  |
| Volume and magnitude of identified errors            |  | We have not identified any significant financial adjustments to date.   |

 Lagging     Developing     Mature







# Our audit explained

We tailor our audit to your business and your strategy





# Significant risks Dashboard

| Risk   | Material  | Fraud risk  | Planned approach to controls testing | Consistency of judgements with Deloitte's expectations                              | Comments     | Slide no. |
|--|---|---|--------------------------------------|---|--------------|-----------|
| Operating within expenditure resource limits |  |  | D+I                                  |  | Satisfactory | 10        |
| Management override of controls              |  |  | D+I                                  |  | Satisfactory | 11        |

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 – Operating within the expenditure resource limits

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**Risk identified**

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with the prior year, we do not consider this to be a significant risk for SFRS as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

Given the financial pressures across the whole of the public sector, there is an inherent risk associated with the under recording of expenditure in order for SFRS to report a more favourable year-end position.

We therefore consider the fraud risk to be focused on how management operate within the Departmental Expenditure Limits ("DEL") set by the Scottish Government. There is a risk is that SFRS could materially misstate expenditure through manipulation of the accruals balance, including year-end transactions, in an attempt to achieve a breakeven position.

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**Our response**

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. We have completed the following:

- Obtained an understanding of the design and implementation of the key controls in place in relation to recording of accruals including year end creditor transactions;
- Obtained independent confirmation of the resource limits allocated to SFRS by the Scottish Government;
- We have performed focused testing in relation to the completeness of expenditure by examining the application of cut off primarily through the focussed testing of the accruals balance;
- We have undertaken further analytical procedures aimed at identifying distortion to the pattern of expenditure recorded; and
- We have reviewed and challenged the assumptions made in relation to year-end judgements to assess the completeness of recorded expenditure.

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**Deloitte view**

We have completed our testing and the balance of expenditure is fairly stated within the financial statements. As part of our work we identified a reclassification of £2.472m between accruals and trade payables to update the classification in line with IAS37, and as part of the identification of this reclassification we have discussed with management how to improve the process for next year.

# Significant risks (continued)

## Risk 2 – Management override of controls

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**Risk identified**

In accordance with ISA 240 (UK) 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 controls for specific transactions.

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

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**Planned audit challenge**

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

**Journal testing**

- We have tested the design and implementation of controls over journal entry processing.
- We have used our Spotlight data analytics tool, and have risk assessed journals and selected items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we considered to be of increased interest.
- We have tested the appropriateness of journal entries recorded in the general ledger. There were no adjustments made in the preparation of financial reporting.

**Accounting judgements**

- We have tested the design and implementation of controls over key accounting estimates and judgements.
- We have reviewed accounting estimates and judgements for biases that could result in material misstatements due to fraud. This has included both a retrospective review of 31 March 2019 estimates and judgements and a review of the corresponding judgements as at 31 March 2020.

**Significant and unusual transactions**

- We have obtained an understanding of the business rationale of significant transactions that we 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.

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**Deloitte view**

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

## Other areas of work

### Valuation of property assets – Material Uncertainty due to COVID-19

#### **Material Uncertainty due to COVID-19**

Following discussion with the Service's valuer, Russell Munn, the following disclosure has been included in their valuation report in relation to COVID-19:

*"The outbreak of the COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

*The current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review."*

This is a common feature of valuation reports prepared to 31 March 2020.

#### **Impact on Statement of Accounts**

The Service is required to disclose the existence of this material uncertainty in the Statement of Accounts. We have communicated this to management and understand that this has been incorporated as part of our suggested changes to the accounts. We are awaiting an updated version of the accounts in order to check its inclusion.

#### **Impact on Audit Opinion**

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure.

#### **Deloitte view**

Management have made the appropriate disclosures within the financial statements in respect of COVID-19 and the material uncertainty.

# Other areas of work (continued)

## Defined benefits pension schemes

### Background

The Service participates in two types of defined benefits schemes:

- Local Government Pension Schemes (LGPS); and
- Firefighters Pension Fund.

The Service's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end.

The Service also continues to be affected by Guaranteed Minimum Pension (GMP) indexation. In order to smooth the transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in 2016 in respect of people, who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, where full inflationary increases will be provided by the scheme.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement, subsequent to the year-end, is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow).

### Deloitte response

- We assessed the independence and expertise of the actuaries supporting the basis of reliance upon their work.
- We have engaged with our specialists who have reviewed the assumptions made by the actuaries.
- We have received assurance from the auditors of the pension funds over the controls for providing accurate data to the actuary.
- We assessed the reasonableness of the Service's share of the total assets of the scheme with the various Pension Fund financial statements.
- We have reviewed the impact of the McCloud and Goodwin cases on pension liabilities.
- We have reviewed the disclosures within the accounts against the FReM.

### Deloitte view

We have completed our work in this area. As part of this we have identified a judgemental understatement of the defined benefits pension liability totalling £2.715m. This is due to post year-end developments relating to the Goodwin Judgement, an adjustment required for GMP indexation and errors in the LGPS net investment assets identified by the pension fund auditors.

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

The Service's accounts have been prepared in accordance with the Government Financial Reporting Manual (the FReM). The accounting policies adopted are in line with the FReM.

### **Other matters relevant to financial reporting:**

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

### **Significant matters discussed with management:**

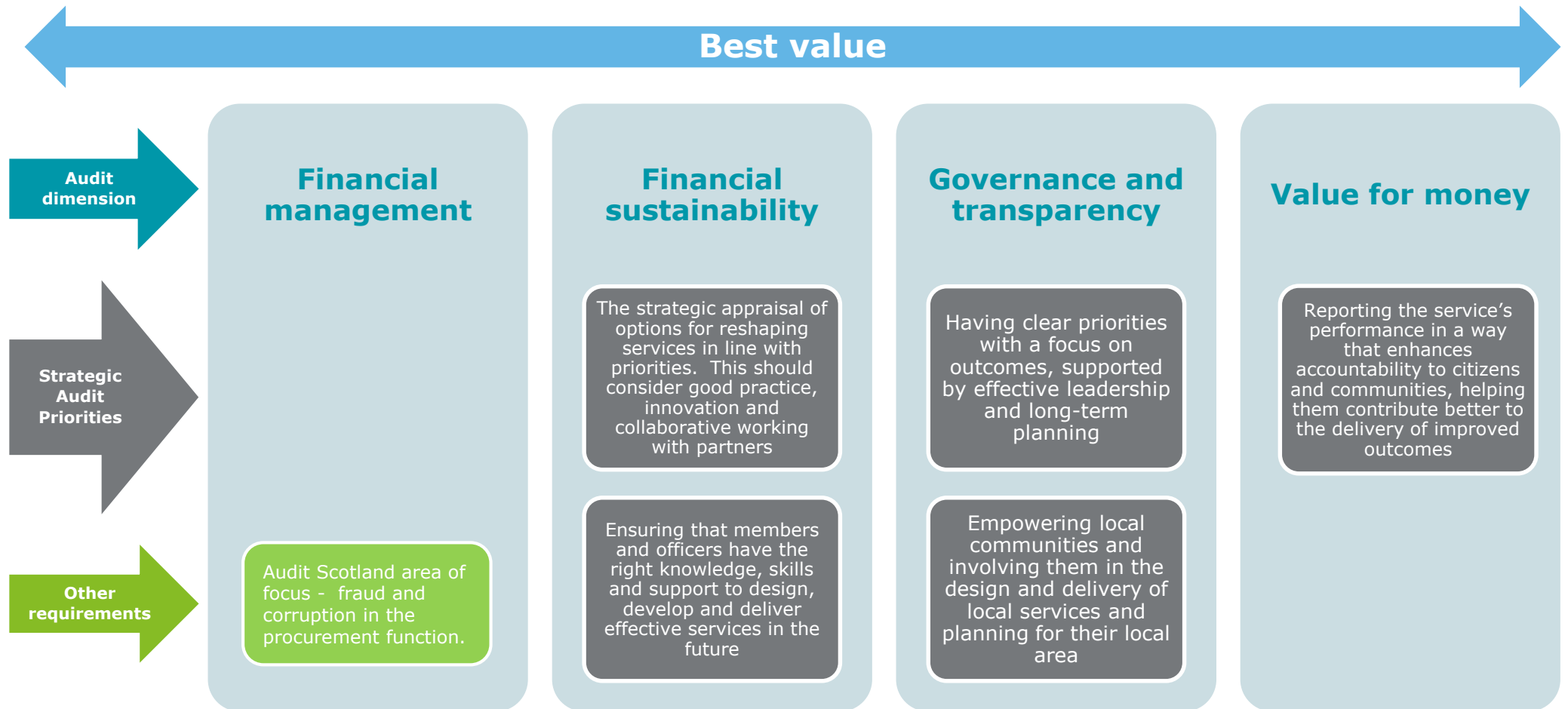
Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, including the impact of the material valuation uncertainty on the valuation of property assets.

We have obtained written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

# Audit dimensions

## Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This report sets out our findings and conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on best value, including consideration of the Accounts Commission's Strategic Audit Priorities.





# Financial management

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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

“There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption.”

## 2019/20 financial performance

**2018/19 Conclusion:** In 2018/19 we concluded that SFRS has effective financial budgeting and monitoring arrangements. The Service reported an underspend of £0.203m against total cash DEL.

**2019/20 Update:** The Service reported an underspend of £1.400m against total cash DEL. The main contributory factor to this underspend is as a result of an underspend on employee costs.

## Internal Audit

Based on a review of internal audit reports issued in the year, attendance at ARAC meetings, updating our understanding of key processes that feed into the financial reporting process, and audit procedures carried out during the course of the audit, we are satisfied that the Board has adequate systems of internal controls in place.

## Standards of conduct for prevention and detection of fraud and error

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

# Financial management (continued)

## Budgetary control systems

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.

From a review of in-year budget monitoring reports, reviewing whether financial balance will be achieved for 2019/20, we conclude that the underlying financial performance is transparently presented. This includes a discussion for the primary reasons for any in-year actual and projected budget variances (adverse and favourable), as well as actions to bring variances in line with budget. Financial performance is presented to the Strategic Leadership Team and Board.

## Standards of conduct for prevention and detection of fraud and error

We have reviewed the Service's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Service's arrangements to be to be designed and implemented appropriately.

## National Fraud Initiative (NFI)

The Service participated in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Service's participation and progress in the NFI during 2019/20 and submitted an assessment of the Service's participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2020.

We concluded that the Service was fully engaged in the exercise.

## Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered the Service's controls and processes as a matter of particular focus and concluded:

- The risk of procurement fraud is acknowledged on the risk register.
- There are controls in place around the procurement process, including segregation of duties.
- There is a gift and hospitality policy in place to prevent unacceptable instances taking place and systems are in place to ensure all acceptable instances are recorded in a register.
- The Procurement Team staff are all qualified, or working towards qualification, with the Chartered Institute of Procurement and Supply (CIPS) and as part of their commitment to CPD they have to complete annual training courses.
- Internal Audit coverage of procurement matters are mainly via request from management. This appears to be adequate and proportionate to the risks faced by the Service.
- Arrangements are in place to encourage and protect whistleblowers.

Based on the above, we are satisfied that the arrangements for the prevention and detection of fraud and corruption in the procurement function are effective and appropriate. We have included two recommendations on pages 26 and 27 in respect of procurement.

# Financial management (continued)

## **Deloitte view – financial management**

The Service has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

We have identified scope for improvement in respect of the specific risks identified by Audit Scotland in respect of the procurement function and this is detailed on pages 26 and 27.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Service's financial management arrangements. The arrangements for prevention and detection of fraud also remain robust.

# Financial sustainability

**Financial sustainability** looks forward to the medium and longer term 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

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

*“There is a risk that SFRS is not allocated sufficient funding to make progress in transforming the service. This includes confirming the source of funding for any future years’ pay awards. Furthermore, there is the risk that transformation is not achieved if plans are not well defined.”*

## Budget setting

**2018/19 Conclusion:** In 2018/19 we concluded that SFRS has a medium to longer term financial strategy in place for the period to 2026/27 and that they have achieved financial balance in the past few years. We did, however, note that we would keep financial sustainability under review given the recent staff pay offer discussed in October 2019, and, on the assumption that the pay offer is accepted, it is important that the Board develops plans to address the financial implications. As part of the 2019/20 audit, we will focus on SFRS’s progress in achieving the financial strategy, as well as any key cost drivers underlying SFRS’s financial sustainability, such as ongoing staff pay award discussions. We will also consider SFRS’s ongoing efforts to design and execute the transformation detailed in the High Level Plan.

In setting its budget, the Service recognised that, whilst projecting to achieve short-term financial balance, a number of risks exist, including:

- Challenge to produce a balanced budget that protects services and provides investment in infrastructure renewal.
- Cost of service delivery exceeding financial provision.
- Future pay awards.
- Delivery of current and future year’s transformation.

As part of our work we have reviewed:

- 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
- Workforce planning

# Financial sustainability

## Budget setting (continued)

### Impact of COVID-19

The 2020/21 budget was set prior to the COVID-19 pandemic. The pandemic has had a significant impact on the operations of the Service and the Service has deployed their emergency business plans with the convening of the COVID-19 Tactical Action Group.

**2019/20 Conclusion:** The impact of COVID-19 on the ability to achieve short-term financial sustainability presents a risk to the Service.

The Service should ensure that they review, and where appropriate revise their financial strategy during 2020/21 to reflect on the impact of COVID-19, it is important that the Service also build into the scenarios the impact of demand pressures on costs to the Service along with the estimated changes in funding to get a fuller picture of the likely challenges that it faces.

### Deloitte View – Financial sustainability

The Board achieved short term financial balance in 2019/20. A balanced budget has been set for 2020/21, however, this should be continued to be monitored in light of the expected impact of COVID-19 and the Board has a Financial Strategy that addresses the medium to longer term.

Deloitte are satisfied that the Financial Strategy is in line with best practice per Audit Scotland's 2014 Follow-Up Audit of Scotland's Public Finances.

## Medium to long term financial planning

A long term Financial Strategy covering the period to 2026/27 was approved by the Board in December 2017. This incorporates 4 different scenarios across a spectrum of best and worst case scenarios. The pessimistic scenario is a funding gap of £77.2m, the optimistic scenario is a funding surplus of £43.4m, and the midpoint is a funding gap of £16.9m.

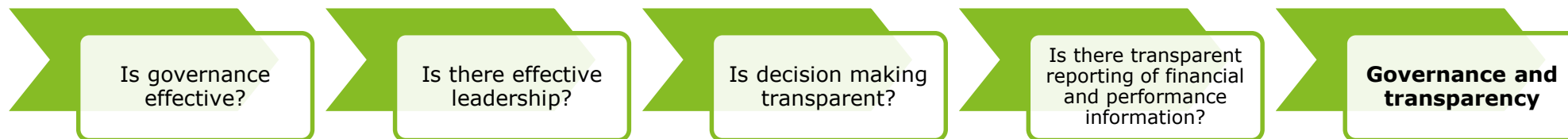
The strategy that SFRS will work towards adopting is in line with the 'Spreading like Wildfire' scenario which assumes an existing budget plus CPI inflation in each of the next 10 years, plus a net addition of £6.4m added to core funding from 2018/19, followed by a further £4m spread across 2021/22 and 2022/23, reflecting the Board's contribution to wider public sector outcomes. This would entail SFRS taking on more responsibility beyond it's traditional scope in order to make a case for securing more funding from the Scottish Government.

We understand that the staff pay award was rejected during 2019/20, however, it is important that should the Board decide in the future to reconsider this pay award, or the developing role of the Firefighter, we recommend that there is a development of a range of detailed plans in order to assess how the Service may offset any projected deficits which may arise as a result.

We note that there has been significant engagement with stakeholders, including the Scottish Government, in putting together the longer term financial strategy.

# Governance and transparency

**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

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that we identified one risk in respect of lack of timely reporting results in inadequate action being taken to remedy poor performance. We have also monitored the Service's approach to governance and transparency.

**2018/19 Conclusion:** The Board'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 committee meetings. The Board is open and transparent in its decision making with all key strategy documents and key Board/sub-committee minutes available through the Board's website. We note that, following recommendations raised previously, management have presented the final outturn to the Board in August during the current year.

We can conclude that the Board is keeping pace with public expectation and good practice.

## 2019/20 Update:

Taking an open approach to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfy the good governance test.

# Governance and transparency (continued)

Openness and transparency are individually important, and working well together helps to demonstrate that public organisations are acting in the public interest.

We have considered the Board's approach to openness and transparency, how good the Board's information is; and its commitment to improving openness and transparency and concluded:

- that there is effective leadership with effective scrutiny and challenge by leadership;
- that all reports are clearly defined with preparer, objectives and conclusions. This is demonstrated from a review of Board and ARAC meeting minutes which document the key decisions and actions taken and by whom;
- that there is evidence of a culture of continual improvement in trying to improve openness and transparency in terms of consulting and engaging with staff and other stakeholders (e.g. transformation consultation and staff survey); and
- that key strategy documents are available to the public via the website, such as the Strategic Plan and Annual Operating Plan.

## Deloitte view

The Board'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 committee meetings. The Board is open and transparent in its decision making with all key strategy documents and key Board/sub-committee minutes available through the Board's website.

## Governance and scrutiny arrangements

We reviewed the Board's governance and accountability arrangements which included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance and programme management.
- Confirming that decision makers have the information they need to scrutinise, challenge and make best value and transparent decisions.
- Ensuring that it is clear what decisions have been made, who make them and the rationale supporting the decisions.

We have concluded that overall the board's arrangements are appropriate and adequate in supporting effective governance and accountability.

## Leadership

SFRS has strong leadership and has a clear vision for what it wants to achieve for the future as documented within a number of strategy documents such as the Strategic Plan 2019-22, Annual Operating Plans, the Performance Management Framework and the transformation plan, which is still in development. The Board and staff support the vision.



# Value for money

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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to value for money, we have continued to review the Service's reporting and monitoring of this alongside any actions taken to improve the performance of the Service.

## Performance management framework

**2018/19 Conclusion:** SFRS clearly engage with reporting on its national contribution. There is an established process for performance management reporting.

**2019/20 Update:** The Service continues to engage with reporting on its national contribution.



# Value for money (continued)

## Best value (BV)

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.

We have considered the arrangements in place in this regard as part of our planning and reporting on the audit dimensions.

## Performance management

SFRS's performance for 2019-20 is measured against targets laid out in the Performance Management Framework. The performance indicators have been aligned with the National Performance Framework.

The Board has reported against its delivery of its KPIs. It is noted that the KPI calculations are currently based on provisional data and that finalised data will be available in time for the annual statistical returns. This is in line with prior years and is appropriately disclosed within the financial statements.

## Engagement with Audit Scotland transformation report

Deloitte note that following the report made by Audit Scotland in 2018, SFRS developed an action plan and tracker. The action plan contained 32 actions.

The most recent updates presented to Board indicate that, of the 32 actions, 23 have been fully implemented. Of the remainder, 7 are over 50% complete with 2 remaining actions being under 50% complete. We have not audited this completion rate, and have reviewed the paper for consistency with external sources.

The action which is the least progressed is in respect of the relaunch of the equality impact assessment process on iHub. This has been delayed owing to unforeseen staffing issues. Other reasons for delays are COVID-19, resourcing challenges and difficulties in reaching agreement with unions / staff.

The next update on the progress of the response to the report is to be provided in October 2020, with the expectation that the actions will move from the 83% complete to a higher completion rate.

# Best value

It is the duty of the Service to secure **Best Value (BV)** as prescribed in the Scottish Public Finance Manual (SPFM).

## Duty to secure best value

1. It is the duty of the Service to make arrangements which secure best value
2. Best value is continuous improvement in the performance of the Service's functions
3. In securing best value, the Service shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions
  - b) The cost to the Service of that performance
  - c) The cost to persons of any service provided by the Service for them on a wholly or partly rechargeable basis
4. In maintaining that balance, the Service shall have regard to:
  - a) Efficiency
  - b) Effectiveness
  - c) Economy
  - d) The need to make the equal opportunity requirements
5. The Service shall discharge its duties in a way that contributes to the achievement of sustainable development
6. In measuring the improvement of the performance of an Service's functions, regard shall be had to the extent to which the outcomes of that performance have improved

## BV arrangements

The BV framework follows a five-year approach to auditing BV. 2019/20 represents year four of the BV audit plan. The BVAR for the Scottish Fire and Rescue Service is planned for year 5 (i.e. 2020/21). As a result of delays caused by the COVID-19 pandemic, Audit Scotland are revisiting the timescales for future BVARs. We will liaise with management to discuss and agree any revisions to the timetable.

The Service has a number of arrangements in place to secure best value, which we have reviewed as part of our wider scope work.

The Service has an established governance framework. The Service recognises the need to obtain financial sustainability and is reviewing its medium to longer term plans.

## Deloitte view – best value

The Service has sufficient arrangements in place to secure best value and has a clear understanding of the direction of travel.

# Action plan

## Recommendations for improvement

| No. | Area                                | Recommendation  | Management Response   | Responsible person  | Target Date  | Priority |
|-----|-------------------------------------|---|---|---|--|----------|
| 1   | Financial sustainability - COVID-19 | The Service should continue to ensure that they review, and where appropriate revise their financial strategy during 2020/21 to reflect on the impact of COVID-19, it is important that the Service also build into the scenarios the impact of demand pressures on costs to the Service along with the estimated changes in funding to get a fuller picture of the likely challenges that it faces.  | Work has been carried out on an ongoing basis since before the start of the Covid-19 lockdown in the UK. This has resulted in the preparation of a Routemap To Delivering Reset and Renew to allow the SFRS to navigate through the impact of Covid-19. This covers 8 key themes: People, Workplace, Operational Strategy, Governance and Compliance, Technology, Leadership, Partnership Working and Communications and Engagement. Finance is a factor in all of these themes and the impact of Covid-19 has been reflected in budget monitoring reports to the Board and will be considered when preparing the budget for 2021/22. | Sarah O'Donnell, Director of Finance and Contractual Services | 31 March 2021  | Medium   |
| 2   | Procurement - Internal audit        | Investigations in to fraud have been undertaken previously by internal audit at the request of management. We understand for the 20/21 financial year internal audit are going to review the procurement and tendering and how SFRS comply with best practice and the Procurement Reform (Scotland) Act 2014. We recommended that SFRS ensure that they have cyclical review of the procurement function as well as reviews of any suspected fraud. | The Procurement Fraud Action Plan was developed in response to the Audit Scotland report "Red Flags Procurement" published in October 2019. This plan considers all areas within the report and details the current SFRS position, together with proposed actions to further enhance governance of the procurement process.   | John Thomson, Head of Finance and Procurement                 | This will be a cyclical process so review every 2 to 3 years | Medium   |

## Action plan (continued)

### Recommendations for improvement (continued)

| No. | Area                                | Recommendation   | Management Response   | Responsible person                                     | Target Date   | Priority |
|-----|-------------------------------------|--|---|--|---------------|----------|
| 3   | <i>Procurement - risk registers</i> | Risk Registers at Corporate Level are currently being revised. A Finance and Procurement Register is currently being developed to reflect changes at Corporate level. The Service has an assurance framework which includes a fraud risk assessment which is used in the Service in identifying and managing the risk of fraud. It is recommended that the corporate and service level risk registers are triangulated to ensure that the risks within the procurement function are appropriately included within the corporate risk register. | The Chief Officer requested a full review of the strategic risk register at the end of 2019/20 to align the register to the 2019-22 Strategic Plan and to rationalise and refocus strategic risk to better support the Service's wider governance and assurance processes. This will cover all SFRS directorates including Procurement and the revised strategic risk register will be provided to the ARAC for scrutiny. | John Thomson,<br>Head of<br>Finance and<br>Procurement | 31 March 2021 | Medium   |

# 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.



### **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.

There is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



### **Emphasis of matter and other matter paragraphs**

As discussed on page 12, we have included an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations.

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.

# Coronavirus (COVID-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The Service has been directly exposed to the practical challenges and has enacted its major response unit teams.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and the Panel need to consider. CIPFA has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

| Impact on Service annual report and financial statements   | Impact on our audit  |
|--|--|
| <p>The Service needs to consider the impact of the outbreak on the annual report and financial statements including:</p> <ul style="list-style-type: none"><li>• Principal risk disclosures.</li><li>• Change in the funding regime for 20/21.</li><li>• Property valuation material uncertainty.</li><li>• Impairment of non-current assets.</li><li>• Allowance for expected credit losses.</li><li>• Fair value measurements based on unobservable inputs.</li><li>• Onerous contracts and any potential provisions.</li><li>• Going concern.</li><li>• Events after the end of the reporting period.</li></ul> | <p>COVID-19 has fundamentally changed the way we have conducted our audit this year including:</p> <ul style="list-style-type: none"><li>• Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Service staff.</li><li>• The teams have had regular status updates to discuss progress and facilitate the flow of information.</li><li>• Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.</li><li>• In conjunction with the Service staff, we will continue to consider any developments for potential impact up to the finalisation of our work in October 2020.</li></ul> |



# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

|                             | Requirement   | Deloitte response   |
|-----------------------------|---|---|
| Performance Report          | The performance report comments on financial performance, strategy and performance review and targets. 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. | <p>We have assessed whether the performance report has been prepared in accordance with the statutory guidance.</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> <p>In general, we are satisfied that the performance report has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p> |
| Remuneration Report         | The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Employees.  | We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages and apart from minor disclosure misstatements, which we understand are being corrected, we can confirm that they have been properly prepared in accordance with the regulations.   |
| Annual Governance Statement | The Annual Governance Statement reports that the Service governance arrangements provide assurance, are adequate and are operating effectively.   | We have assessed whether the information given in the Annual Governance Statement (AGS) is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We are satisfied that the AGS is consistent with the financial statements, our knowledge and the accounts regulations.   |

# 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 Service discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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.

### 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.

### Use of this report

This report has been prepared for the Audit and Risk Assurance Committee and the Service, 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.

### 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 Service.

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 procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | October 2020

# Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by International Auditing standard on Auditing (UK). The net impact of these is an increase of £2.715m in the net expenditure for the period.

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|   |     | Debit/ (Credit)<br>SOCNE<br>£m | Debit/ (Credit)<br>SOCITE<br>£m | Debit/ (Credit)<br>Net Assets<br>£m | Debit/ (Credit)<br>Reserves<br>£m |
|---|-----|--------------------------------|---------------------------------|-------------------------------------|-----------------------------------|
| <b>Misstatements identified in current year</b> |     |                                |                                 |                                     |                                   |
| Pension liability understatement                | [1] | 2.715                          | (2.715)                         | (2.715)                             | 2.715                             |
| <b>Total</b>                                    |     | <b>2.715</b>                   | <b>(2.715)</b>                  | <b>(2.715)</b>                      | <b>2.715</b>                      |

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- (1) Judgemental understatement of pension liability due to post year-end developments relating to the Goodwin Judgement, Guaranteed Minimum Pension (GMP), and errors in the Local Government Pension Scheme (LGPS) net investment assets identified by the pension fund auditors.

# Audit adjustments

## Disclosures and misstatements

### **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 ISAs (UK).

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| Disclosure | Summary of disclosure requirement | Quantitative or qualitative consideration |
|------------|-----------------------------------|---|
|------------|-----------------------------------|---|

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We have not identified any significant disclosure deficiencies in the financial statements and the deficiencies identified have been corrected by management.

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# Our other responsibilities explained

## Fraud responsibilities and representations



### 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 Service 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 Service 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 the 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, including Internal Audit.

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 committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No significant concerns have been identified regarding fraud.

# Independence and fees

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

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Service and will reconfirm our independence and objectivity to the Audit and Risk Assurance Committee for the year ending 31 March 2020 in our final report to the Audit and Risk Assurance Committee.

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## Fees

The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £103,510 as analysed below:

|                                  |                |
|----------------------------------|----------------|
| Auditor remuneration             | £<br>80,380    |
| Audit Scotland fixed charges:    |                |
| Pooled costs                     | 18,680         |
| Performance Audit and Best Value | 0              |
| Audit support costs              | 4,450          |
| <b>Total proposed fee</b>        | <b>103,510</b> |

There are no non-audit services fees proposed for the period.

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## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Service'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.

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## Relationships

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.

We are not aware of any relationships which are required to be disclosed.

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# Quality of public audit in Scotland

## Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

### Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

### Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement required*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures; and
- the application of sampling.



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