Scottish Fire and Rescue Service

Report to the Audit and Risk Assurance Committee and the Auditor General for Scotland, on the 2020/21 audit

Issued on 15 December 2021

Contents

01 Final report

02 Appendices

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 Annual Report and Accounts.
- 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 report to the Audit and Risk Assurance Committee ("ARAC") of the Scottish Fire and Rescue Service ("the Service") and the Auditor General for Scotland for the year ending 31 March 2021. The scope of our audit was set out within our planning report presented to ARAC in March 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Report and Accounts**; 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 Service's duty to secure best value. It is important to note that audits are by nature risk based. Where we don't identify any risks, being the areas likely to have the most good practice, we don't consider them in our work. Where we identify risks, being areas likely to have most room for improvement, we consider them in our work. Our work is by design therefore more likely to pick up areas for improvement; but where we identify good practice through our risk-based work we highlight it. This represents the most effective use of limited audit resources. It is important to stress that the audit therefore is not an opinion on the overall performance of SFRS, it is an opinion on parts of SFRS which have been identified as being most in need of audit as a result of a risk assessment.

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

We expect to issue an unmodified audit opinion.

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

We have suggested to management some changes in respect of the Annual Report and Accounts, with our comments being in relation to ensuring compliance with the associated statutory guidance, and management have updated the Annual Report and Accounts to take account of these comments. We are satisfied that following amendment the Performance Report and Governance Statement comply with proper practice and are consistent with the accounts and our knowledge of the Service. We are also satisfied that following amendments the auditable parts of the Remuneration and Staff Report have been prepared in accordance with the relevant regulations.

We have identified eight internal control recommendations, which management have accepted and which we have set out on pages 15 and 16.

We have identified four audit adjustments which we have set out on page 26, which remain uncorrected in the final Annual Report and Accounts and are cumulatively immaterial.

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter;
- Internal quality control procedures;
- Our review of events since 31 March 2021.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions:

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to ARAC in August 2021 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on pages 20 - 23. Key highlights include:

Financial Management – The Service has effective financial planning and management arrangements. However, there remains room for improvement in setting out savings targets and performance against these, how the budget is presented, the assumptions underpinning it, how it links to the Medium-Term Financial Model ('MTFM') and Long-Term Financial Strategy ('LTFS'), and how it will enable the Service to allocate its resources to drive improvement in outcomes.

The level of outstanding recommendations from internal audit, either overdue or with revised implementation dates, suggests an issue with capacity or focus on implementation. The arrangements for prevention and detection of fraud continue to require to be further improved, as was identified by an internal audit review.

Financial sustainability - The Service achieved short-term financial balance in 2020/21. At the time of completing our procedures in April 2021 there was, as yet, insufficient evidence for us to conclude as to whether the Service can achieve short-term financial balance in 2021/22. While it is positive to note that the Service is actively assessing the financial impact of COVID-19, the anticipated impact has not yet been quantified or reported.

The Service is aware of the significant issues it faces with regards to capital investment. The Service's Capital Programme needs to tie in to the Asset Management Strategy ('AMS'), LTFS or the Service's change programme. It should also quantify the ongoing impact or risk of less than required investment. Reporting against the Capital Programme should provide sufficient evidence to conclude as to whether capital projects are delivered on time and on budget.

The LTFS developed by the Service is in line with good practice. However, the Service should ensure this document is used for ongoing decision making, is reported against, and is clearly linked to the MTFM, Capital Programme, Workforce and Strategic Resourcing Plan or Resource Budget. The LTFS should act as a strategic document that supports longer-term financial thinking.

Key to the Service's financial sustainability is the delivery of a comprehensive change programme. The Service is in the early stages of transitioning to a new change programme, following a comprehensive review of the Service's approach to change. We will continue to review the Service's approach to change as it progresses throughout 2021/22.

Governance and Transparency – The Service continues to have effective governance and scrutiny arrangements in place, although improvements should be made with regards to the implementation of these arrangements. Appropriate arrangements have been put in place in response to the COVID-19 pandemic. While the Service continues to be open and transparent, it could have permitted public access to meetings earlier than it did, and there remains room for improvement in this area.

The Service continues to have strong leadership in place. This has been particularly evident in the response to COVID-19. Changes to the management structure with the creation of a Service Delivery Directorate and a Service Development Directorate are positive steps as the Service moves to having transformation at a strategic level as part of normal Service business.

Introduction (continued)

The key messages in this report (continued)

Value for Money – We recognise that the COVID-19 pandemic has had a significant impact on the Service. It is important that the Service take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery. The Service has a clear and robust Performance Management Framework which is aligned to the National Performance Framework. However, performance reporting is inconsistent and reporting improvements that demonstrate how different parts of the Service are performing comparatively should be deployed. Performance reporting would benefit from more narrative which clearly sets out how indicators and outcomes tie in together.

Best Value – The Service has sufficient arrangements in place to secure Best Value with a focus on continuous improvement, although there is room for improvement in the Service's internal processes for identifying areas for improvement and implementing the necessary changes, as well as in the pace of improvement.

Next steps

An Action Plan, with management comment, was included in the separate wider scope report that was presented to ARAC in August 2021. Additional actions arising from the audit of the Annual Report and Accounts is included in an agreed Action Plan included on pages 15 and 16 of this report. We will consider progress with all agreed actions as part of our 2021/22 audit.

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.

In addition, we included our "sector developments" in the separate wider scope report that was presented to ARAC in August 2021 which covers our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Service.

Pat Kenny
Audit Director

Annual Report and Accounts 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	Mature	Management have demonstrated a clear understanding of areas subject to accounting judgements/estimates.
Adherence to deliverables timetable	! Developing	Management have provided evidence in a timely manner, however, on occasions, management have requested that deadlines are extended. The extensions have had an impact on the overall planned audit timeline and delivery of our fieldwork. There was also a delay in receiving finalised comments from the Service on the Wider Scope and Best Value report presented to ARAC in August 2021.
Access to finance team and other key personnel	Mature	Deloitte and the Service have worked together to facilitate remote communication during the audit which has been successful. To inform our Wider Scope and Best Value report, we held meetings with senior individuals across the Service, with no issues as to access or availability for those meetings.
Quality and accuracy of management accounting papers	Mature	Documentation provided has been of a good standard. There has been an improvement on the working papers provided since the prior year with respect to debtors and creditors.
Quality of draft Annual Report and Accounts	! Developing	A full draft of the Annual Report and Accounts was received for audit on 27 August 2021. Whilst the draft was of a good standard, there were more required changes raised in comparison to 2019/20, in order to ensure compliance with the FReM.
Response to control deficiencies identified	Mature	We have not identified any control deficiencies during our audit. We have identified eight control insights.
Volume and magnitude of identified errors	! Developing	Our review of the financial statements identified some disclosure deficiencies, which management have updated in the final Annual Report and Accounts. We have identified four uncorrected errors as a result of our testing.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We are completing our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit, we set our materiality at £8.531m based on forecast gross expenditure, which is the most appropriate benchmark for the Service as set out in our planning report. We have updated this to reflect final figures and we are completing our audit using materiality of £8.209m (2019/20: £9.199m), performance materiality of £5.746m (2019/20: £7.359m). We have reported to you all misstatements above £0.250m (2019/20: £0.250m).

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit and Risk Assurance Committee's attention our conclusions on the significant audit risks. In particular the Audit and Risk Assurance Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

We anticipate issuing an unmodified audit opinion.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the expenditure resource limits	✓	✓	D+I	Satisfactory	Satisfactory	Internal control recommendations raised	11
Management override of controls	✓	✓	D+I	Satisfactory	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)

Operating within expenditure resource limits

Risk identified and key judgements

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

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk that the Service could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- Evaluated the design and implementation of controls around monthly monitoring of financial performance and year end accruals;
- Obtained independent confirmation of the resource limits allocated to the Service by the Scottish Government;
- Performed focused testing of accruals made at the year end;
- Performed focused cut-off testing of invoices received and paid around the year end.

Deloitte view

Our work in this area is complete. We have identified one misstatement in the current period related to the accounting for Firefighter's Uniforms which would increase the reported capital resource spend by £4.659m, reduce inventory and increase Property, Plant and Equipment by the same amount. We have raised two internal control recommendations in relation to the holiday pay accrual process and the accounting for Firefighter's Uniforms connected to our testing in relation to this risk. Whilst the adjustment to the capital resource limit, results in capital spend exceeding the limit for the current year, the adjustment is not material and therefore the results of our audit work do not result in a change to our audit opinion.

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent Annual Report and Accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

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

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we:

- Evaluated whether the judgements and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. We have not identified any indications of bias.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

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

Deloitte view

Our work in this area is complete. We have nothing to report in respect of our work in relation to this risk.

Significant risks (continued)

Management override of controls (continued)

Key judgements	The key judgements in the Annual Report and Accounts are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits (page 11). While not considered to be significant audit risks, we have also considered the assumptions used to calculate the pension liability (page 14). Below, we set out our challenge of the assumptions used in the determination of other key accounting estimates and judgements being property valuations.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The Service is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. The Service has an internal valuer who carried out their valuation as at 31 March 2021 to include valuation of 50% of all of the Service's land and property in accordance with its 2-year rolling programme. The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards.	We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Service's valuer in previous years and concluded it was robust. We have confirmed that the valuer and the methodology applied has not changed in the year. We have challenged management's assessment and consulted with our internal property specialists. For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value would be expected in 2020/21. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service index and concluded that no material movement would be expected. We are therefore satisfied that there is no indication of a material movement in assets not formally revalued during the year. We have reviewed the valuer's report, specifically considering the impact of COVID-19. The Service's valuer has confirmed that the valuation is not reported as being subject to 'material valuation uncertainty'. As such our audit report does not make reference to this in the current year.

Other areas of focus

Pension liability

Risk identified and key judgements

SFRS participates in two types of defined benefits schemes:

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

The net pension liability has increased from £4,471m in 2019/20 to £4,816m in 2020/21. The increase was as a result of changes in assumptions resulting in an actuarial loss of £274m in 2020/21 compared to an actuarial loss of £477m in 2019/20; this was due to a change in assumptions, including a reduction in the discount rate which dropped from 1.8% to 1.25%. The liability also continues to be affected by the McCloud and Goodwin legal cases, as well as Guaranteed Minimum Pension (GMP) indexation.

- McCloud – this case is in respect of possible discrimination in the implementation of the transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015.
- Goodwin – this is a legal challenge made against the Government in respect of unequitable benefits for the male dependents of female members (based on service after 1988) following the earlier Walker ruling.

SFRS uses a number of actuaries for the 8 LGPS (Hymans Robertson LLP, Barnett Waddingham LLP and Mercer) and the FFPS (the Government's Actuary Department, GAD). They all produce detailed reports outlining the estimated liability at the year end along with the associated disclosure requirements.

The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared reputable actuaries using standard methodologies which have been considered as appropriate in previous years and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.

Deloitte response and challenge

- Assessed the independence and expertise of the actuaries supporting the basis of reliance upon their work;
- Reviewed and challenged the assumptions made by actuaries.;
- Obtained assurance from the auditor of the pension funds over the controls for providing accurate data to the actuaries.;
- Considered the impact of the Triennial Review of the LGPS pension funds;
- Assessed the reasonableness of SFRS's share of the total assets of the scheme with the Pension Fund financial statements;
- Reviewed and challenging the calculation of the impact of the McCloud, Goodwin, and GMP cases on pension liabilities; and
- Reviewed the disclosures within the accounts against the FReM.

Deloitte view

We identified three uncorrected errors in relation to the impact of Goodwin, McCloud and also from our assurance letters from the Pension Fund auditors, as set out on page 26 of the report. These errors are individually and cumulatively immaterial.

Other significant findings

Internal control

During the course of our audit we have identified eight internal control finding, which we have included below for information.

Area	Observation	Management Response	Priority
Management Review	We have identified a number of required adjustments to the disclosures included within the Annual Report and Accounts during our audit. In future years, we would encourage the Service to further enhance their existing processes in reviewing the Annual Report and Accounts before submitting the draft Annual Report and Accounts for audit, to minimise the number of required changes.	SFRS will enhance the peer review process to include the disclosure checklist and improve the overall quality of the Annual Report and Accounts.	
Cash and Banking Process	During our discussions in respect of the Cash and Banking process, we understand that there is a "cash banking daily log" spreadsheet completed. This is updated by the cashiers department, however, for the spreadsheet we reviewed, the "Prepared by" and "Reviewed by" boxes were not completed. Whilst, we note there is a mitigating control, being the "Cash flow monitoring" document, we would recommend that the Service reviews its processes to ensure appropriate segregation of duties by evidencing the "Prepared by" and "Reviewed by" element of the "cash banking daily log".	Noted. This process has now been amended and the relevant boxes are being completed by the Preparer and Reviewer and checked by an Accountant.	
Fixed Asset Register	From our detailed Property, Plant and Equipment testing, it was noted that there was no review of the capital accounting entries into the Fixed Asset Register module of Technology One. The Service should implement a review control and segregation of duties such that one person calculates and prepares all of the year-end fixed asset accounting entries, and another person reviews these to ensure that they are accurate.	A review process will be implemented to demonstrate that transactions are reviewed. Due to technical constraints, this will not be held within the financial system.	
Impairment review	Non-current assets that are not subject to the formal revaluation review in the year should be reviewed for impairment indicators. As part of the year-end financial reporting process this should be documented in a management paper clearly setting out the process and discussions that have taken place. This should address impairment indicators for each asset class i.e. Vehicles, ICT Equipment, Operational Equipment.	The SFRS will carry out an annual review for different categories of assets to take into account potential changes in value.	

The purpose of the audit was for us to express an opinion on the financial statements. 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. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings (continued)

Internal control (continued)

Area	Observation	Management response	Priority
Depreciation calculation	SFRS' depreciation policy is not to depreciate assets in the year of addition to the Fixed Asset Register and to charge a full years depreciation in the year of disposal. Given that the Service currently has a significant balance of assets included within Assets Under Construction, the Service should review it's depreciation policy to ensure that it remains fit for purpose and does not distort the Service's in year expenditure.	The Depreciation Policy will be reviewed to ensure continued relevance. The SFRS will undertake a review of Assets Under Construction to determine if deprecation would be materially different should the policy change.	
Firefighter's Uniforms	As part of our audit procedures, we have identified that management account for the purchase of Firefighter's Uniforms initially within inventory, before reclassifying them to Property, Plant and Equipment when the uniform is provided to the Firefighter for usage. This accounting treatment is non-compliant with the FReM, and an error has been raised on page 26 and also included within the management representation letter. The impact of this incorrect treatment is that the budgetary impact is currently recorded within the wrong financial period, being the year of distribution rather than the year of purchase. We understand that management have held initial discussions with the Sponsor department regarding realigning the capital budget, however, it is recommended that the Service finalise these discussions as soon as possible and for the 2021/22 Annual Report and Accounts.	A business case for an increase of £3.7 million in CDEL funding was submitted to Scottish Government in November 2021. Approval for the increase has still to be confirmed.	
Holiday Pay accrual calculation	From our work in respect of the holiday pay accrual, we understand that one individual is responsible for the preparation of the holiday pay accrual. Management should look to plan for the future and ensure that within the wider team there are people who are able to cover this role to add greater resilience to the preparation of key working papers.	The long term aim is to automate this process within our HR/Finance systems. The Decision Support Manager will work with the Finance Business Partner to increase resilience for this task going forward.	
Related Party transactions	From our related party work, we identified that management had not identified all related parties (such as SFRS Family Support Trust) which has subsequently been updated within the Annual Report and Accounts. Management should refresh their processes for identifying related parties to ensure that they adequately capture all bodies.	This has been noted and processes refreshed. Amendments have been made to the Register of Interests.	

Other significant findings (continued)

Financial reporting findings

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

Qualitative aspects of your accounting practices:

The Service’s Annual Report and Accounts have been prepared in accordance with the FReM. While the Annual Report and Accounts provides the user with a significant amount of useful information in an engaging manner, our review identified a number of areas where the Service could improve the structure and disclosures within the Annual Report and Accounts to better demonstrate compliance with the FReM and further enhance the effectiveness of the document.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation.

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.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

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

We expect to issue an unmodified opinion.

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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body. We have provided feedback to management in respect of the current disclosure and will review the updated disclosure when updated Annual Report and Accounts are received.

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. We are awaiting updated financial statements from management in order to conclude on this area.

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 work is still in progress and we will provide a verbal update at the ARAC.

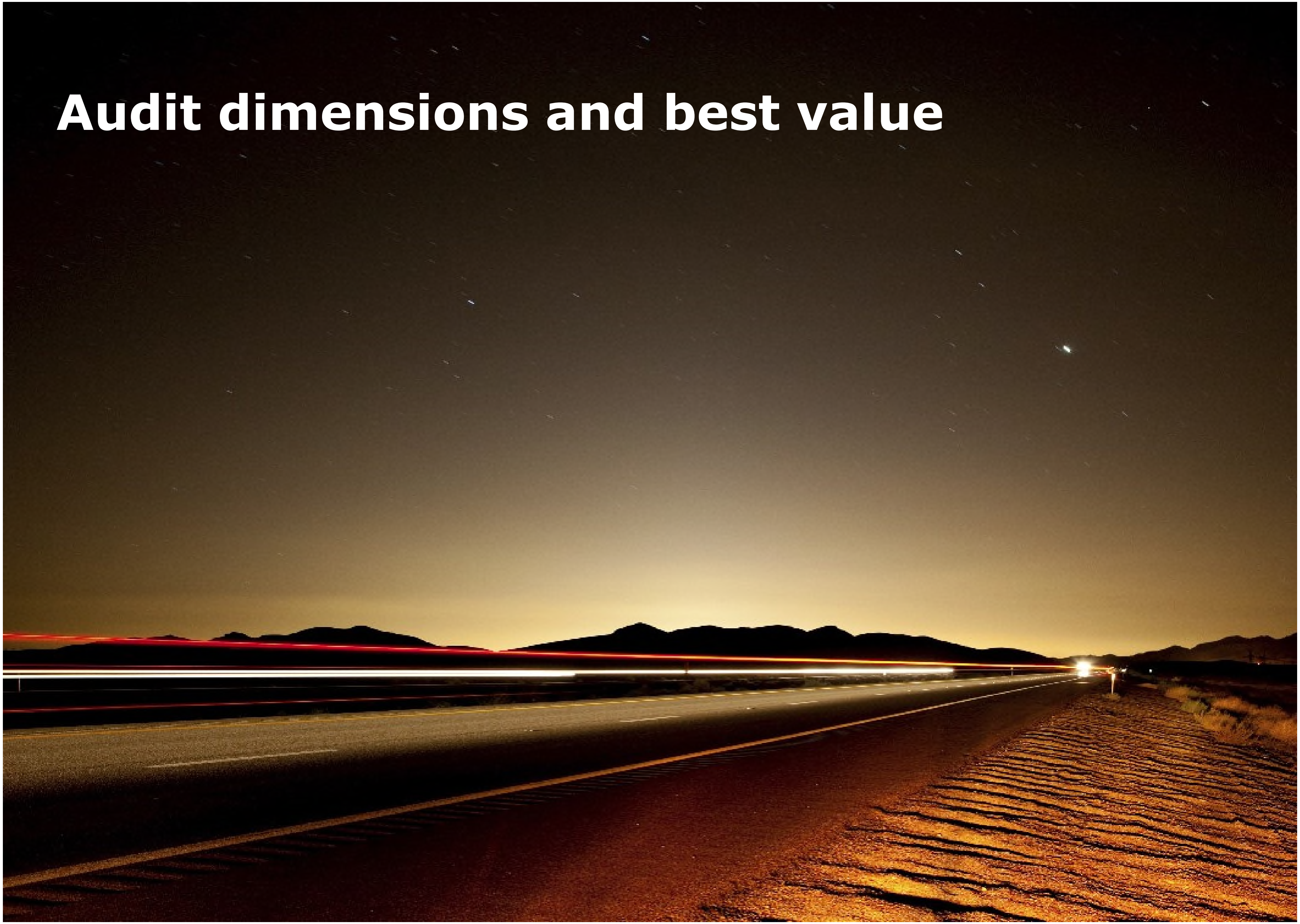
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 19.

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 Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Service's' performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Service.	We have assessed whether the Performance Report has been prepared in accordance with the accounts direction. 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. We provided management with comments and required changes to ensure the Performance Report is in line with the requirements of the FReM and have confirmed that all changes have been made.
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.	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. 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. A number of changes were identified during the course of the audit. We have confirmed that these changes have been appropriately made.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We are satisfied from a review of the 2021/22 budget, consideration of the actual position to date in 2021/22, and the assumption of continued provision of services set out in the FReM and Practice Note 10, that it is appropriate to prepare the accounts on a going concern basis, and that no material uncertainty on going concern exists. We have provided feedback to management in respect of the current disclosure and have confirmed that the appropriate amendments have been made.

Audit dimensions and best value



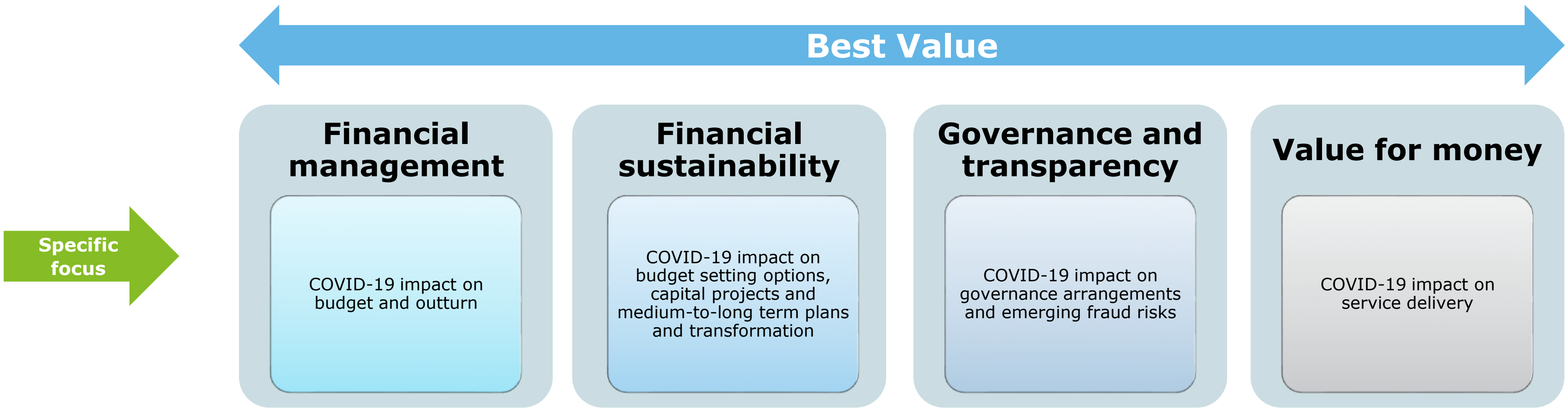
Audit Dimensions and Best Value

Overview and conclusions

As set out in our audit plan and separate report on the "Audit Dimensions and Best Value" presented to the Committee in August 2021, public audit in Scotland is wider in scope than financial audits. Our separate report sets out our findings and conclusions on our audit work covering the areas set out below. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on Best Value.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how HES has responded to these risks.

It is important to note that audits are by nature risk based. Where we don't identify any risks, being the areas likely to have the most good practice, we don't consider them in our work. Where we identify risks, being areas likely to have most room for improvement, we consider them in our work. Our work is by design therefore more likely to pick up areas for improvement; but where we identify good practice through our risk-based work we highlight it. This represents the most effective use of limited audit resources. It is important to stress that the audit therefore is not an opinion on the overall performance of SFRS, it is an opinion on parts of SFRS which have been identified as being most in need of audit as a result of a risk assessment.



Audit dimensions and best value (continued)

Overview and conclusions (continued)

Financial management

The Service has effective financial planning and management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The financial position and variances were transparently reported to the Board throughout the year. However, savings targets are unclear and other than the net savings as a result of COVID-19, it is not clear what level of savings the Service aimed to achieve or actually achieved. There is also room for improvement in setting out how the budget is prepared, the assumptions underpinning it, how it links to the MTFM and LTFS, and how it will enable the Service to allocate its resources to drive improvement in outcomes. Overall, while the Service has demonstrates effective operational financial management, there is room for improvement in a number of areas, to bring the Service in line with both developed and emerging good practice, as set out in the Action Plan at the end of this report.

The capacity of the finance team has remained consistent during the year, following a restructure in 2019/20. There have been changes subsequent to 2020/21 and plans for a further consideration of the structure. We will monitor the outcome of the ongoing review as part of our 2021/22 audit.

The level of outstanding recommendations from internal audit, either overdue or with revised implementation dates, suggests an issue with capacity or focus on implementation. The arrangements for prevention and detection of fraud continue to require improvement, as was identified by an internal audit review.

Financial sustainability

The Service achieved short-term financial balance in 2020/21. While the Service has set a balanced budget for 2021/22, at the date of completing our procedures in April 2021, there was insufficient evidence for us to conclude as to whether efficiency targets are realistic or whether the Service can achieve short-term financial balance in 2021/22.

While it is positive to note that the Service is actively assessing the financial impact of COVID-19, the anticipated impact has not yet been quantified or reported. There does remain a risk regarding the impact, therefore it is important that the position is closely monitored and is reflected in reporting to the Board.

The Service is faced with significant issues with regards to capital investment. While the Service is aware of these issues, its Capital Programme does not effectively tie in to the AMS, LTFS or the Service's change programme, or quantify the ongoing impact or risk of less than required investment. Reporting against the Capital Programme does not provide sufficient evidence to conclude as to whether capital projects are delivered on time and on budget.

The LTFS developed by the Service is in line with good practice. However, it is not referred to in ongoing decision making, is not reported against, and is not clearly linked to the MTFM, Capital Programme, Workforce and Strategic Resourcing Plan or Resource Budget. It is not clear how the LTFS therefore acts as a strategic document that supports longer-term financial thinking.

Key to the Service's financial sustainability is the delivery of a comprehensive change programme. The Service is aware that progress against its historical Transformation Programme and Major Projects has not been sufficient. The Service is in the early stages of transitioning to a new change programme, following a comprehensive review of the Service's approach to change. This is welcome, and we will continue to review the Service's approach to change as it progresses throughout 2021/22.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Governance and Transparency

The Service continues to have effective governance and scrutiny arrangements in place, although improvements are needed with regards to the implementation of these arrangements. While the Service's governance framework is underpinned by a comprehensive suite of governance documents, there is room for improvement in the scrutiny and monitoring of performance against the Service's key governance and strategic documents. Appropriate arrangements have been put in place in response to the COVID-19 pandemic, although the Service could have permitted public access to meetings earlier than it did, and there remains room for improvement in this area.

The Service continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision-making arrangements and the arrangements for developing the Reset and Renew Routemap. Changes to the management structure with the creation of a Service Delivery and Service Development Directorate is a positive step as the Service moves to having transformation at a strategic level as part of normal Service business. The impact of COVID-19 has delayed this.

The Service continues to be open and transparent. In the interest of continuous improvement, it should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders.

Value for Money

We recognise that the COVID-19 pandemic has had a significant impact on the Service. It is important that the Service take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

The Service has a clear and robust Performance Management Framework which is aligned to the National Performance Framework. However, performance reporting is inconsistent and it is unclear how different parts of the Service are performing comparatively. While there are differences across the Service and benchmarking will not be possible in all areas, the Service should perform benchmarking for significant parts of service delivery and provide supporting narrative for differences.

While the structure of the Performance Management Framework and the subsequent performance reporting is clear in aligning indicators with outcomes, there is a need for more narrative to clearly set out how these tie in together, and how the performance when combined has impacted on the desired outcome.

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 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.

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 Audit and Risk Assurance Committee.

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.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

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

Use of this report

This report has been prepared for 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.

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 15 December 2021

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified, which we request that you ask management to correct as required by ISAs (UK).

		Debit/(Credit) Statement of Comprehensive Net Expenditure £m	Debit/(Credit) in Net Assets £m	Debit/(Credit) prior year Taxpayer's Equity £m	Debit/(Credit) in Income £m	If applicable, control deficiency identified
Misstatements identified in current year						
Firefighter's Uniforms	[1]	-	4.659 (4.659)	-	-	16
GMP Equalisation	[2]	0.800	(0.800)	-	-	N/A
Goodwin	[3]	0.320	(0.320)	-	-	N/A
Pension Fund Auditor	[4]	(0.386)	0.386	-	-	N/A
Total		**0.734**	**(0.734)**	**-**	**-**	

(1) As set out on page 16, the accounting for the purchase of Firefighter's Uniforms is incorrectly recorded within inventory and should be included within Property, Plant and Equipment. This adjustment is a balance sheet reclassification between current assets and non-current assets.

(2) In respect to the Service's Local Government Pension Schemes, no allowance has been made for GMP Equalisation. This adjustment is to recognise the impact of GMP Equalisation within Other Comprehensive Income.

(3) In respect to the Service's Local Government Pension Schemes, no allowance has been made for the Goodwin ruling. The impact was not reflected within the prior year accounts, and therefore this adjustment recognises the cost within the past service cost within the Statement of Comprehensive Net Expenditure.

(4) This is the Service's share of the errors identified by the Local Government Pension Scheme auditors in respect of the Local Government Pension Scheme accounts.

Audit adjustments

Adjusted misstatements

The following corrected misstatements have been identified up to the date of this report.

	Debit/(Credit) Statement of Comprehensive Net Expenditure £m	Debit/(Credit) in Net Assets £m	Debit/(Credit) prior year Taxpayer's Equity £m	Debit/(Credit) in Income £m	If applicable, control deficiency identified
Misstatements identified in current year					
None identified					
Total					

Audit adjustments (continued)

Disclosures

Disclosure misstatements

We have provided management with some required disclosure adjustments. We communicate to you the corrected and uncorrected disclosure misstatements to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control. We have confirmed that all required changes have been made.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Staff Turnover Through our review of the Annual Report and Accounts we identified that the staff turnover percentage was not included.	FReM 6.5 sets out the required disclosures	Qualitatively material
Related Parties Through our review of the Annual Report and Accounts we identified that the Related Party disclosure was not compliant with International Accounting Standards.	IAS 24 sets out the required disclosures	Qualitatively material
Estimates and Judgements and Adoption of Accounting Standards Through our review of the Annual Report and Accounts we identified that the Estimates and Judgements disclosure was not compliant with International Accounting Standards	IAS 1 and 8 sets out the required disclosures	Qualitatively material

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 auditor, we obtain reasonable, but not absolute, assurance that the Annual Report and Accounts 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 Annual Report and Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

We have also asked the 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 relation to operating within the expenditure resource limit 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.

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:

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 and our objectivity is not compromised.
Fees	The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £106,070, as analysed below: Auditor remuneration: £82,790 Audit Scotland fixed charges: Pooled costs: £19,060 Audit support costs: £4,220 **Total fee: £106,070** The audit adjustments identified and the delays in obtaining some supporting documentation, and the impact of COVID-19 have all impacted on the level of audit work required. We have yet to fully assess the impact. Once completed, we will discuss any impact on the fee with management. No non-audit services fees have been charged for the period.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard 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	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.