

Scottish Fire and Rescue Service

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Fire and Rescue Service

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Fire and Rescue Service (SFRS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the SFRS annual report and accounts, leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Corporate Governance Report and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit appointment

2. We are pleased to be appointed as the external auditor of SFRS for the period 2022/23 to 2026/27 inclusive. You can find details of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your organisation and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our work continues to be focused on risk.

Adding value

5. We aim to add value to SFRS through our external audit work by being constructive and forward looking, by identifying and encouraging good practice and making recommendations. In so doing, we will help SFRS promote improved

standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Scottish Fire and Rescue Service

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and SFRS. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)).

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at SFRS. In doing this, we aim to support improvement and accountability.

Scottish Fire and Rescue Service responsibilities

9. SFRS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. SFRS has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating SFRS's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SFRS are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Scottish Fire and Rescue Service

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SFRS's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£10 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£6.5 million

Materiality	Amount
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of SFRS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, consideration of the work of internal audit and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk for SFRS on the basis that the majority of revenue is received from the Scottish Government and can be verified with third party confirmation. There is therefore limited opportunity for fraudulent manipulation of income, and we have not identified a significant risk in this area.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have also rebutted this risk because there is no real incentive to manipulate payments. Included in the service's significant expenditure streams are staff costs and depreciation which are routine in nature. The other main category is other operating costs which consists of a high volume of low value

transactions. The risk of material manipulation of the financial statements due to fraudulent expenditure recognition is therefore considered to be low.

22. As a result, we have not extended the planned audit work in these areas beyond our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- **The value of the net pension liabilities:** The net pension liabilities valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liabilities. Changes in the assumptions could result in material changes in the valuation.

SFRS participates in the Firefighters' Pension Schemes (FFPS) and the Local Government Pension Schemes (LGPS) and had a net pension liability of £5 billion in 2021/22. SFRS uses a number of actuaries for the FFPS and the 8 LGPS. The valuations are prepared by reputable actuaries using standard methodologies and no significant changes in the membership of the scheme or accrued benefits are expected in the current year.

Our work in this area includes using the work of an expert in accordance with International Standard on Auditing (UK) 500: *Audit evidence*. In this case, we draw assurances from the work of actuaries and review the assumptions they made in determining the valuations.

- **The value of property, plant and equipment (PPE):** There is a degree of subjectivity in the measurement and valuation of PPE due to the specialist and management assumptions adopted. Changes in the assumptions could result in material changes in the valuation.

While the service has adopted a robust biennial approach for the valuation of its estate, there is a risk that the carrying value of assets not revalued in the year does not reflect their current value. Where any differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements. Our work in this area includes using the work of an expert. In this case, we draw assurances from the work of valuers.

Wider Scope and Best Value

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

26. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by SFRS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we consider how SFRS demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. National command and control mobilising system (CCMS) – contract termination</p> <p>In November 2022, SFRS announced that it was terminating its contract for a new CCMS with supplier, Systemes et Telecommunications (Systel). The SFRS took this decision after a number of milestones had not been met in the delivery of the contract and the subsequent voluntary administration of the supplier.</p> <p>There are financial risks for the service both in relation to impairment of the asset under construction and any potential legal implications. There are also operational risks and public interest risks associated with the termination and the need for the service to secure an alternative solution.</p>	<ul style="list-style-type: none"> • Ongoing discussions by the board regarding the contract termination and future CCMS plans. • Impairment review for the project. • Provision made (if applicable) and associated assumptions. 	<ul style="list-style-type: none"> • Discussion with officers. • Review reports presented to the board regarding the project. • Consider the governance arrangements around critical projects. • Review assets under construction and impairment review. • Consider the assumptions and justification for any provisions made.

Source: Audit Scotland

28. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23, we will consider audited bodies' arrangements in the following areas:

- **Climate change** – The public sector has a key role to play in ensuring that national climate change targets are met and in adapting the impacts of climate change. The Auditor General for Scotland is developing a programme of work on climate change. As part of this work, auditors will initially focus on a body's arrangements for responding to climate change. We will therefore consider whether the service has developed a strategy and action plan, what targets have been set and how they will be monitored and reported.
- **Cyber security** - There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both

the finances and operation of an organisation. In our 2022/23 audit, we will consider the service's arrangements for managing and mitigating such risks.

Duty of Best Value

29. [Ministerial Guidance to Accountable Officers](#) for public bodies and the **[Scottish Public Finance Manual](#)** (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SFRS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. All Annual Audit Plans and outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

31. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

32. We will provide an independent auditor's report to SFRS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SFRS and the Auditor General with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

33. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 December 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Assurance Committee Date
Annual Audit Plan	31 March 2023	6 April 2023
Interim Management Report	31 July 2023	5 October 2023
Independent Auditor's Report	By 30 November 2023	By 30 November 2023
Annual Audit Report	By 30 November 2023	By 30 November 2023



Source: Audit Scotland

Timetable

34. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. In general, public sector audits have been delayed in recent years. This also impacted on the handover for the new audit appointments and some 2021/22 audit activity continued into January 2023. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. While the resourcing of our audits continues to be challenging, we wish to remain flexible in terms of delivery. We aim to meet the statutory deadline of 31 December 2023 and are planning towards an earlier completion date. [Exhibit 5](#) therefore sets a provisional timetable for completion by 30 November 2023.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	11 August 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	13 October 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	20 October 2023
Agreement of audited and unsigned annual report and accounts	27 October 2023
Issue of Annual Audit Report to those charged with governance.	3 November 2023
Signed Independent Auditor's Report	By 30 November 2023

Source: Audit Scotland

35. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working as appropriate. We will work closely with management to deliver the audit in the most efficient way and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

36. Audit fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

37. In determining the audit fee, we have taken account of the risk exposure of SFRS and the planned management assurances in place. The proposed audit fee for 2022/23 is £141,170 (2021/22 £108,110).

38. In setting the fee for 2022/23, we have assumed that SFRS has effective governance arrangements and will prepare comprehensive and accurate accounts for audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of SFRS to establish adequate internal audit arrangements. Services are currently provided by Azets. We review the internal audit plan and consider the impact of internal audit's findings on our audit work.

40. We intend to draw general assurance from internal audit when assessing the service's governance arrangements and our wider scope responsibilities. We are not currently planning to use the work of internal audit to provide assurance for our audit procedures on the financial statements.

Independence and objectivity

41. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

42. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

43. The appointed auditor (engagement lead) for SFRS is Michael Oliphant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SFRS.

Audit Quality

44. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

45. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

46. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

47. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

48. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

49. The audit team involved in the audit of SFRS have significant experience in public sector audit.

Name	Position
Michael Oliphant moliphant@audit-scotland.gov.uk	Audit Director/Engagement Lead
Anne MacDonald amacdonald@audit-scotland.gov.uk	Senior Audit Manager/Engagement Manager
Bayo Ladejobi aladejobi@audit-scotland.gov.uk	Senior Auditor
Scott McCreddie smccreddie@audit-scotland.gov.uk	Professional Trainee

50. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Fire and Rescue Service

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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