

Scottish Fire and Rescue Service

Report to the Audit and Risk Assurance Committee on the 2018/19 audit

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Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit and Risk Assurance Committee (ARAC) of Scottish Fire and Rescue Service (SFRS) for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the ARAC in March 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable 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

We have issued an unmodified audit opinion.

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The remuneration and staff 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 8.

No misstatements in excess of our reporting threshold of £250k have been identified to date.

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, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on each dimension is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – the Board has achieved short term financial balance in 2018/19, a balanced budget has been set for 2019/20, and the Board has a Financial Strategy that addresses the medium to longer term to 2026/27. We will keep the 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.

Financial management – effective budget monitoring arrangements are in place and SFRS has been engaged in the 2018/19 National Fraud Initiative (NFI) exercise.

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.

Our detailed findings and conclusions are included on pages 16 to 30 of this report.

Added value

Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. We have also shared our informed perspectives from our work across the wider public sector on page 27 of this report.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

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

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

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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

Final audit report

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

Key developments in your business

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

Materiality

Materiality of £10.06m (2017/18: £8.20m) and performance materiality of £7.54m (2017/18: £6.15m) has been based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to using final outturn figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.25m.

Scope of the audit

We have audited the financial statements for the year ended 31 March 2019 of SFRS.



Timeline 2018/19

January 2019

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

27 March 2019

Presented planning paper to the ARAC

August – September 2019

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

31 March 2019

Year end

10 October 2019

ARAC meeting

31 October 2019

Accounts sign off

Financial statements audit



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

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 – Achievement of expenditure resource limits

Risk identified

The key financial duty for the SFRS is to comply with the Departmental Expenditure Limit (DEL) requirement set by the Scottish Government.

Given the current budget position for the Service and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of expenditure within these limits.

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

Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals around year end.

Deloitte 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 transactions;
- Reviewed and challenged the assumptions made in estimating key accruals to assess completeness and accuracy of recorded expenditure;
- Performed focused cut-off testing of invoices received and paid around the year-end; and
- Obtained independent confirmation of the resource limits allocated to SFRS by the Scottish Government.

Deloitte view

We have not identified any misstatements with the achievement of expenditure resource limits.

Significant risks (continued)

Risk 2 - Management override of controls

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 Board's controls for specific transactions.

The key judgments in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. This is inherently an area in which management has the potential to use their judgement to influence the financial statements.

Deloitte response

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

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

Deloitte view

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

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

Area of audit focus

Valuation of property assets

Risk identified

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

Deloitte response

We have:

- reviewed the revaluation performed in the year, and have assessed whether it has been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
- considered material changes of assets not subject to full revaluation during the year .

Deloitte view

We have completed our revaluation testing and have not identified any misstatements in relation to the valuation of property assets.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a couple of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Adoption of IFRS 9 and IFRS 15	Management should embed the principles of IFRS 9, Financial Instruments, and IFRS 15, Revenue from contracts, in to their year-end processes and also seek to review the required disclosures as a result of this ahead of year-end to ensure that this is properly embedded within the Services workings.	Medium Priority
Preparation for IFRS 16	<p>The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.</p> <p>We recommend that SFRS targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the underlying accounting systems.</p>	Medium Priority

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

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 have issued an unmodified opinion on the financial statements.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern.



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

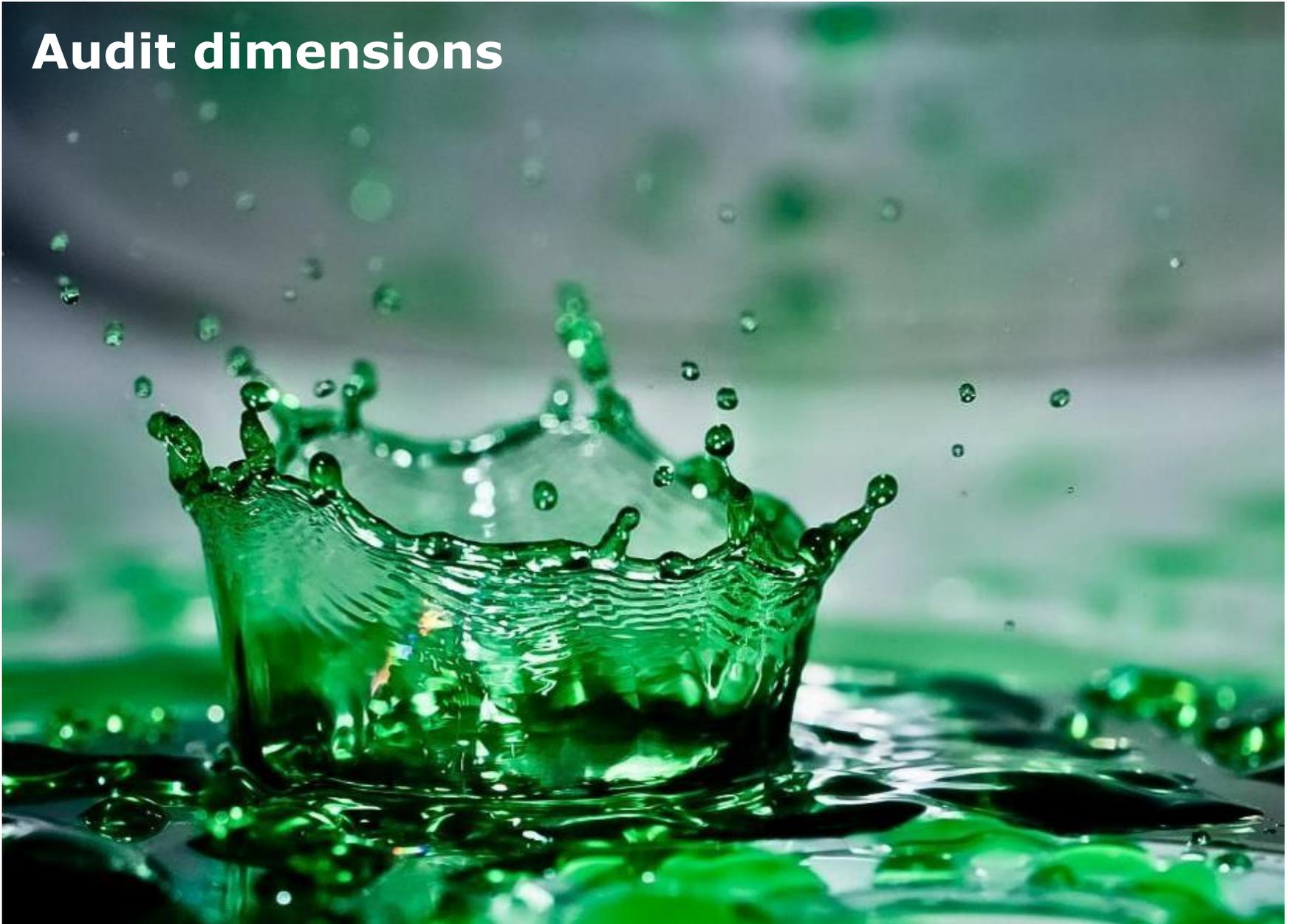
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 14.

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
The Performance Report	The report outlines SFRS' performance, both financial and non-financial. It also sets out the key risks and uncertainty.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and this has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have assessed whether the adoption of the going concern basis is appropriate and note no exceptions in relation to this. We will keep the financial sustainability under review given the recent staff pay award discussed in October 2019, and it is important that the Board develops detailed plans to offset any projected deficits arising as a result.

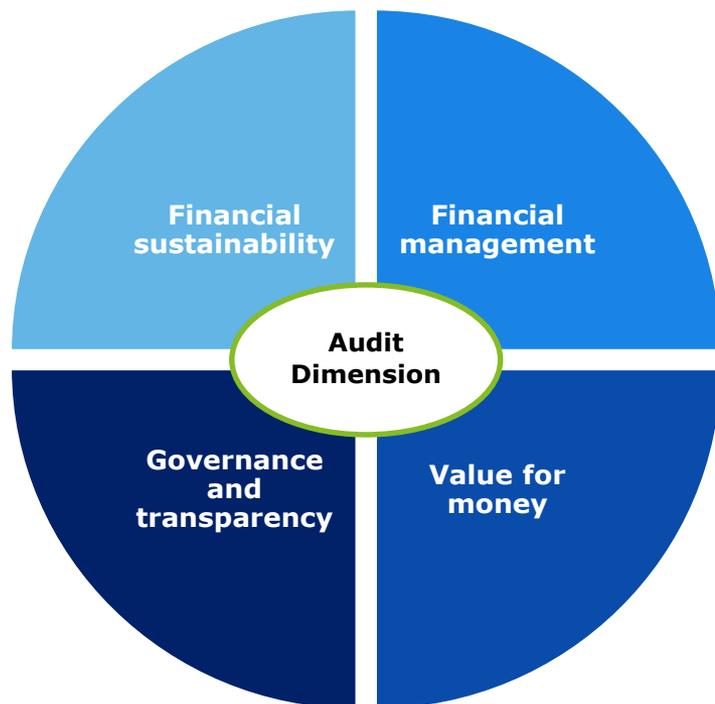
Audit dimensions



Audit dimensions

Overview

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



Best Value (BV)

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

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

Specific risks (SR)

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

SR 1 – EU Withdrawal

SR 2 – Changing landscape for public financial management

SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Financial sustainability

Overview

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.



Audit risks

Within our audit plan we identified the following risk:

- SFRS's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

Audit dimensions (continued)

Financial sustainability (continued)

2019/20 budget

The Scottish Government approved a cash budget for 2019/20 of £302.4m, of which £269.9m is resource departmental expenditure limit (DEL), representing an increase of £5.5m (2.1%) on the 2018/19 budget, and £32.5m is capital DEL, which is in line with the 2018/19 budget.

A few key movements were highlighted as part of the budget setting process:

- 2019/20 pay award £4,082k;
- Crewing Model Resilience £1,036k;
- Average Rates of Pay £(3,623)k;
- Harmonisation of T&Cs £928k;
- Transformation Support £660k; and
- Non Employee Cost Savings/Pressures £2,338k

In setting its budget the Board has recognised in the resource budget risk register that a number of risks exist, the highest of which is in relation to overtime costs, the consequence of which is additional overtime may be required to maintain operational requirements which may have a significant impact on the financial position. This risk is being managed through close monitoring of projects in relation to time, cost and quality measures by the Programme Office Board.

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 its traditional scope in order to make a case for securing more funding from the Scottish Government.

We will keep the 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.

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

Audit dimensions (continued)

Financial sustainability (continued)

SFRS aims to work towards this position by:

- Demonstrating their public value, to extend the role of SFRS and secure funding; and
- Controlling costs through a number of means, such as: (1) continuing to maintain sound financial management; (2) considering options for financial savings; (3) enhancing productivity; (4) responding to the opportunities presented by staff turnover/retirement; (5) modernising the asset base; and (6) collaborating with partner organisations to maximise the return on public investment; and
- Managing change effectively through robust programme management, comprehensive consultation and engagement, and seeking continuous improvement.

Deloitte View – Financial sustainability

The Board achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20 and the Board has a Financial Strategy that addresses the medium to longer term. We will keep the 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.

Deloitte are satisfied that the Financial Strategy addresses the risk identified on page 17 and that the Financial Strategy is in line with best practice per Audit Scotland's 2014 Follow-Up Audit of Scotland's Public Finances.

Financial management

Overview

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



Audit risks

Within our audit plan we identified the following risks:

- SFRS fails to achieve a balanced budget for the year resulting in brokerage from Scottish Government; and
- The underlying financial performance of SFRS is not transparently reported.

Audit dimensions (continued)

Financial management (continued)

2018/19 Financial performance

The 2018/19 reported an underspend of £0.203m against total cash DEL. The Board's performance against resource limits and other allocations set by the Scottish Government are as follows:

Expenditure Type	Resource Limit (£m)	Actual (£m)	Variance (£m)
Resource DEL	260.380	260.186	(0.194)
Capital DEL	32.821	32.830	(0.009)
Total Cash DEL	293.007	293.210	(0.203)
Non-Cash DEL	22.994	24.679	(1.685)
Total DEL	316.001	317.889	(1.888)
Annual Managed Expenditure (AME)	8.329	16.500	(8.171)
Total Allocation	324.330	334.389	(10.059)

SFRS has a good track record of delivering services within budget over the last 3 years. SFRS reported a year-end underspend for 2018/19 of £10.059 million, in its 2018/19 Annual Report & Accounts against its total allocation. There were a number of significant under/overspends that contributed to the £10.059 million underspend within the different lines and the main contributors are as follows:

Underspends

- £0.357m in relation to employee costs due to support staff vacancies (resource DEL);
- £1.685m in relation to depreciation of property plant and equipment as a result of the revaluation exercise carried out in March 2019 (non-cash DEL); and
- £8.141m in relation to impairments of property plant and equipment as a result of the revaluation exercise carried out in March 2019 (AME).

Overspends

- £0.231m in relation to expenses in relation to property and third party payments (resource DEL); and
- £1.829m overspend due to IAS 19 adjustments (AME).

Audit dimensions (continued)

Financial management (continued)

Budgetary control systems

The Board has effective financial planning and management arrangements in place. Senior management and board members regularly review progress. As discussed on page 21, the Board review financial performance regularly.

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

From a review of in-year budget monitoring reports, reviewing whether financial balance will be achieved for 2018/19, 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.

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.

Audit dimensions (continued)

Financial management (continued)

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland, which concluded that the Board was fully engaged in the exercise.

Deloitte view – Financial management

We have reviewed SFRS' arrangements for the financial reporting and overall we found the arrangements to be operating effectively.

In accordance with Audit Scotland planning guidance, we are required to monitor SFRS's participation and progress in the National Fraud Initiative (NFI) during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland, which concluded that SFRS was fully engaged in the exercise.

The underlying performance of SFRS is transparently reported to include periodic resource and capital budget monitoring reports presented to the Board which report on any actual and projected budget variances, as well as actions to bring variances in line with budget. Furthermore, SFRS has managed to achieve financial balance in 2018/19.

Governance and transparency

Overview

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



Audit risks

Within our audit plan we identified the following risks:

- Lack of timely reporting results in inadequate action being taken to remedy poor performance; and
- SFRS's approach is not keeping pace with public expectation and good practice.

Governance and transparency (continued)

Openness and transparency

Openness and transparency

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.

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 in 2018 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.



Audit dimensions (continued)

Governance and transparency (continued)

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 otherwise appropriate and adequate in supporting effective governance and accountability.

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. We note that, following recommendations raised previously, management have presented the final outturn to the Board in August during the current year.

In line with the risk identified on page 24, we can conclude that the Board is keeping pace with public expectation and good practice.

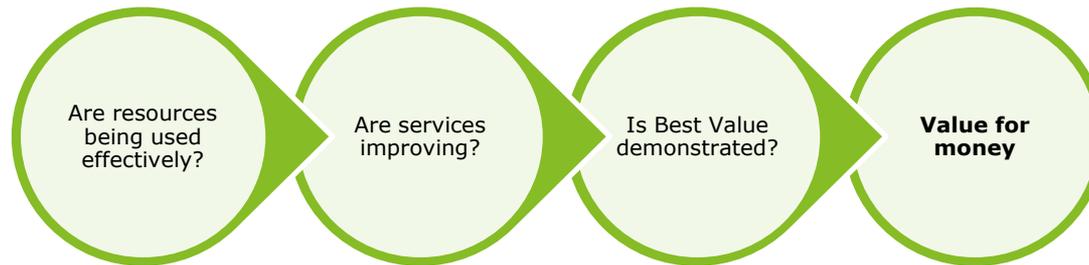
Leadership

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 2016-19, which is to be refreshed by October 2019 for the period covering 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

Overview

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



Audit risks

Within our audit plan we identified the following risk:

- SFRS does not clearly report on its contribution towards the national outcomes.

Value for money (continued)

Performance management

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 2018-19 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 KPI's. It is noted that the KPI's 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.

Deloitte view

SFRS clearly engage with reporting on its national contribution. There is an established process for BV and performance management reporting.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Board has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>The Board appropriately assessed and planned for the potential impact of EU withdrawal. In particular:</p> <ul style="list-style-type: none"> • People and skills – no impact on the short-term owing to the EU Settlement Scheme and the fact that the rights of EU citizens are not to change until 1 January 2021. Workforce planning has not been flagged as a significant area of concern as part of the EU Exit Plan. • Finance – no impact foreseen given that SFRS does not receive any direct funding from the EU. With regards to costings, the Corporate Procurement Steering Group (CPSG) has carried out risk assessments on all suppliers to determine what, if any, work was required to ensure resilience of service provision, i.e. whether or not stockpiling of any particular goods was required. Relevant actions were taken further to this exercise to stockpile, for example fuel, spare parts/tyres for appliances, bottled water, etc. • Rules and regulations – SFRS have planned for EU exit by appointing a qualified lawyer whose primary role is to oversee EU exit and any relevant legislative developments, including what impacts EU exit will have on UK fire safety regulations. Furthermore, as members of the Society of Local Authority Lawyers and Administrators (SOLAR) and from attendance at legal CPD events, the legal team is able to provide timely updates to the Board on any relevant legislative developments.

Other specific risks (continued)

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 17) we have considered how the Board has reviewed the potential implications of the Scottish Government's Medium Term Financial Strategy (MTFS) for its own finances, including long term planning.	See conclusion on page 17. Note that the long term financial strategy was approved by the Board before SG issued their MTFS. However, while the long term financial strategy will not make any explicit reference to the SG MTFS, there has been significant engagement with stakeholders, including SG, in putting together the long term financial strategy. Therefore, no issues noted.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	No areas of risk identified from our audit work.
Openness and transparency	We have considered the Board's approach to openness and transparency as part of our audit work on governance and transparency (see pages 24-26).	See conclusion on page 26. No issues noted.

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

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

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

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

October 2019

Audit adjustments

Summary of misstatements and disclosure deficiencies

We have not identified any uncorrected misstatements or disclosure deficiencies.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

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



Audit work performed:

In our planning we identified the achievement of expenditure resource limits and management override of controls as key audit risks for your organisation.

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

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

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

Concerns:

No concerns have been identified regarding fraud.

Independence and fees

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

Independence confirmation	We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.												
Fees	<p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £102,160 as broken down below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>78,550</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td>18,900</td></tr><tr><td> Audit support costs</td><td>4,710</td></tr><tr><td>Total fee</td><td>102,160</td></tr></tbody></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>		£	Auditor remuneration	78,550	Audit Scotland fixed charges:		Pooled costs	18,900	Audit support costs	4,710	Total fee	102,160
	£												
Auditor remuneration	78,550												
Audit Scotland fixed charges:													
Pooled costs	18,900												
Audit support costs	4,710												
Total fee	102,160												
Non-audit services	In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.												
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>												

Deloitte perspectives

Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insights on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

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

Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10th edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share [our perspective](#) which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier*.

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

Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html>

The Digital Disruption Index is available online:

<https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html>

One of the key insights is around Artificial Intelligence (AI) which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.



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