



SCOTTISH
FIRE AND RESCUE SERVICE

Working together for a safer Scotland



Scottish Fire and Rescue Service

Planning report to the Audit and Risk Assurance Committee on the audit for the year ending 31 March 2020

Issued February 2020 for the meeting on 25 March 2020

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Director 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 draft planning report to the Audit and Risk Assurance Committee of Scottish Fire and Rescue Service ("SFRS") for the year ending 31 March 2020 audit. I would like to draw your attention to the key messages of this audit plan:

Audit Plan

We have updated our understanding of SFRS including discussion with management and review of relevant documentation from across SFRS, including reviews of key strategy documents, budget monitoring reports, and Board and Audit and Risk Assurance Committee ("ARAC") minutes.

Based on these procedures, we have developed this plan in collaboration with SFRS to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to SFRS.

Key Risks

We have taken an initial view as to the significant audit risks SFRS faces. These are presented as a summary dashboard on page 13.

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how SFRS is addressing these and report our conclusions in our final report to the ARAC in October 2020. In particular, our work will focus on:

- **Financial sustainability** – as part of the 2018/19 audit we concluded that SFRS has a medium to longer term financial strategy in place for the period to 2026/27 and that they have achieved financial balance in the past few years. As part of the 2019/20 audit, we will focus on SFRS's progress in achieving the financial strategy, as well as any key cost drivers underlying SFRS's financial sustainability, such as ongoing staff pay award discussions. We will also consider SFRS's ongoing transformation efforts.
- **Financial management** – as part of the 2018/19 audit we concluded that SFRS has effective financial budgeting and monitoring arrangements. As at the end of November 2019, SFRS are projecting a slight underspend of £510k (0.2%) on a net expenditure budget of £269,907k. As a matter of course, we will continue to review SFRS's budget monitoring arrangements.

We will also discuss progress against the 2018/19 National Fraud Initiative ("NFI").

Director Introduction (continued)

The key messages in this report (continued)

- **Governance and transparency** – as part of the 2018/19 audit we concluded that SFRS has effective governance arrangements and that the Board is open and transparent in its decision making with key strategy documents and Board documents available on its website. From our planning work, we have not identified any changes to the prior year and as such have not identified any specific areas of focus for the 2019/20 audit.
- **Value for money** – as part of the 2018/19 audit we concluded that there is an established process for Best Value (“BV”) and performance management reporting. From our planning work, we have not identified any changes to the prior year and as such have not identified any specific areas of focus for the 2019/20 audit.

Our audit work on the four audit dimensions incorporates the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function. Should any further risks emerge during the year, we will provide an update to the ARAC.

Regulatory Change

IFRS 16, Leases, will apply from 2020/21, and will require disclosure in the 2019/20 financial statements of the expected impact on transition.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value

Our aim is to add value to SFRS through our audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SFRS promote improved standards of governance, better management and decision making and more effective use of resources.

Pat Kenny
Audit director

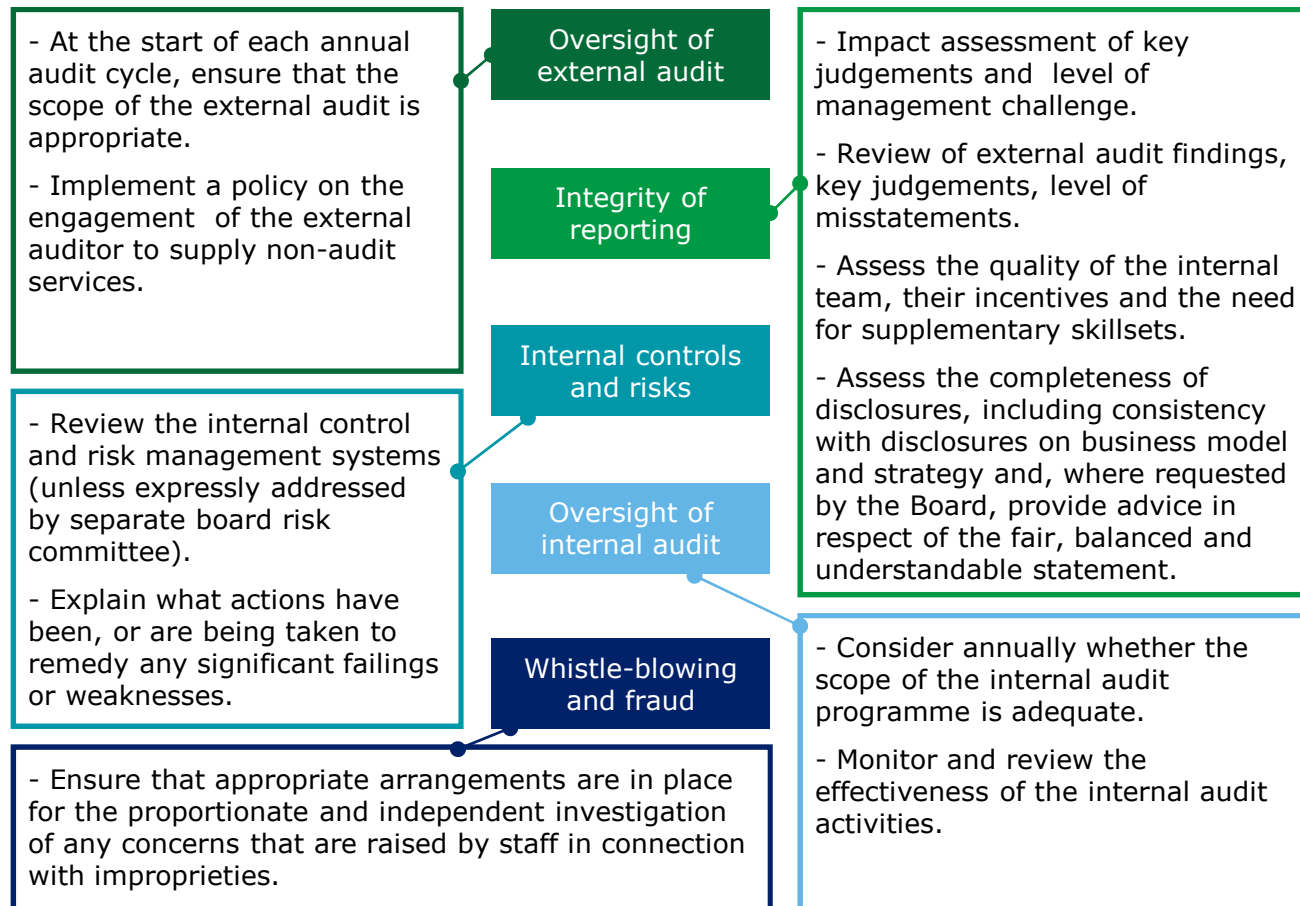
Responsibilities of the Audit and Risk Assurance Committee

Helping you fulfil your responsibilities

Why do we interact with the ARAC?



As a result of regulatory change in recent years, the role of the ARAC has significantly expanded. We set out here a summary of the core areas of ARAC responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the SFRS's ARAC in fulfilling its remit.



Your control environment

What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the ARAC

As explained further in the Responsibilities of the Audit and Risk Assurance Committee slide above, the ARAC is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by a separate board risk committee); and
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Controls work



We will seek to undertake design and implementation testing on controls in respect of our identified significant risk areas.

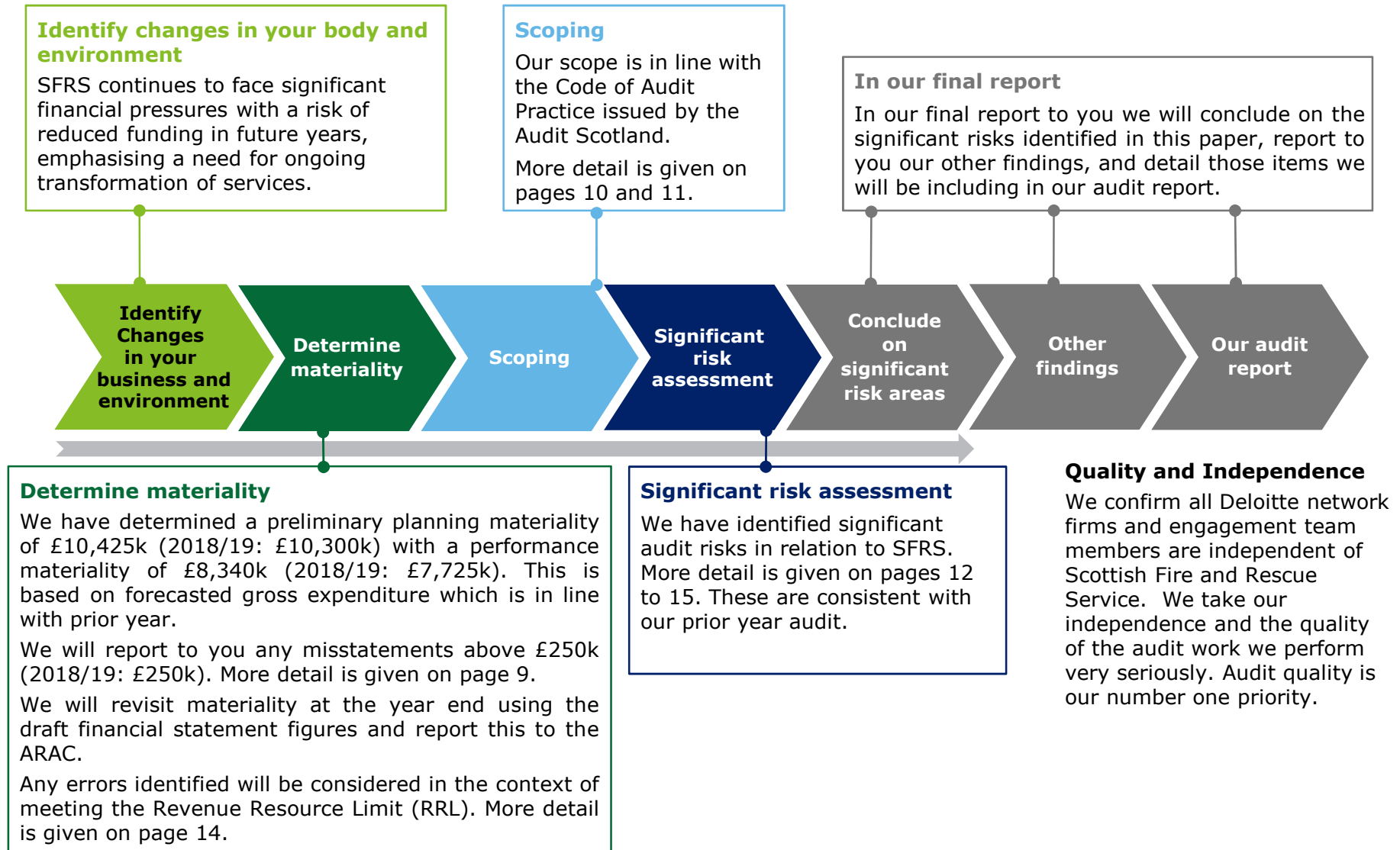
Performance materiality



We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate.

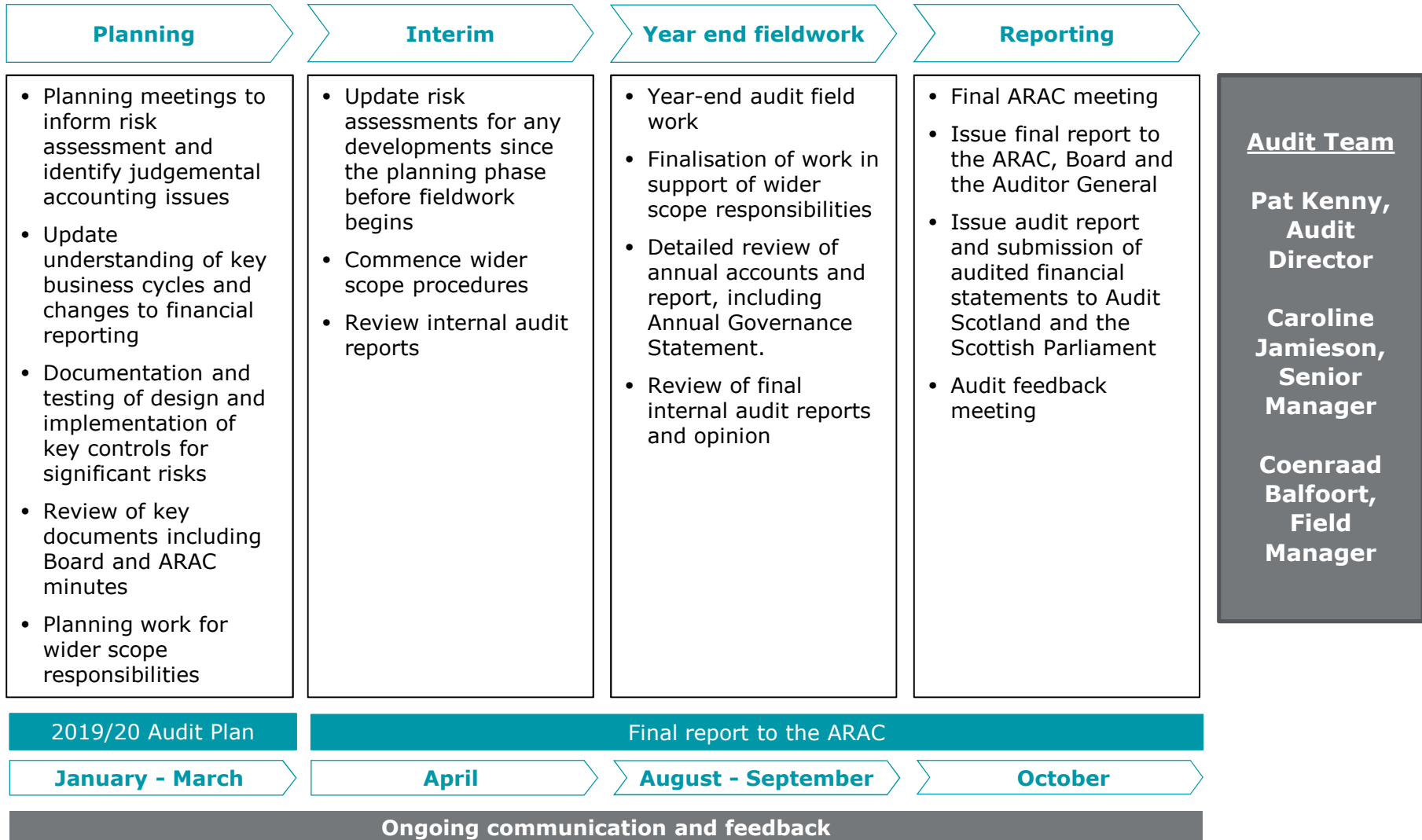
Our audit explained

We tailor our audit to your Board and your strategy



Continuous communication and reporting

Planned timing of the audit



Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined a preliminary planning materiality as £10,425k (2018/19: £10,300k) and a performance materiality of £8,340k (2018/19: £7,725k) based on professional judgement and risk factors specific to SFRS, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of forecasted gross expenditure as the benchmark for determining materiality. This approach is consistent with our prior year calculation.
- We have revisited our calculation of performance materiality in the current year and have calculated performance materiality as 80% of materiality (2018/19: 75%). This is based on our cumulative knowledge of SFRS and the low history of misstatements identified.
- We will revisit materiality at the year-end using the draft financial statement figures.

Reporting to those charged with governance

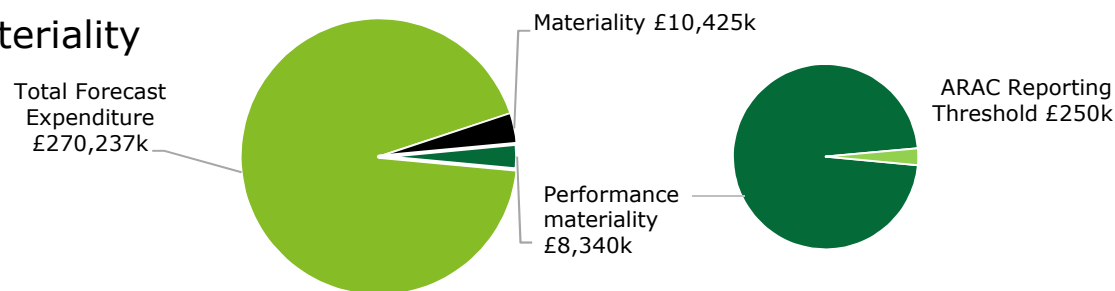
- We will report to you all misstatements found in excess of our clearly trivial threshold which is £250k (2018/19: £250k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

We will:

- Report the materiality benchmark applied in the audit of SFRS; and
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate.

Materiality



Although materiality is the judgement of the Audit Director, the ARAC must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	25 March 2020 29 October 2020
Consider and report on the audit dimensions	Annual audit plan Final report to those charged with governance	25 March 2020 29 October 2020
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020
Contribute to National Fraud Initiative (NFI) report	NFI audit questionnaire If necessary, reference, in final report to those charged with governance	28 February 2020 29 October 2020

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board’s version of ISA (UK) 610 “Using the work of internal auditors” prohibits use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the SFRS staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D&I”).

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Obtain an understanding of the Board and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.

Carry out “design and implementation” work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls.

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We have also designed and continually update International Financial Reporting Standards (“IFRS”) disclosure checklists in conjunction with the requirements of the Government Financial Reporting Manual (FRoM) to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend SFRS complete during drafting.

We will look to review an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management and the ARAC.

Audit Scotland has published good practice guides in relation to the Annual Report and the Governance Statement to support SFRS in preparing high quality drafts of the Annual Report and Financial Statements, which we would recommend SFRS consider during drafting.

Statutory Other Information

In addition to the financial statements, we are required to consider whether the Performance Report and Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors’ work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the ARAC in their previous ARAC report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and accounts.

Principal risk and uncertainties

- Financial austerity
- Public service reform
- Social and demographic issues – income inequality and ageing population
- Extreme weather
- Terrorism

IAS 1 Critical accounting estimates

- Property, plant and equipment
- Pensions liability
- Short term accumulated absences











Changes in your business and environment

- EU withdrawal
- Change in key management personnel

The next page summarises the significant risks that we will focus on during our audit. All the risks mentioned in the prior year ARAC report are included as significant risks in this year's audit plan.

Significant risks (continued)

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Expected to be included in the Audit Committee's report	Slide no.
Operating within expenditure resource limits						14
Management override of controls						15

Level of management judgement



Some degree of management judgement



Limited management judgement

Controls approach adopted



Assess design & implementation

Significant risks (continued)

Risk 1 – Operating within the expenditure resource limits

Key focus for management

Risk identified

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

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

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

Our response

We will evaluate 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 will include the following:

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

Significant risks (continued)

Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

Risk identified

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

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

Planned audit challenge

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Journal testing

- We will test the design and implementation of controls over journal entry processing.
- Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting judgements

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

Significant and unusual transactions

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how SFRS is addressing these areas, including any risks to their achievement, as part of our audit work as follows which includes our assessment of the audit risks as required under paragraph 77 of the Code:

Audit dimension	Areas to be considered	Impact on the 2019/20 Audit
<p>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.</p>	<ul style="list-style-type: none"> • The financial planning systems in place across the shorter and longer terms • The arrangements to address any identified funding gaps • The affordability and effectiveness of funding and investment decisions made • Workforce planning 	<p>In 2018/19 we concluded that SFRS has a medium to longer term financial strategy in place for the period to 2026/27 and that they have achieved financial balance in the past few years. We did, however, note that we would keep financial sustainability under review given the recent staff pay offer discussed in October 2019, and, on the assumption that the pay offer is accepted, it is important that the Board develops plans to address the financial implications. As part of the 2019/20 audit, we will focus on SFRS’s progress in achieving the financial strategy, as well as any key cost drivers underlying SFRS’s financial sustainability, such as ongoing staff pay award discussions. We will also consider SFRS’s ongoing efforts to design and execute the transformation detailed in the High Level Plan.</p> <p>Audit Risk: there is a risk that SFRS is not allocated sufficient funding to make progress in transforming the service. This includes confirming the source of funding for any future years’ pay awards. Furthermore, there is the risk that transformation is not achieved if plans are not well defined.</p>
<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<ul style="list-style-type: none"> • Systems of internal control • Budgetary control system • Financial capacity and skills • Arrangements for the prevention and detection of fraud 	<p>In 2018/19 we concluded that SFRS has effective financial budgeting and monitoring arrangements. Therefore, we have not identified any specific areas of focus for the 2019/20 audit. However, as a matter of course, we will continue to review SFRS’s budget monitoring arrangements.</p> <p>We will also review progress against the 2018/19 National Fraud Initiative (“NFI”). Our fraud responsibilities and representations are detailed on pages 24 and 25.</p> <p>In accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks, and false invoicing) is a risk across the public sector. We will therefore consider SFRS’s controls and processes as a matter of particular focus.</p> <p>Audit Risk: There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption.</p>

Wider scope requirements (continued)

Audit dimensions

Audit dimension	Areas to be considered	Impact on the 2019/20 Audit
<p>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.</p>	<ul style="list-style-type: none"> • Governance arrangements • Scrutiny, challenge and transparency on decision making and financial and performance reports • Accountable officers' duty to secure Best Value • Quality and timeliness of financial and performance reporting 	<p>As part of the 2018/19 audit we concluded that SFRS has effective governance arrangements and that the Board is open and transparent in its decision making with key strategy documents and Board documents available on its website. Therefore, we will focus our work in 2019/20 on the review of Board and ARAC minutes.</p> <p>Audit Risk: lack of timely reporting results in inadequate action being taken to remedy poor performance.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • Value for money in the use of resources • Link between money spent and outputs and the outcomes delivered • Improvement of outcomes • Focus on and pace of improvement. 	<p>As part of the 2018/19 audit we concluded that there is an established process for BV and performance management reporting. Therefore, we have not identified any specific areas of focus for the 2019/20 audit. However, as a matter of course, we will continue to review SFRS's performance reporting during the year.</p>

Wider scope requirements (continued)

Other requirements

Impact reports

As part of the Audit Scotland planning guidance we are requested to provide information to support assessing the impact of previously published performance audit reports. Audit Scotland plan to assess the impact of the report "Scottish Fire and Rescue Service: an update" during April/ May 2020 and we will be contacted for our input at this stage.

National Fraud Initiative (NFI)

A number of central government bodies, including SFRS, participated in the NFI 2018/19. Audit Scotland asked bodies to investigate all recommended matches based on findings and the risk of error or fraud by 30 September 2019, with the results recorded on the NFI system. SFRS complied with this request.

We have completed and submitted a follow-up questionnaire by 28 February 2020. The information from this will be used in Audit Scotland's next NFI report due to be published in the summer of 2020.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	<ul style="list-style-type: none">• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).• Deloitte fully supports an independent review into the role of auditors.• The Government's Brydon Review will consider UK audit standards and how audits should evolve.
Would it be better to have audit only firms?	<ul style="list-style-type: none">• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.• Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.
Is the current audit market uncompetitive?	<ul style="list-style-type: none">• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders.• There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering.• The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.
Independence and conflicts from other services	<ul style="list-style-type: none">• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients• Deloitte invests heavily in systems, processes and people to check for potential conflicts.• We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest.• Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).
Deloitte	<ul style="list-style-type: none">• Our Impact Report and Transparency Report are available on our website https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html

Maintaining audit quality (continued)

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the central government sector and elsewhere to provide robust challenge to management.
- We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Board.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

Use of this report

This report has been prepared for ARAC, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

What we don't report

As you will be aware, our audit is 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

February 2020

Appendices



Prior year audit adjustments

Uncorrected disclosures and misstatements

Uncorrected disclosures and misstatements

There were no uncorrected misstatements above our clearly trivial threshold and no uncorrected material disclosure deficiencies.

Fraud responsibilities and representations

Responsibilities explained



Your 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.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the achievement of expenditure resource limits and management override of controls as a key audit risk for your organisation.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of SFRS:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit and Local Counter Fraud Specialist

- Whether internal audit and SFRS's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

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 SFRS and will reconfirm our independence and objectivity to the ARAC for the year ending 31 March 2020 in our final report to the ARAC.														
Fees	The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £103,510 as analysed below: <table><tr><td></td><td style="text-align: right;">£</td></tr><tr><td>Auditor remuneration</td><td style="text-align: right;">80,380</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td style="text-align: right;">18,680</td></tr><tr><td> Performance Audit and Best Value</td><td style="text-align: right;">0</td></tr><tr><td> Audit support costs</td><td style="text-align: right;">4,450</td></tr><tr><td>Total proposed fee</td><td style="text-align: right;">103,510</td></tr></table>		£	Auditor remuneration	80,380	Audit Scotland fixed charges:		Pooled costs	18,680	Performance Audit and Best Value	0	Audit support costs	4,450	Total proposed fee	103,510
	£														
Auditor remuneration	80,380														
Audit Scotland fixed charges:															
Pooled costs	18,680														
Performance Audit and Best Value	0														
Audit support costs	4,450														
Total proposed fee	103,510														
	There are no non-audit services fees proposed for the period.														
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and SFRS'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 have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.														

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

Sector developments



Accounting standards

IFRS 16 - Leases

Background

The new standard is effective for the year 2020/21 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

For 2019/20, SFRS will need to include disclosures on the expected impact of the standard, but not make any adjustments in the financial statements in respect of IFRS 16. However, many organisations have identified previously unidentified leases that qualify as leases under current accounting requirements (or arrangements that contain a lease, such as service contracts) as part of their transition project, and so there may be some 2019/20 impact.

Separate to the financial reporting impact, but potentially more critical, budgets for 2020/21, particularly capital budgets, will need to reflect the impact of the new standard.

We are aware that management have completed a review of their leases and have calculated the expected impact on the balance sheet. As part of our interim procedures we will review the assumptions adopted and review a sample of contracts and the supporting calculations.

Next steps

We recommend that ARAC receive reporting prior to reviewing the annual report and accounts from management on the impact of IFRS 16, including any adjustments that will be required as at 31 March 2020 for transition prior the implementation of the new standard.

State of the State

The view from citizens, leaders and the frontline of public services

Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity. And it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



The State of the State 2019-20

The view from citizens, leaders and the frontline of public services

Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/uk/thestateofthestate>

State of the State (continued)

The view from citizens, leaders and the frontline of public services

Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.
- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.
- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.
- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.
- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

What does climate change mean for business?

New website – learning, interviews and resources

Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!

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What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

Supported by



Next steps

Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals at www.deloitte.co.uk/climatechange



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