

## SCOTTISH FIRE AND RESCUE SERVICE

## Audit and Risk Assurance Committee



Report No: C/ARAC/17-17

Agenda Item: 10

<b>Report to:</b>	<b>AUDIT AND RISK ASSURANCE COMMITTEE</b>
<b>Meeting Date:</b>	<b>15 JUNE 2017</b>
<b>Report Title:</b>	<b>ANNUAL REPORT 2016/17 TO THE ACCOUNTABLE OFFICER</b>
<b>Report Classification:</b>	<b>FOR NOTING</b>

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<b>Sponsored by:</b>	Primrose Stark – Chair of the SFRS Audit and Risk Committee
<b>Presented by:</b>	Primrose Stark – Chair of the SFRS Audit and Risk Committee

<b>Links to Strategy</b>
<p>This links to SFRS Strategic Plan 2016-19 through our priorities of Governance and Social Responsibility, incorporating the following associated key strategic objectives:</p> <ul style="list-style-type: none"> <li>We will continue to ensure that our decision making processes are transparent and evidence led.</li> <li>We will develop a performance framework that enables the effective management of risk and supports effective scrutiny, challenge and improvement.</li> <li>We will embed effective communication and engagement in all that we do.</li> </ul>

<b>Governance Route for Report</b>	<b>Meeting Date</b>	<b>Comment</b>
<i>Audit and Risk Assurance Committee Meeting</i>	<i>15 June 2017</i>	<i>For noting and feedback</i>
<i>Scottish Fire and Rescue Service Board</i>	<i>29 June 2017</i>	<i>For approval</i>

<b>1</b>	<b>Purpose</b>
1.1	The purpose of this report is to present the Audit and Risk Assurance Committee (ARAC) Annual Report 2016/17, to the Members of the Scottish Fire and Rescue Service (SFRS) Audit and Risk Assurance Committee.

<b>2</b>	<b>Background</b>
2.1	Consistent with the Scottish Government Audit Committee Handbook, and generally accepted principles of good corporate governance, the Terms of Reference of the SFRS Audit and Risk Assurance Committee calls for an Annual Report to the Accountable Officer, summarising the Committee's work for the year past, and its opinion of the overall assurances it has received and issues it has considered.

<b>3</b>	<b>Main Report and Discussion</b>
3.1	The Annual Report assists with the preparation of the organisation's 2016/17 Annual Governance Statement, which is being considered elsewhere on the agenda. Production of the Annual Report has therefore been timed to support the preparation of the Annual Governance Statement.
3.2	Following discussion at the ARAC meeting and any necessary adjustments, the Annual Report will be submitted to the SFRS Board on 29 June 2017.

<b>4</b>	<b>Key Strategic Implications</b>
4.1	<b>Financial</b>
4.1.1	This report provides further assurance in support of the SFRS Annual Report and Audited Accounts for 2016/17 which is scheduled to be presented to the Board on 26 October 2017.
4.2	<b>Legal</b>
4.2.1	Production of this report is consistent with the Scottish Government Audit Committee Handbook, and generally accepted principles of good corporate governance.
4.3	<b>Performance</b>
4.3.1	Information contained within this report deems that there are no significant gaps in the performance of the ARAC.
4.4	<b>Environmental &amp; Sustainability</b>
4.4.1	Non-applicable.
4.5	<b>Workforce</b>
4.5.1	Non-applicable.
4.6	<b>Health &amp; Safety</b>
4.6.1	Non-applicable.
4.7	<b>Timing</b>
4.7.1	This report has been produced in support of the SFRS Annual Governance Statement which is scheduled to be presented to the Board as a part of the Annual Report and Audited Accounts for 2016/17 on 26 October 2017.
4.8	<b>Equalities</b>
4.8.1	The existing Equality Impact Assessment – Board Operating Arrangements, has been reviewed and there are no issues arising from the matters raised within this report.
4.9	<b>Risk</b>
4.9.1	Evidence gathering in support of this report deems that no significant risks have been identified.
4.10	<b>Communications &amp; Engagement</b>
4.10.1	This report has been provides an opportunity for ARAC members to review the contents and provide feedback prior to its submission to SFRS Board for their approval at the meeting scheduled for 29 June 2017.
4.11	<b>Training</b>
4.11.1	Non-applicable.

<b>5</b>	<b>Recommendation</b>
5.1	The Committee is invited to consider the contents of the Audit and Risk Assurance Committee (ARAC) Annual Report 2016/17 as set out in Appendix A, and provide feedback as necessary prior to it being submitted to SFRS Board at their meeting on 29 June 2017.

<b>6</b>	<b>Core Brief</b>
6.1	Not applicable.

<b>7</b>	<b>Appendices/Further Reading</b>
7.1	Appendix A – SFRS ARAC Annual Report 2016/17 to The Accountable Officer and Board of the Scottish Fire and Rescue Service.

**SFRS Audit and Risk Assurance Committee Annual Report 2016/17****To****The Accountable Officer and Board of the Scottish Fire and Rescue Service****1 Purpose**

- 1.1 In accordance with the Scottish Government's Audit Committee Handbook and the Audit and Risk Assurance Committee's Terms of Reference as approved by the Scottish Fire and Rescue Service (SFRS) Board, this report submits to the Accountable Officer and Board the Annual Report of the Audit and Risk Assurance Committee, based on its evaluation of the internal control environment, to assist with the preparation of the Annual Governance Statement.

**2 Background**

- 2.1 The report summarises the Audit and Risk Assurance Committee's work for the year 2016/17 and its opinion about:
- The comprehensiveness of assurances in meeting the Board and Accountable Officer's needs;
  - The reliability and integrity of these assurances in relation to their accountability obligations;
  - The implication of these assurances for the overall management of risk;
  - Any issues the Audit and Risk Assurance Committee considers pertinent to the Annual Governance Statement and any long term issues the Committee thinks the Board and/or Accountable Officer should give attention to;
  - Financial reporting for the year, and
  - The Audit and Risk Assurance Committee's view of its own effectiveness.

**3 Summary of Audit and Risk Assurance Committee's Work**

- 3.1 In the period from April 2016 to March 2017 the Audit and Risk Assurance Committee has met four times in public. The Committee comprises of five Non-Executive members. It has a quorum of three members and all meetings were quorate. The Committee has the relevant skills and experience collectively to assess the issues within its terms of reference.

- 3.2 All meetings were attended by senior management of the SFRS. Grant Thornton and / or Deloitte representatives as the external auditors appointed by the Auditor General Scotland (as responsibility for external audit was handed over during this year), the Scottish Government's Internal Audit Division and Her Majesty's Fire Service Inspectorate (HMFSI) were also represented at all meetings.
- 3.3 The Committee conducted business in a number of key areas as outlined in sections 4 to 10 below.

#### 4 Internal Audit

- 4.1 Under the terms of the Scottish Government Shared Service arrangements, the Scottish Government Internal Audit Division (SGIAD) provided an Internal Audit service for the SFRS, which was supported by a dedicated resource within the SFRS (currently comprising 2 employees).
- 4.2 During the period under review, the committee:
- Agreed a programme of work with Internal Audit for 2016/17 and beyond and satisfied itself as to the overall adequacy and appropriateness of internal audit coverage;
  - Considered the assurance levels and recommendations in reports issued by Internal Audit and the management responses to them;
  - Monitored the implementation of recommendations arising from prior year audits;
  - Noted that no significant control weaknesses were identified in the course of Internal Audit's work;
  - Noted the overall opinion given by Internal Audit in its Annual Assurance Report, offering Interim Reasonable Assurance in respect of SFRS' governance, risk management and control arrangements for 2016/17, based on its completion of the agreed 2016/17 work-plan and additional activities undertaken, and
  - Provided Internal Audit with the opportunity to meet privately with the Committee and the Chair to discuss matters in confidence. No matters were raised that would require to be disclosed in this report.
- 4.3 ***The Committee concluded that Internal Audit's work is appropriately focused and adequately resourced, and that SFRS controls are generally operating effectively.***

#### 5 External Audit

- 5.1 Deloitte were appointed as external auditors to the SFRS for 2016/17 by the Auditor General for Scotland.

5.2 During the period under review, the Committee:

- Agreed the scope, timetable for and planning of the external audit for 2016/17, through consideration of the Audit Plan presented by Deloitte;
- Considered the work planned to address the risks identified prior to the audit;
- Noted progress against the 2016/17 audit plan. No material control weaknesses or other issues were identified;
- Received regular updates with regard to progress against the audit plan for 2015/16
- Received and reviewed the 2015/16 annual report and accounts from Grant Thornton and noted the auditors issued an unqualified audit report in relation to those accounts;
- Noted the positive management responses to recommendations from the external auditors in the Audit Findings Report, and
- Provided External Audit with the opportunity to meet privately with the Committee and the Chair to discuss matters in confidence. No matters were raised that would require to be disclosed in this report.

**5.3 *The Committee noted the scope of work undertaken by Grant Thornton to address the potential risk of material mis-statement in SFRS's financial statements and noted that no significant matters of control weakness were identified during the course of this work.***

## **6 Her Majesty's Fire Service Inspectorate**

6.1 HMFSI conducts inspections of various, mainly operational, aspects of the SFRS and reports thereon. HMFSI has issued a number of reports during the course of the year and provided the Committee with the opportunity to discuss the findings and recommendations in more detail.

6.2 It has been recommended that future HMFSI reports should be submitted to the Service Delivery Committee, as they are primarily operational issues, to ensure the appropriate level of scrutiny. An annual report will continue to be presented to the ARAC to provide an oversight of the previous year and the key themes and focus for the forthcoming year. HMFSI will continue to maintain contact with both the Internal and External Auditors to progress areas of shared work.

**6.3 *The Committee noted the recommendations and the management response to them. In so far as they relate to the overall control environment and the level of assurance required, the Committee was pleased to note that no significant matters were identified.***

## 7 Risk Management

7.1 During the year the Committee:

- Reviewed regular updates on risk management arrangements and revisions to the Corporate Risk Register;
- Received assurances that risk management is integrated within the organisation's business processes and that suitable training takes place to ensure this is understood throughout, and
- Reviewed the SFRS assurance framework that will support ongoing assurances required by the Committee and the Annual Governance Statement noting that a comprehensive structure of assurance is in place, and
- Noted that the SFRS continues to enhance the risk management arrangements and assurance framework within the organisation.

**7.2 *The Committee is satisfied that a robust risk management process is in place within the SFRS.***

## 8 Financial Reporting

8.1 During the year the committee:

- Received and reviewed the accounting policies that underpin the financial statements;
- Considered in more detail the accounting policies relating to items of materiality in the financial statements including pensions and fixed assets, and
- Received assurances about the financial systems and controls that provide the figures for the accounts

**8.2 *The Committee is satisfied that the accounting policies adopted for the preparation of the 2016/17 accounts are appropriate for the organisation and that financial systems are operating effectively.***

## 9 Audit and Risk Assurance Committee Effectiveness

9.1 The Committee considers that it has operated in accordance with its terms of reference, pursuing the appropriate issues of risk assurance and internal control, and that its challenge and scrutiny function has been strong.

9.2 An induction programme was undertaken for new Board members and additional support provided to the Chair on her appointment to this role.

9.3 The Committee terms of reference were reviewed and amended as part of the implementation of the revised committees structure with additional workshop sessions facilitated to develop shared understanding between existing and new Committee members.

- 9.4 At the Committee's operational level, improvements continue to be made where appropriate to the management of meetings, including the planning of agendas for the long term in the way of a forward plan of business for the year ahead. Additional workshop sessions and pre-meetings were held to further support this transition.
- 9.5 Administrative arrangements have been improved with new templates and guidance being provided for Corporate level papers to ensure that reports contain an appropriate level of detail to assist Committee members scrutinise and challenge more effectively.

## **10 Conclusions**

- 10.1 The Audit and Risk Assurance Committee can never give absolute assurance to the Accountable Officer or Board. Nonetheless based upon the work of the Committee during the period under review and the assurances that we have received, we are of the opinion that the SFRS has effective risk management, governance and internal control arrangements in place that are sufficient to give the Accountable Officer and Board the necessary assurance in relation to the Annual Governance Statement.
- 10.2 The Committee is not aware of any issues of significant concern that should be brought to the attention of the Board and the Accountable Officer.

**Primrose Stark**

**Chair of Audit and Risk Assurance Committee**

**Scottish Fire and Rescue Service**

**15 June 2017**