NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

EXTERNAL AUDIT PLAN 2019/20

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To present the external auditors' audit plan for work which they intend to carry out on the Authority's 2019/20 financial statements and value for money arrangements.

Recommendations:

That Members note the contents of this report.

CONTACT OFFICER

Name:	Becky Smeathers Head of Finance
Tel:	0115 967 0880
Email:	becky.smeathers@notts-fire.gov.uk
Media Enquiries Contact:	Corporate Communications Team (0115) 967 0880 corporatecomms@notts-fire.gov.uk

1. BACKGROUND

1.1 The external audit of the Fire Authority's 2019/20 accounts is to be undertaken by Ernst & Young LLP. This is the second of five years that Ernst & Young will be undertaking the audit under the current contract.

1.2 As part of their responsibilities under the external audit regime, the auditors produce an annual plan setting out the areas that they will cover during their audit and this plan is presented to the Finance and Resources Committee.

2. REPORT

2.1 The full external audit plan is set out in Appendix A for Members' information. In summary, it covers several areas:

- Overview of the audit strategy;
- Audit risks;
- Value for money risks;
- Audit materiality;
- Scope of the audit;
- Interdependencies;
- Various appendices which provide further detail to support the plan.

2.2 The plan also sets out the fees for the audit and the timescales for reporting back to the Fire Authority.

3. FINANCIAL IMPLICATIONS

The PSAA (Public Sector Audit Appointments) has set the audit fee scale for 2019/20 at £23,909. However, EY have indicated that they will be requesting a fee increase – see Appendix A of the Audit Plan.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report relates to statutory audit which is external scrutiny rather than a policy matter.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The external auditors have statutory powers and responsibilities set out in the Local Audit and Accountability Act 2014.

8. RISK MANAGEMENT IMPLICATIONS

The external auditors provide a key element of the assurances that are given to elected Members and members of the public with regard to the accuracy of the financial statements and the arrangements for value for money.

9. COLLABRATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the contents of this report.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER

Nottinghamshire Fire & Rescue Authority
Audit planning report

Year ended 31 March 2020

March 2020

Building a better working world

Private and Confidential

20th March 2020

Nottinghamshire Fire & Rescue Authority
Bestwood Lodge Drive
Arnold
Nottingham
NG5 8PD

Dear Members of the Finance and Resources Committee

Audit planning report 2019/20

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as the auditor to Nottinghamshire Fire and Rescue Authority (the 'Authority'). Its purpose is to provide the Finance and Resources Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Finance and Resource Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Finance and Resources Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 3 April 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Members of the Finance and Resource Committee in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Members of the Finance and Resource Committee and management of Nottinghamshire Fire & Rescue Authority those management of Nottinghamshire Fire & Rescue Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent. matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Finance and Resource Committee and management of Nottinghamshire Fire & Rescue Authority.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Finance and Resources Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	**No change** in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of expenditure	Fraud risk	New Risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have re-evaluated the perceived fraud risks and consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES).
Valuation of Pension Liabilities – Firefighters' Pension Scheme	Significant Risk	**Change in risk**	The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. Following the outcome of the McCloud and Sargeant judgements in 2018/19 there remains significant uncertainty around the impact this will continue to have on the valuation of liabilities within the scheme, as well as the implications for the triennial review and funding requirements. Due to the current uncertainty surrounding the valuation of the pension liability as a result of the ongoing repercussions from the McCloud judgement, we have increased the level of risk from inherent to significant for this Financial Year.
Valuation of land and buildings	Significant Risk	**Change in risk**	The external valuation expert undertakes a rolling programme of valuations that ensures that all land and building assets required to be measured at fair value are revalued at least every five years. The valuation of land and buildings is subject to a number of assumptions and judgements and a small movement in these assumptions could have a material impact on the financial statements. As the Code requires all land and buildings are held at fair value, there is a risk that the remaining asset base is materially misstated.
Valuation of Pension Liabilities - LGPS	Higher inherent risk and area of audit focus	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2019/20 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Nottinghamshire Fire & Rescue Authority give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the entity's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Nottinghamshire Fire & Rescue Authority's audit, we will discuss these with management as to the impact on the scale fee. We have highlighted a number of these items throughout our audit plan and have included the impact on fees within appendix A.

Audit team changes

Engagement Partner - Helen Henshaw
Helen has over twenty years of audit experience working for EY with significant experience across both the public and private sector.

Engagement Manager – Gary Morris
Gary has a significant amount of audit experience within the public sector

Overview of our 2019/20 audit strategy (continued)

Materiality

Planning materiality
£1.34m

Materiality has been set at £1.34m, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality
£0.67m

Performance materiality has been set at £0.67m, which represents 50% of materiality. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the misstatements identified in the prior year, we have determined that performance materiality needs to be set at 50% of planning materiality. This has an impact on the level of work we are required to perform, and therefore the audit fee.

Audit differences
£67k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement greater than £67k. Other misstatements identified will be communicated to the extent that they merit the attention of the Finance and Resources Committee.

Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. Further details can be found at pages 35 and 36 of this report.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum have been informed that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020. One of these is Nottinghamshire Fire and Rescue Authority. The main driver of this decision was the length of time required to complete the audit last year, our desire to retain audit team continuity as far as possible to assist the delivery of an efficient, high quality audit this year.

The requirements of the Accounts and Audit Regulations 2015 are to publish a statement of accounts, annual governance statement and narrative statement by the 31st July with or without an audit opinion. If you are not able to publish an audit opinion at that time, you should explain why. This means the 31st July is not a statutory audit deadline. We will work with management to ensure that the publication requirements are met. Further details on the timetable can be found in section 7 of this report.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

In undertaking our fraud risk assessment we have not identified any specific risks for inclusion in our audit plan at this stage. We will continue to monitor this and provide you with an update as required.

What will we do?

We will;

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - testing of journal entries and other adjustments in the preparation of the financial statements;
    - assessing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of expenditure*

Financial statement impact

Misstatements that occur in relation to the inappropriate capitalisation of expenditure could affect the expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As the Authority is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Authority's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

Our response to significant risks (continued)

Valuation of the Firefighters Pension Scheme liability

Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Firefighters Pension Scheme could affect multiple balances and disclosures throughout the financial statements. The Firefighters Pension Scheme had a net liability of £546 million in 2018/19.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Firefighters' Pension Scheme administered by Leicestershire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £546 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Following the outcome of McCloud and Sargeant in 2018/19, initial estimates suggest removing the difference in treatment of discrimination will add around £4 billion per annum to scheme liabilities across public services from 2015. The most recent valuation process set employer contribution rates until 2023 and given there are a number of factors that may impact on the valuation of the scheme before the next triennial there is uncertainty around how the additional costs will be funded.

CIPFA is preparing further accounting guidance to support bodies with the accounting for the McCloud liability in 2019/20. However, the Authority, via their actuaries will need to ensure that they refine their estimate of the impact of McCloud and Sargeant in 2019/20 and how subsequent funding implications may impact on the triennial valuation.

As well as a risk to the valuation of the liabilities, there is also a timetable risk arising from the above, as agreement of remedy (and potential consultations starting in the spring) may necessitate refining of liability estimates by GAD, to update the work completed in summer 2019 to remeasure the McCloud liability.

As a result of the uncertainty associated with the above we have designated the valuation of the Firefighters Pension Scheme liability to be a significant risk.

What will we do?

We will:

- Understand how the Authority is considering the impact of McCloud and Sargeant on the financial statements arising from the employment tribunals, any resulting consultations and other pronouncements from government on restitution.
- Assess the work of the actuary (GAD) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Understand and consider the PwC report for how your actuary has treated the impact of McCloud and Sargeant in calculating the IAS 19 liability and for any impact on the triennial revaluation;
- Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19;
- Gain assurance over data that has been provided to the actuaries;
- Test a sample of lump sums and pension payments for new fire fighter pensioners;
- Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and
- Assess management's arrangements to reconcile the active and pensioner membership numbers.

Our response to significant risks (continued)

Valuation of Land and Buildings

Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Land and Buildings affect multiple balances and disclosures throughout the financial statements. Land and Buildings had a valuation of £57 million in 2018/19.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the entity's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the performance of audit procedures on the valuation of land and buildings in 2018/19, we identified material misstatements. As a result, we have increased the risk profile attached to this area of the financial statements.

What will we do?

We will:

- Consider the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Engage EY Real Estates team to perform a review of the valuer's estimation methods and to review the valuation of a sample of assets.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation - LGPS The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Nottinghamshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £23 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority; ▸ Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19.

Other matters

What is the risk/area of focus?	What will we do?
IFRS16 – leases IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including: ▸ the identification of leases ▸ the recognition of right-of-use assets and liabilities and their subsequent measurement ▸ treatment of gains and losses ▸ derecognition and presentation and disclosure in the financial statements, ▸ the management of leases within the Prudential Framework. The guidance also covers the transitional arrangements for moving to these new requirements, such as: ▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees ▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).	IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020. In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify: ▸ all leases which need to be accounted for ▸ the costs and lease term which apply to the lease ▸ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit. As you will be required to include the estimated impact of IFRS 16 within your 2019/20 financial statements, you will need to provide evidence to demonstrate that an impact assessment has been undertaken, it is complete, and that any disclosures are free from material misstatement.

Other matters

What is the area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the entity has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

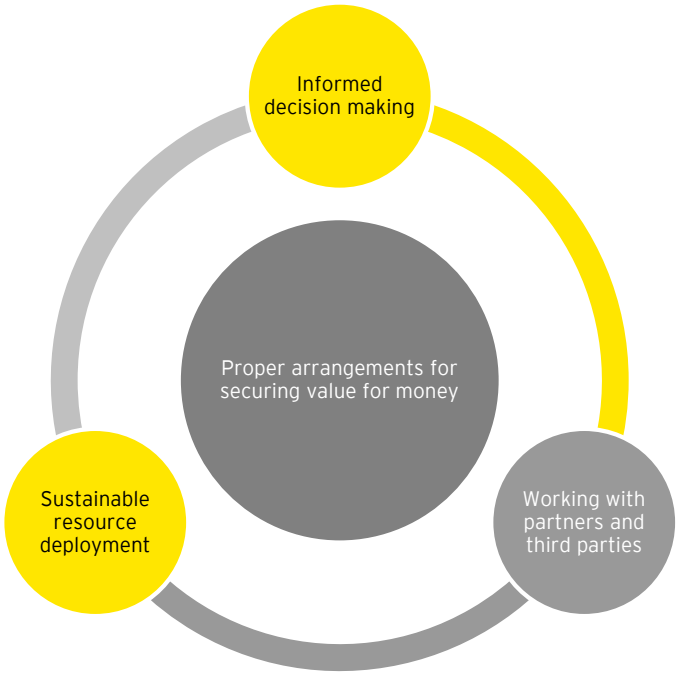
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. This has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Securing financial resilience In common with other Fire and Rescue Services, the Authority is facing significant financial pressures in the medium term. Whilst the Authority is predicting an underspend for 2019/20, the forecast deficits in the MTFS over the next four years are as follows (based on 0% Council tax increase assumption): • 2020/21 - £500,000 • 2021/22 - £1,181,000 • 2022/23 - £1,599,000 • 2023/24 - £2,141,000 This decreases overall useable reserves to £4.3 million by the end of the 2023/24 period, which is marginally above the level of £3.9 million considered acceptable by the Authority going into 2020/21. Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion.	**Deploy resources in a sustainable manner.** Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions	We plan to review: ▸ the MTFS including the adequacy of any major assumptions; ▸ how the organisation has monitored progress of strategic delivery plans; ▸ how the Authority has considered the impact of the Local Government settlement on the MTFS; ▸ the adequacy of plans that have been developed to identify future savings and the level of reported savings delivered in year.
Establishment of joint Headquarters and setup of Limited Liability Partnership In September 2018 and February 2019 , Members approved the development of a business case for a joint Fire and Police Headquarters at Sherwood Lodge, Arnold through a Limited Liability Partnership (LLP) for a joint headquarters site. The total estimated costs for the redevelopment of Sherwood Lodge is circa £18.5m, of which the Authority is to contribute £4 million to be offset by the sale of the current Fire Headquarters. In progressing significant projects there are risks around the arrangements for governance and coming to an informed decision.	**Take informed decisions** Acting in the public interest, through demonstrating and applying the principles and values of sound governance	We plan to review: ▸ the decision making arrangements surrounding the redevelopment of the site at Sherwood Lodge ▸ the decision making arrangements and processes undertaken relating to the creation of the limited liability partnership ▸ the considerations undertaken in relation to the taxation and legal guidance relating to the governance delivery options for the joint headquarters arrangements.

Value for Money Risks

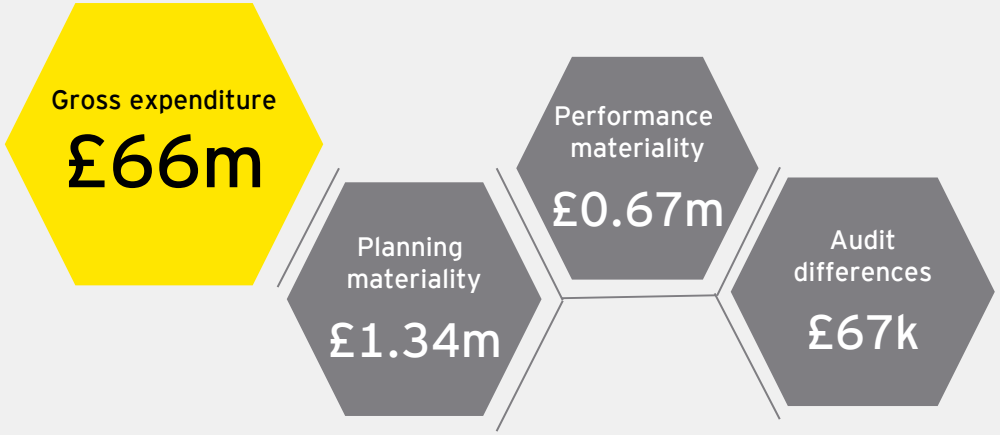
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
HMICFRS Inspection Findings – 2019 The HMICFRS inspection, dated June 2019, gave the Authority an overall result of 'requires improvement'. The inspection highlights a number of required improvements. The Authority has allocated £1.4m of reserves to address the issues highlighted in the inspection. The negative findings within the inspection and the significant funds allocated to address the issues signifies a significant risk to the value for money arrangements at the authority.	**Deploy resources in a sustainable manner and Taking informed decisions** Acting in the public interest, through demonstrating and applying the principles and values of sound governance and Managing and utilising assets effectively to support the delivery of strategic priorities	We plan to review: ▸ the inspection in full. Assessing the issues identified within NFRA; ▸ the NFRA plans proposed to address the issues identified within the inspection report; ▸ the procedures undertaken and governance arrangements in respect of the formulation of the proposed actions; ▸ The financial impact of the plans that have been developed to address the findings and whether these represent value for money.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £1.34 million. This represents 2% of the Authority's prior year gross expenditure on the (Surplus)/Deficit on provision of services but excluding the £24m past service cost included as a result of the McCloud adjustment. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Finance and Resource Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.67 million which represents 50% of planning materiality. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the misstatements identified in the prior year, we have determined that performance materiality needs to be set at 50% of planning materiality. This has an impact on the level of work we are required to perform, and therefore the audit fee.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Finance and Resources Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality for remuneration disclosures, related party transactions and members' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Pension Fund Materiality - Pension Fund Planning materiality of £329k has been set by using 2% of benefits payable as per the audited 2018/19 Financial Statements. Performance materiality of £165k has been set at 50% of planning materiality and the audit difference threshold is set at £16k.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Our Audit Process and Strategy (continued)

Audit Process Overview
Analytics: We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools: ▸ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and ▸ Give greater likelihood of identifying errors than random sampling techniques. We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Finance and Resources Committee. **Internal audit:** We will review internal audit plan and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

The engagement team is led by Helen Henshaw, who is supported by Gary Morris, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on local government audits. Jessica Pillay, your lead senior for the audit, will provide continuity in your team and will be responsible for leading the team on site.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations
Pensions disclosures	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the organisation's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Finance and Resources Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	February		
Interim audit testing	March / April	Finance and Resources Committee	Audit Planning Report
Year end audit	September		
Year end audit Audit Completion procedures	October	Finance and Resources Committee	Audit Results Report Audit opinions and completion certificates
	Onwards	Finance and Resources Committee	Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the organisation. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. At the time of writing, there are no non-audit services to be provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of senior management of the organisation. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here: https://www.ey.com/en_uk/who-we-are/transparency-report-2019

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.
We anticipate that new requirements for other entities will follow and we will continue to monitor and assess the impact.

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Total fee 2018/19	Planned fee 2019/20
	£	£
Total Fee – Code work	23,909	23,909
Other	18,151 (note 1)	(note 2)
Total audit	42,060	TBD

All fees exclude VAT

(1) The 18/19 Code work includes an additional fee of £18,151, which relates to the areas set out below. We have discussed, but not agreed, the variation with officers and await a decision from PSAA.

- PPE valuation (use of specialist)
- PPE existence
- Pensions valuation (McCloud and use of specialists)
- Prior period adjustment
- Multiple versions of accounts
- Value for money risks

(2) For 19/20 the scale fee will be impacted by a range of factors (see pages 35 and 36). The specific issues we have identified at the planning stage which will impact on the fee include the use of specialists for PPE valuation and pensions liabilities, additional work required as a result of setting performance materiality at 50%, and the work that will be required to address the value for money risks identified.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

Any agreed fee is presented based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Corporation; and
- The entity having an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Corporation in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the Fire Authority the extent of audit procedures now required mean it will take around 900 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Authority concludes that a more appropriate scale fee for the delivery of an external audit to the Authority would be in the region of £70,000.

Summary of key factors

1. **Status of sector**. Financial reporting and decision making in the public sector has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates**. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment**. Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Corporation should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B

Required communications with the Finance and Resources Committee

We have detailed the communications that we must provide to the Finance and Resources Committee (F&RC)**.**

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Finance and Resources Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report

Appendix B

Required communications with the Finance and Resources Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the Finance and Resources Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report

Appendix B

Required communications with the Finance and Resources Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Finance and Resources Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the GPWG may be aware of	Audit results report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit 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. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Reading other information contained in the financial statements, the Finance and Resources Committee reporting appropriately addresses matters communicated by us to the Finance and Resources Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.