NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

EXTERNAL AUDITORS' REPORT TO THOSE CHARGED WITH GOVERNANCE 2019/20

Joint Report of the Chief Fire Officer and
Treasurer to the Fire Authority

Date: 26 February 2021

Purpose of Report:

To present the External Auditors' ISA 260 Report to Members, and to seek approval of the management representation letter to the External Auditors.

Recommendations:

- That Members note the contents of the External Auditors' ISA 260 report, attached at Appendix A.

CONTACT OFFICER

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1. BACKGROUND

1.1 The External Auditors are required by the International Standard on Auditing 260 (ISA 260) to communicate about the audit of the Authority's financial statements to those charged with governance. This communication is in the form of a written report, which is attached as Appendix A.

1.2 This covering report sets out the key points within the ISA 260 report. The principal purposes of the Auditors' report are:

- To present key issues identified during the audit of the financial statements for the year ended 31 March 2020 and any material misstatements in the accounts;
- To report on any key issues for governance;
- To report on the Auditors' Value for Money conclusion;
- To give an "audit opinion" on the financial statements;
- To report on the implementation of any recommendations in the previous year's ISA 260 report;
- To seek approval to the management representation letter, which confirms the Authority's responsibilities and actions in relation to the financial statements.

1.3 The Ernst Young manager of the Authority's audit will be attending the meeting to present the report and answer any questions arising and will also provide Members with an update on the audit work completed since this report was written.

2. REPORT

2.1 The annual audit is in the completion stage and the ISA 260 report sets out the key issues to be considered by Members prior to the audit opinion being issued.

2.2 The ISA 260 report confirms that the Auditors expect to issue an unqualified audit and an unqualified Value for Money conclusion.

2.3 The audit has identified a small number of amendments to be made to the accounts. These mostly related to the notes to the accounts and are detailed on Page 24 of the ISA260 report.

2.4 The ISA 260 report identifies several audit differences which have not been amended on the grounds of materiality. These can be found on Page 25 of the report.

2.5 The valuation of assets is currently undertaken by qualified valuers on a five-year rolling programme which adheres to the CIPFA's Code of Practice. Asset valuations can vary over five years and for this reason, the valuers will re-value a property if significant work has been undertaken on it, or use indices to amend values as a proxy measure until the asset is picked up under the normal valuation timetable. This provides a balance between the frequency of valuations, use to the reader of the accounts and the cost to the service of the valuing the assets. The auditors have estimated that had all assets been re-valued this year the difference in value could have been in the region of £1.2m. Given the subjective nature of asset valuation and that the service's valuers have indicated that the values are not materially mis-stated, asset values have not been amended in the accounts.

3. FINANCIAL IMPLICATIONS

The proposed Annual Audit Fee in the contract for 2019/20 was £23,909. The PSAA (Public Sector Audit Appointments) approved an increase to this fee of £18,151. The fee for 2019/20 was set by PSAA at £23,909 but the auditors have requested a substantial increase in the fee to £87,814 (see page 44). The £63,905 increase mostly relates to the increase in work required by amendments to the audit regulatory framework, which came into force for the 2018/19 audit. The total fee being requested is giving a total of £87,814.

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 carried out because this is a report about the external audit of the financial statements and not a new policy.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The work of the External Auditors in their audit of the Authority's financial statements provides an independent view of the adequacy of internal controls, the accuracy of the final accounts and an assessment of the Authority's arrangements for achieving value for money. This provides Members with some assurance about the quality of financial management and financial reporting within the Authority.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the contents of the External Auditors' ISA 260 report, attached as Appendix A.

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

None.

John Buckley
CHIEF FIRE OFFICER

Becky Smeathers CPFA
TREASURER TO THE FIRE AUTHORITY

Nottinghamshire Fire & Rescue Authority
Audit results report

Year ended 31 March 2020

12 February 2020

EY
Building a better working world

Private and confidential

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

12 February 2021

Dear Members of the Nottinghamshire Fire and Rescue Authority

We are pleased to attach our audit results report for the forthcoming meeting of the Fire Authority. We have substantially completed our procedures in relation to the audit of Nottinghamshire Fire and Rescue Authority (the Authority) for 2019/20.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We have no matters to report to date on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of Members of The Authority and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Fire Authority meeting on 26 February 2021.

Yours faithfully

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature. This Audit Results Report is prepared in the context of the Statement of responsibilities . It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report dated 03 April 2020 which was circulated to the Finance and Resource Committee at that time, and later presented to the committee at the January 2021 meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.

- **Disclosures on Going Concern** – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.

- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.

- **Adoption of IFRS16** – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Executive Summary

Scope update

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.34m, with performance materiality, at 50% of overall materiality, of £0.67m, and a threshold for reporting misstatements of £67k. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We updated our planning materiality assessment using the draft accounts and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.326m (Audit Planning Report – £1.34m). This results in updated performance materiality, at 50% of overall materiality, of £663k, and an updated threshold for reporting misstatements of £66.3k

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 44.

Executive Summary

Status of the audit

We have substantially completed our audit of Nottingham Fire and Rescue Authority's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an **un**qualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Completion of work in the following areas of accounts; Expenditure and Funding Analysis, Reserves, Property plant and equipment valuations, payroll, financial instruments and journal entry testing.

Review of the final version of the financial statements and agreement of all audit adjustments.

Receipt of the signed management representation letter

Completion of subsequent events review

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Objections

We have received no objections to the 2019/20 accounts from members of the public.

Audit differences

We have identified several adjustments required to the draft financial statements as a result of our audit procedures. We have reported those adjusted audit differences above our audit performance materiality threshold in Section 4 Audit Differences.

In addition, we have identified audit differences in the course of our audit which management have chosen not to adjust the financial statements for. These are set out in section 4 of this report. The net impact of these would be to reduce the reported outturn by £1.2m.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Nottingham Fire and Rescue Authority's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Audit findings and conclusions: significant risk – Misstatements due to fraud or error

- Our audit procedures have found no evidence of fraud or error caused by management override of controls. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Audit findings and conclusions: significant risk - Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of expenditure

- We have not identified any additions that were incorrectly capitalised.

Audit findings and conclusions : significant risk - Valuation of land and buildings

- We engaged EY Real Estates to review a sample of 6 specific assets. No issues were identified with all values being within an acceptable range. We noted that management have undertaken no assessment of whether assets not formally revalued in year have been subject to material valuation movements since they were last revalued. To challenge these valuations we have referred to property indices to estimate the likely valuation movements, The work performed to date indicates that the assets not revalued in the year could be understated by £1.2m. We have noted this on our summary of audit differences but continue to progress our work in this area alongside management. We will provide an oral update at the 26 February 2021 meeting.

Audit findings and conclusions : significant risk – Valuation of the Firefighters Pension Scheme Liability – Local government pension scheme (LGPS)

- We are satisfied that the amounts recorded in respect of the fire fighters pension scheme are free material misstatement.

Audit findings and conclusions: other financial statement risk – Pension Liability Valuation – Local Government Pension Scheme (LGPS)

- Our audit procedures have not identified any material misstatements with regard to the valuation of the pension liability.

Audit findings and conclusions: other matters – Going Concern

- Based on our audit procedures undertaken on cashflow position and available reserves for the next 12 months we have not identified evidence that significantly casts doubt on the going concern assumption as the basis of preparation of the financial statements.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, we wish to report the following area where improvements could be made to the control environment:

- A rigorous quality control of the financial statements and supporting working papers before publication;
- A review of all disclosure notes to ensure accuracy and completeness and consistency across the financial statements;
- Enhancement of impairment procedures across property, plant and equipment;
- Regular reconciliations between payroll and Agresso reports to prevent mismatching of employee expenses;
- Collation of all documents relevant to the £8.6 million Lender option, Borrow Option (LOBO) loan, including the agreement to evidence break clauses and potential interest rate rises.

Our key considerations are outlined in section 7.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks.

- **Securing Financial Resilience**
- **Establishment of joint Headquarters and setup of Limited Liability Partnership**
- **HMICFRS Inspection Findings – 2019**

The results of our work are set out in section 5 of this report. Our value for money conclusion will be unmodified for the year ended 31 March 2020.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. The Authority has made an amendment to the Annual Governance Statement as a result of our work (See Section 6). We have no other matters to report as a result of this work.

We have also reviewed the Authority's Narrative Report for consistency with the financial statements and our knowledge. We have identified inconsistencies in the Narrative statement and brought this to the attention of Management for amendment. We have not yet seen any amendment to the Narrative Report.

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £500 million threshold for review as per the NAO's group instructions.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to bring to your attention.

02 Areas of Audit Focus

Significant risk

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 and Ireland) 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.

What did we do?

In order to address this risk we have carried out a range of procedures including:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed 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.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Our response to significant risks (continued)

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

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 did we do?

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

- Reviewed the appropriateness of expenditure recognition and capitalisation accounting policies;
- Used 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
- Performed 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.

What are our conclusions?

We are satisfied that the expenditure recognition and capitalisation policies in place are appropriate.

We are currently finalising our work on journal entry testing, we will update our conclusion in this area at the meeting on the 26 February 2021.

We have substantively tested a sample of additions to property, plant and equipment in the year and have found no instances of expenditure being inappropriately capitalised.

In our testing of transport related expenditure, we did identify one item where expenditure was accrued at the year end for a liability which never materialised and therefore the accrual was reversed unused in the new financial year (20/21). We extrapolated this error which resulted in an extrapolated audit difference of £1.046m overstatement of expenditure for the year ended 31 March 2020. Management have chosen not to amend the accounts for this amount as it is below the materiality level and is an estimated value. This has been included in our summary of unadjusted audit differences at section 4.

Significant risk

Valuation of Firefighters Pension Scheme Liability

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.

Significant risk

Valuation of Firefighters Pension Scheme Liability (continued)

What did we do?

We have:

- Understood 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.
- Assessed the work of the actuary (Mercer) 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;
- Understood and considered 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;
- Reviewed and tested the accounting entries and disclosures made within the financial statements in relation to IAS19;
- Gained assurance over data that has been provided to the actuaries;
- Tested a sample of lump sums and pension payments for new fire fighter pensioners;
- Completed a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and
- Assessed management's arrangements to reconcile the active and pensioner membership numbers.

What are our conclusions?

We are satisfied that the amounts recorded in respect of the fire fighters pension scheme are free material misstatement.

Significant risk

Valuation of Land and Buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balances in the entity's accounts and is 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.

Many of the property valuations involve future yields within the calculation. Due to the impact of Covid-19 there is greater uncertainty around the future yields obtainable in relation to properties.

What judgements are we focused on?

We focused on the complex judgements provided by the specialist valuer in their determination of asset valuations.

What did we do?

- Considered 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 tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered 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;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested 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.

What are our conclusions?

- Revalued Assets

We have gained assurance that the inputs and assumptions used in the valuations are appropriate and supported by external evidence. Consequently we are satisfied that assets valued in year are not materially misstated.

- Assets not valued in year

Management have used the Tender Price Index to undertake an assessment of whether assets not formally revalued in year have been subject to material valuation movements since they were last revalued. We have referred to national property indices to estimate the likely valuation movements in these assets, The work performed to date indicates that the assets not revalued in the year could be understated by £1.2m. We have noted this on our summary of audit differences but continue to progress our work in this area alongside management. We will provide an oral update at the 26 February 2021 meeting.

Management has not made an adjustment for this within the financial statements on the basis that they consider the valuations to be materially stated in line with the requirements of the CIPFA Code.

Other areas of audit focus

We 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 are our conclusions?
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 have liaised with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority We have assessed 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. We have reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19. We are satisfied that the pension liability and related disclosures are free from material misstatement.

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 are our conclusions?
Going Concern basis of accounting Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment to give rise to a risk that the Fire Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.	We focused on key assumptions underlying Management's going concern, in particular the impact on the liquidity and use of reserves for the Authority covering a period of 12 months from the date of approving the final audited financial statements. We reviewed the disclosures contained within financial statements to ensure they were adequate to inform the user as to the assumptions made by the Authority in applying the going concern basis of accounting. We consulted with our internal risk management team in respect of the conclusions reached, and disclosures made. We are satisfied that the going concern basis of accounting is appropriate and disclosures adequate.

03 Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE FIRE AND RESCUE SERVICE

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Nottinghamshire Fire and Rescue Service for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement;
- Related notes 1 to 42; and
- The firefighters' pension fund financial statements comprising the Pension Statements, the Pension Net Assets Statement and the related notes 1 to 6.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:
Give a true and fair view of the financial position of Nottinghamshire Fire and Rescue Service as at 31 March 2020 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report other than the financial statements and our auditor's report thereon. The Chief Finance Officer (S151 Officer) is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our opinion on the financial statements

with our audit of the financial statements, our responsibility is to read the In connection other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Nottinghamshire Fire and Rescue Service put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Treasurer

As explained more fully in the Statement of the Treasurer's Responsibilities set out on page 17, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic

Audit Report

Our opinion on the financial statements

The Service is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Nottinghamshire Fire and Rescue Service had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Nottinghamshire Fire and Rescue Service put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment
we undertook such work as we considered necessary to form a view on whether, in all significant respects, Nottinghamshire Fire and Rescue Service had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Service has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Service has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate
We certify that we have completed the audit of the accounts of Nottinghamshire Fire and Rescue Service in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report
This report is made solely to the members of Nottinghamshire Fire and Rescue Service, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Service and the Service's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Henshaw (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham, Date.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There have been no adjusted differences over our performance materiality level (£0.663m). Below we outline the disclosure and other misstatements the Service has amended in the final set of financial statements :

- Note 35 Related Parties - an amount for £1,100 for Lincolnshire Fire and Rescue service was erroneously included in the calculation for Leicester
- Note 16 Intangible assets - Intangible Assets £334,000 of disposals were incorrectly omitted from the note. Client agreed to amend the account adding £334,000 to disposals and (£334k) to Disposal Amortisation.
- Note 32 Exit Packages - there was an incorrect number of exit packages disclosed. A total of 7 exit packages amounting to £7,000 are disclosed in the draft accounts however we determined that this should be 1 exit package at £5,000.
- Note 32 Exit Packages – Total Redundancy payments in the note included an amount which related to 18/19 not 19/20 at a value of £2,229.
- Note 15 Property, plant and equipment - the financial statements were silent regarding the material uncertainty surrounding the valuation of PPE due to CoVID 19.
- The pension fund disclosure was misstated by £29,000 in relation to the top up grant receivable.
- Prepayments - In our testing of prepayments we identified that an item paid in 2020/21 was recorded as a prepayment in 2019/20. Prepayments are therefore overstated by £129,667.

Further the following misstatements were identified :

- Cash flow statement – the adjusted net surplus or deficit on the provision of services for non cash movements had been calculated incorrectly due to movement in impairment for bad debts. This amount was incorrectly stated at £35,000, when it should have been £187,000. This was due to an omission of an account code when calculating the total movement in impairment for bad debts.

There were numerous other disclosure errors less significant than those outlined above that are to be adjusted for by management.

Audit Differences

Summary of unadjusted differences

Valuation of Property, Plant and Equipment (PPE):
As reported in section 2 above, judgemental differences were noted during our work on assets not valued in year of £1.2m. The impact of these errors is to (net) understate PPE and the value of the revaluation reserve. There is no impact on the CIES.

Depreciation:
Depreciation in 19/20 was overstated by £89,000 due to twice the annual depreciation being processed. This was done to process depreciation on an asset that was erroneously not depreciated in 18/19. The correct treatment of an immaterial prior year error when discovered, is to correct in the current year, and therefore management's treatment of the error is appropriate.

Existence of Property, Plant and Equipment :
During our testing we identified an asset amounting to £129,677 that should have been de-recognised in 2019/20 but was not. Management has indicated that they will derecognise the asset in 20/21.

Misstatements of income/expenditure:
In our sample testing of other expenditure, we identified an error resulting in an overstatement of expenditure in 2019/20.
We extrapolated this error over the population subject to sample testing and concluded that in our judgement other expenditure is overstated by £1,046,000.

The unadjusted differences set out above do not lead to a modification of our audit opinion in respect of the 2019/20 financial statements as we are comfortable that the cumulative effect on the CIES, the general fund and each affected financial statement line item is not material..

Audit Differences

Summary of unadjusted differences

Uncorrected misstatements in the statement of cash flows

There are no further uncorrected errors in the statement of cash flows.

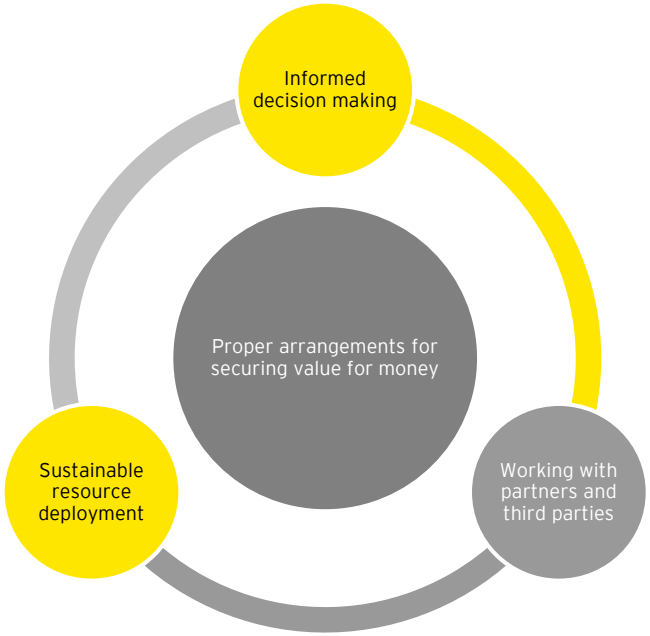
Uncorrected disclosure misstatements

The below disclosure misstatements are uncorrected :

- The expenditure and funding analysis should not be described as a 'core financial statement' but rather as a note to the accounts.
- Capital Financing Requirement contains a recurring disclosure error of £77,000 in Note 36. This error has been carried over since the transition to IFRS.
- Note 6 Events After the Balance Sheet Date – Events disclosed occurred prior to the balance sheet date and is not in line with the code.

05 Value for Money

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 contd.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

At the planning stage we identified three significant risks with regards to financial resilience, taking informed decisions and deploying resources in a sustainable manner. We have undertaken procedures to address these risks. These elements are in relation to the Authority's arrangements for:

- Addressing significant financial pressures in the medium term
- The governance and decision making processes concerning Joint Police and Fire Headquarters with the Police and Crime Commissioner for Nottinghamshire.
- The governance and decision making processes concerning the results of the HMICFRS inspection and the actions undertaken to address the findings identified.

We have undertaken appropriate procedures and concluded that we have no matters to include in the auditor's report about your arrangements to secure economy efficiency and effectiveness in your use of resources and anticipate issuing an unmodified opinion.

Our findings are in the following pages.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements does the risk affect?	What are our findings?
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 consider the process for setting the Authority's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2020/21 budget. Management use scenario planning effectively to provide guidance to the Authority to make decisions on the level of precept to set and clearly demonstrate consideration for the uncertainty of future funding streams. In 2019/20, the Authority reported underspends of £0.6m against budget, meaning that the use of reserves was £0.6m compared to the budgeted £1.2m. We have tested the sensitivity of reserves by taking into account the Authority's history of under and overspends, past savings achieved, planned use of reserves in 2020/21 to 2022/23 and dependency on uncertain funding streams. Assuming all earmarked reserves could be used to support the budget, the Authority would have sufficient reserves to cover the budget gap above its minimum level of reserves set at £3.9 million. We therefore do not propose to qualify the value for money conclusion. However, the Authority needs to be vigilant in taking action to avoid overspends, recognising that the use of reserves to support the budget in previous years is unsustainable and to develop robust plans to achieve ongoing savings to address any budget gaps. We note that Her Majesty's Inspectorate of Constabulary and Fire and Rescue Authorities rated the Authority as requiring improvement across areas covering Effectiveness, Efficiency and People. The inspectorate also noted that he Authority should ensure it has sufficiently robust plans in place which fully consider the medium-term financial challenges beyond 2020 so it can prepare to secure the right level of savings, which we deem to have been implemented.

Value for Money Risks continued.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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	Our audit work has focussed on the decision-making arrangements surrounding the decisions to redevelop the site at Sherwood Lodge and progress to the delivery model through a joint ownership model. Our review of the arrangements found that the Authority has given significant consideration to: • The options available for the redevelopment of the site at Sherwood Lodge; • The decision making arrangements and processes undertaken in relation to determination of the best model used to establish the joint headquarters; and • Guidance provided in respect of taxation and legal positions relating to the governance delivery options. We have considered the reasons for the decisions undertaken and the sufficiency of arrangements in place which ensured that decisions undertaken were done so from a sufficiently informed position. We are satisfied that management: • Reviewed the financial consequences of the move; • Managed the process through the Strategic Collaboration Board supported by the Collaborative Delivery Board and working group comprising Members, Chief Officers and officers of both organisations; • Reported progress to Members of the Authority. We concluded that there was evidence of reasonable arrangements to inform the decision-making process.

Value for Money Risks continued.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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	Our audit work focussed on the result of the HMICFRS inspection, the recommendations raised to the Authority and the action plan established and undertaken to address the issues identified. We have reviewed the inspection and the findings of the report. The Authority considered the recommendations and developed comprehensive plans to address the items raised. We are satisfied that appropriate governance arrangements have been in place in order to sufficiently address the findings of the inspection and monitor the progress of the action plan in response to the findings. We have reviewed the financial impact to the Authority, in relation to the actions undertaken to deliver the remedies to the findings and we have not identified any instances where actions were undertaken which did not represent value for money. The Authority has undertaken significant steps to address the findings of the report in a timely manner, and that all findings have either been addressed or are in the process of final arrangements being undertaken. We conclude therefore that sound governance has been in place and that the Authority has managed and utilised assets effectively to support the delivery of strategic priorities.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2019-20 Statement of Accounts for Nottinghamshire Fire and Rescue Authority with the audited financial statements We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the 2019-20 Statement of Accounts for Nottinghamshire Fire and Rescue Authority and published with the financial statements was consistent with the audited financial statement (pending audit adjustments to be made by management).

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report We requested amendments to ensure that Statement complies with the Code of Practice by including an appropriate conclusion statement.

Whole of Government Accounts

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £500 million threshold for review as per the NAO's group instructions.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

There are no matters identified at present. However, until we have completed all audit procedures we cannot confirm that none will arise.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, wish to report the following areas where improvements could be made to the operation or design of controls.

Quality Control Review of the Financial Statements

The Authority would benefit from more rigorous quality control of the financial statements and supporting working papers before publication of the accounts. The finance team is relatively small, each with defined functions which limits sharing of knowledge, responsibilities and oversight. This is exacerbated in a remote environment. The impact for the Authority is that that if a member of the team is absent, the extent to which others can progress that individual's area of responsibility is limited. The impact for the audit is that audit queries can only be responded to by certain individuals meaning if they are absent, then work is slow to progress.

Review of all disclosure notes to ensure accuracy and completeness and consistency across the financial statements;

During the audit there were a number of disclosure misstatements identified. Management would benefit from implementing stringent disclosure and specific checks to both the code and the rest of the financial statements. This will also result in better quality working papers and will facilitate a more efficient audit process.

Enhancement of impairment procedures across property, plant and equipment

Management's processes around the identification of impairments is light. Management will benefit from enhancing this process to early identify assets that need to written out of the accounts timeously.

Assessment of Control Environment

Financial controls

Lender Option, Borrow Option (LOBO)

As part of our audit we determine whether the Authority has considered the repayment terms within LOBOs. The LOBO is material to the Authority's financial statements at £8.6 million, as valued using PWLB premature repayment rates. However, the Authority did not have copies of the key agreement to evidence break clauses and potential interest rate rises and the authority had to contact the investment house to provide this. The Authority should ensure that all entries within the financial statements are supported by the key agreements and formal documents.

Reconciliation between Payroll and Agresso

Discrepancies were identified between these systems. Monthly reconciliations will enhance managements internal controls and ensure that financial records are consistent, supportable and accurate.

08 Data Analytics

Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

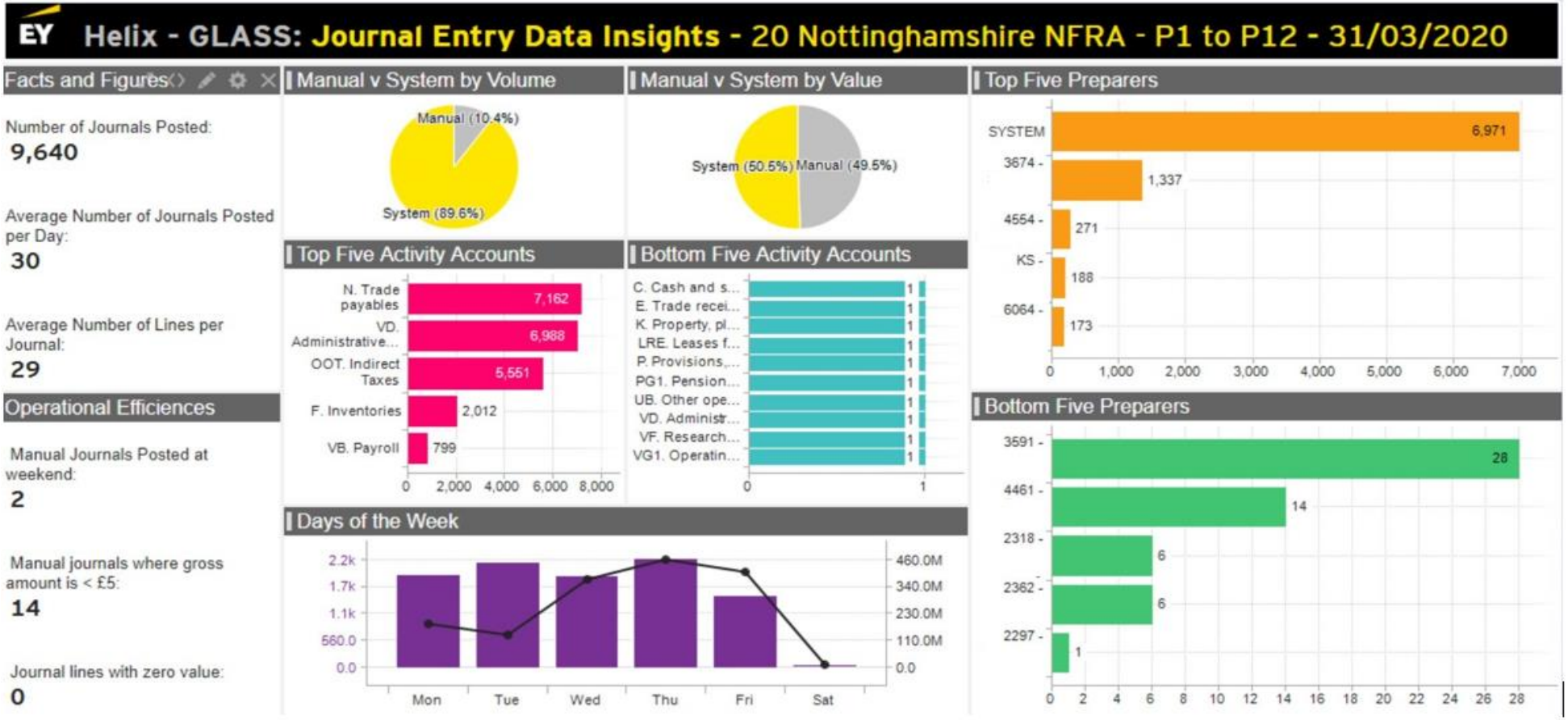
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples



Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2020

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and are in the process of concluding on this area.

09 Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees in relation to the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements

Description	Final Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Audit Scale Fee – Code work	23,909	23,909	23,909
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	47,193	-	-
Additional specific one-off work required for Covid-19 considerations and current year risks (see Note 2)	16,714	-	18,151*
Total Audit Fee	**87,816**	**23,909**	**42,060**
Non-audit work	Nil	Nil	Nil
Total Fees	**87,816**	**23,909**	**42,060**

*** Approved by Public Sector Audit Appointments Limited (PSAA)**

Note 1:
As reported in our Audit Plan (dated March 2020), we consider that a more appropriate scale fee to reflect the inputs required to complete an external audit of the Authority would be in the region of £70,000. To arrive at this figure, the scale fee has been re-assessed to take into account a number of risk factors as outlined below:

- Procedures performed to address the risk profile of the Fire Authority - £19,708
- Additional work to address increase in Regulatory standards - £22,248
- Client readiness and IT support for Data Analytics - £5,237

This additional fee has been discussed with Management, but has not been agreed pending a national decision on rebasing of scale fees, led by Public Sector Audit Appointments Limited (PSAA). It will ultimately be subject to review and approval by the PSAA.

Fee analysis (continued)

Note 2
The 19/20 audit has been impacted by a range of factors which correspond to our risk assessment, and the additional procedures required as a result of C-19 as follows:

	£
Going Concern (additional work to review going concern assessments and assumptions, including liquidity forecasts, underpinning it; internal consultation and review)	4,937
PPE valuations – use of specialists	5,563
Value for money – consideration of 3 significant risks	2,968
C-19 additional work (including reassessing materiality levels, revisiting risk assessments (including VFM))	3,246
Total	16,714

This additional fee has been discussed with Management and is subject to review and approval by the PSAA Ltd.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

Services provided by Ernst & Young

The previous page sets out a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.
We confirm that none of the services listed have been provided on a contingent fee basis.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 20 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

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 end 30 June 2020:

EY UK Transparency Report 2020 | EY UK

10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit 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.	Audit planning report (March 2020)
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report (March 2020)
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

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report (March 2020) and Audit results report
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	All confirmations received as requested
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ 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 planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report (March 2020) Audit results report

Management representation letter

Management Rep Letter (draft)

Mrs Helen Henshaw
Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ

Dear Helen

This letter of representations is provided in connection with your audit of the financial statements of Nottinghamshire Fire and Rescue Authority for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Nottinghamshire Fire and Rescue Authority as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Authority that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

Management representation letter (continued)

Management Rep Letter (draft)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    1. involving financial statements;
    2. related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements;
    3. related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
    4. involving management, or employees who have significant roles in internal controls, or others; or
    5. in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    1. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    2. Additional information that you have requested from us for the purpose of the audit; and
    3. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Fire Authority and the Finance and Resources Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 26 February 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter (continued)

Management Rep Letter (draft)

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

1.There have been no events, including events related to the COVID-19 pandemic subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. Valuation of Pension Asset/Liabilities and Property, Plant and Equipment:
2. We believe that the measurement processes, including related assumptions and models, used to determine the above accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete including the effects of the COVID-19 pandemic on 16 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
5. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Management representation letter (continued)

Management Rep Letter (draft)

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Reserves

1.We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Yours faithfully,

_____

Charlotte Radford, Treasurer

_____

Councilor Michael Payne, Chairman of the Fire Authority

Appendix C

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the Audit Committee/Board, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on NFRA
IFRS 16	▸ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	▸ Nottingham Fire and Rescue Authority will need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date ▸ Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward

Regulatory update

Since the date of our last report to the Audit Committee/Board, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on NFRA
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.

Reflections from the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.

Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a "system leader" and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

Reflections from the Redmond Review (continued)

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.

2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.

3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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