



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

EXTERNAL AUDIT PLAN 2023/24

Report of the Chief Fire Officer

Date: 26 July 2024

Purpose of Report:

To present the external auditors' audit plan for work which they intend to carry out on the Authority's 2023/24 financial statements and value for money arrangements.

Recommendations:

That Members note the contents of this report and the External Audit Plan and Strategy for the year ending 31 March 2024 included as Appendix A.

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1. BACKGROUND

- 1.1 The external auditors are appointed through a national contract via Public Sector Audit Appointments (PSAA). A new national contract is in place for 2023/24 to 2027/28.
- 1.2 The external auditors appointed for the Fire Authority for the period 2023/24 to 2027/28 are KPMG LLP.
- 1.3 As part of their responsibilities under the external audit regime, the auditors produce an annual plan setting out the areas that they will cover during their audit.

2. REPORT

- 2.1 The External Audit Plan provides an overview of the planned scope and timing of the statutory audit of Nottinghamshire and City of Nottingham Fire and Rescue Authority for those charged with governance. The full External Audit Plan and Strategy for the year ending 31 March 2024 is set out in Appendix A for Members' information.
- 2.2 In summary, it covers several areas:
 - Scope and materiality.
 - Significant risks, audit risks and approach.
 - Mandatory communications.
 - Value for money risk assessment and approach.
 - The audit team.
 - The audit cycle and timeline.
 - Fees.
 - Confirmation of independence.
 - The audit quality framework.
 - Revised International Standards on Auditing (ISA).
- 2.3 The plan identifies those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error as being:
 - The presume risk of management override of control.
 - Valuation of pension liability.
 - Valuation land and building.
- 2.4 The external auditors commenced their interim fieldwork in April 2024 and are planning to conclude their interim work and the undertake their final fieldwork in July and August 2024. The plan identifies the external auditors' aim to deliver their audit report by 31 October 2024. However, this is subject to change due to the level of consultation in the sector, regarding the scope and timing of local government audit.

3. FINANCIAL IMPLICATIONS

- 3.1 The contracted audit fee for the 2023/24 Statement of Accounts is £94,838 (£32,648 for 2022/23). There has been a significant increase in audit fees, this is due to additional work being required by the Code of Audit Practice, this additional work has been built into the fees, then fees have been increased further following the PSAA's national auditor appointment procurement for the period 2023/24 to 2027/28, which has resulted in a procurement adjustment of 151% for the new contract rates for audit firms.
- 3.2 The increase in the audit fee has been included in the approved budget.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES AND ETHICAL IMPLICATIONS

An equality impact assessment has not been undertaken because this report relates to statutory audit which is external scrutiny rather than a policy matter. There are no ethical implications arising from this report.

6. ENVIRONMENTAL AND SUSTAINABILITY IMPLICATIONS

- 6.1 There are no environmental or sustainability implications arising from this report.
- 6.2 The external auditors' commentary on the arrangements for ensuring value for money includes reviewing and reporting on the financial sustainability.

7. LEGAL IMPLICATIONS

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

8. RISK MANAGEMENT IMPLICATIONS

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

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the contents of this report

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

None.

Craig Parkin
CHIEF FIRE OFFICER

Nottinghamshire and City of Nottingham Fire Authority

DRAFT - Report to the Finance &
Resources Committee

External Audit Plan & Strategy for the year ending
31 March 2024

June 2024

Introduction

To the Finance & Resources Committee of Nottinghamshire and City of Nottingham Fire Authority

We are pleased to have the opportunity to meet with you on 21 June 2024 to discuss our audit of the financial statements of Nottinghamshire and City of Nottingham Fire Authority for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this plan will remain draft until the finalisation of that Code.

This report outlines our initial risk assessment and planned audit approach based on procedures completed to date. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach to the members of committee. We note that an audit opinion has not been expressed on the prior period, once the prior period audit opinion has been expressed we will communicate any significant changes to the planned approach. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

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| Audit Risks and our audit approach | 6 |
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The engagement team

Richard Walton is the engagement director on the audit. He has 20 years of experience and previously worked with the Local Government audit sector.

Nicole Guo shall lead the engagement and is responsible for the work supporting our audit opinion.

Other key members of the engagement team include Bilal Ahsan who will lead our fieldwork.

Yours sincerely,

Richard Walton,

Director - KPMG LLP

21 June 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. The audit undertaken in the current year is dependent on the finalisation of the previous auditor's work over historical financial statements. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the entity financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as ownership structure, debt arrangements, business environment, and users of accounts, when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1,000k / 65% of materiality driven by our expectations of increased level of undetected or uncorrected misstatements in the period.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £77.5k.
- Errors and omissions in disclosure (Corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. These may be updated depending on the outcome of the PY audit.

File review

We will undertake an appropriate prior year file review dependent on the final opinion issues by the previous auditors.

Entity Materiality

| Entity | |
|---|--|
| Materiality for the financial statements as a whole | £1,550k (2.01% of expenditure) |
| Procedure designed to detect individual errors at this level | £1,000k |
| Misstatements reported to the Finance and Resources Committee | £77.5k |

Materiality
£1,550k
2.01% of entity prior year expenditure £77,099k

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement partner and manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in June 2024 where we present our draft audit plan outlining our audit approach and discuss management's progress in key areas;
- Due to the work of previous auditors still on-going, we will be communicating dates for audit completion at a future Committee;
- Status meetings with management where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management where we discuss the auditor's report and any outstanding deliverables;
- Finance & Resources Committee meeting where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

| Others | Extent of planned involvement or use of work |
|---|--|
| Internal Audit | We will review the work of internal audit as part of risk assessment procedures but will not place reliance on their work |
| IT Audit team members | Our IT audit colleagues will perform our documentation of understanding the IT environment and any associated testing of general IT controls and/ or automated controls where identified. At the time of planning we have not identified any IT or automated controls which we will place reliance on. |
| KPMG Pensions Centre of Excellence | We will involve our pensions colleagues to review the pension liability valuation on the balance sheet during our audit |
| Actuaries | Our actuaries will review and challenge of actuarial assumptions underpinning the valuation of LGPS liabilities and Firefighters pension scheme liabilities. |

Significant risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which Nottinghamshire and City of Nottingham Fire Authority operates.

We also use our regular meetings with senior management to update our understanding and take input from sector and internal audit reports.

Due to the current levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Finance & Resources Committee meeting .

Value for money

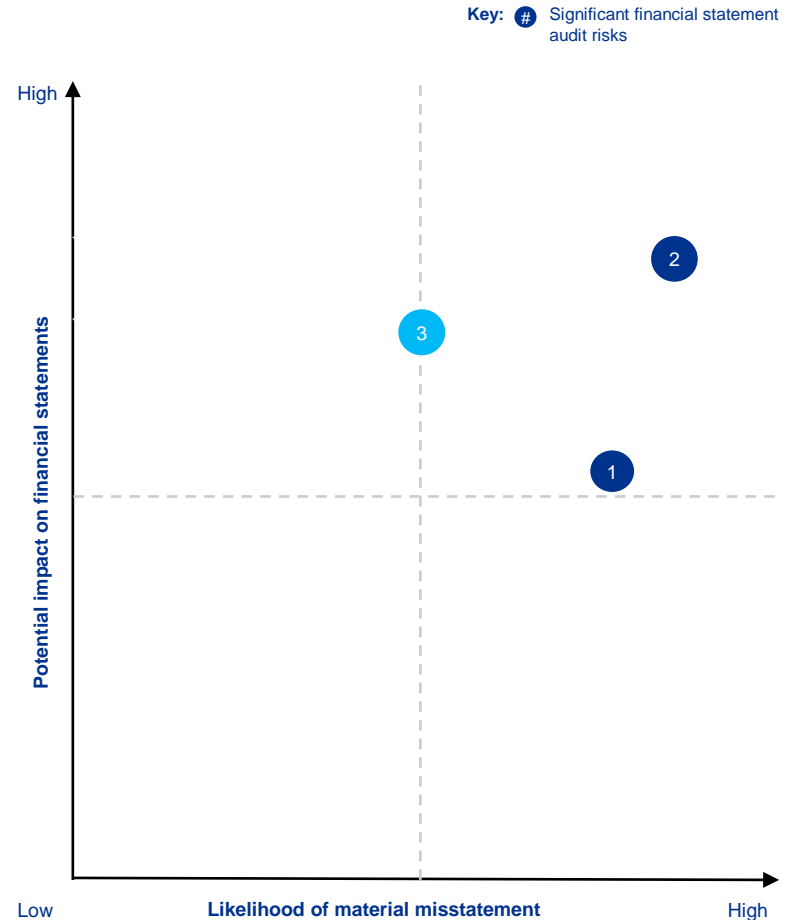
We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Fire Authority and report on this via our Auditor's Annual Report. This will be published on the Fire Authority's website and include a commentary on our view of the appropriateness of the Fire Authority's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness. See Page 13

Significant risks

1. Management override of controls
2. Valuation of post retirement benefit obligations

Other audit risks

3. Valuation of land and buildings



Audit risks and our audit approach

1 Management override of controls(a)

Fraud risk related to unpredictable way management override of controls may occur



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.



Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assess the underlying assumptions used to prepare accounting estimates.
- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluate the selection and application of accounting policies.
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the entity's normal course of business, or are otherwise unusual.
- We will analyse all journals through the year and focus our testing on those with a higher risk, such as journals impacting expenditure and revenue recognition posted during the final close down.

Audit risks and our audit approach (cont.)

Valuation of post retirement benefit obligations

2

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Fire Authority's pension liability could have a significant effect on the financial position of the Fire Authority.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Fire Authority in completing the year end valuation of the pension deficit and the year on year movements.
- We have determined that this risk applies to the Firefighters' pension scheme only and does not apply to LGPS. This is due to the fact that LGPS pension scheme defined benefit pension liability is less significant compared with Firefighters' pension scheme.



Planned response

We will perform the following procedures:

- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Fire Authority to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Fire Authority's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions.

Audit risks and our audit approach (cont.)

3

Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Other audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

The fact that the figures were not audited in the previous year increases uncertainty. Additionally, the control deficiencies identified by internal audit in prior years concerning disposals and land valuation add to the complexity and uncertainty.

We have not currently identified a significant risk relating to valuation of land and buildings due to the assets not being subject to a full valuation during the period, however we will continue to assess this during the audit.



Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of Nottingham valuation office, the valuers used in developing the valuation of the Fire Authority's properties at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach

Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Having considered the risk factors relevant to the Fire Authority and the nature of expenditure within the entity, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Fire Authority, whilst under pressure, is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors.

Audit risks and our audit approach

Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

| Description of Income | Nature of Income | Rationale for Rebuttal |
|-------------------------|--|---|
| Council tax | This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned. The Fire Authority is a precepting authority and so this income is collected by the billing authorities in the area. | The income is highly predictable and is pre-agreed with local authorities at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually: it is highly unlikely for there to be a material error in the population. |
| Business rates | Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned. The Fire Authority is a precepting authority and so this income is collected by the billing authorities in the area. | The income is highly predictable and is pre-agreed with local authorities at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually: it is highly unlikely for there to be a material error in the population. |
| Fees and charges | Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually. | The income stream represents high volume, low value sales, with simple recognition. The income stream is not expected to be material at year end. We do not deem there to be any incentive or opportunity to manipulate the income. |
| Grant income | Predictable income receipted primarily from central government | Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures. |

Mandatory communications - additional reporting

Going concern






Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern. However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

| | | |
|--|--|--|
| Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily  | We have identified issues that we may need to report  | Work is completed at a later stage of our audit so we have nothing to report  |
|--|--|--|

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

| Type | Status | Response |
|---|---|---|
| Our declaration of independence |  | No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence. |
| Issue a report in the public interest |  | We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date. |
| Provide a statement to the NAO on your consolidation schedule |  | This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC. |
| Provide a summary of risks of significant weakness in arrangements to provide value for money |  | We are required to report significant weaknesses in arrangements. Work to be completed at a later stage. |
| Certify the audit as complete |  | We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. |

Mandatory communications

| Type | Statements |
|--|---|
| Management’s responsibilities (and, where appropriate, those charged with governance) | <p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p> |
| Auditor’s responsibilities | <p>Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p> |
| Auditor’s responsibilities – Fraud | <p>This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.</p> |
| Auditor’s responsibilities – Other information | <p>Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.</p> |
| Independence | <p>Our independence confirmation at page 20 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> |



Nottinghamshire and City of Nottingham Fire Authority

DRAFT - Value for money risk assessment

Our approach

June 2024

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following pages.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Fire Authority's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Fire Authority does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Fire Authority has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Fire Authority's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Fire Authority will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

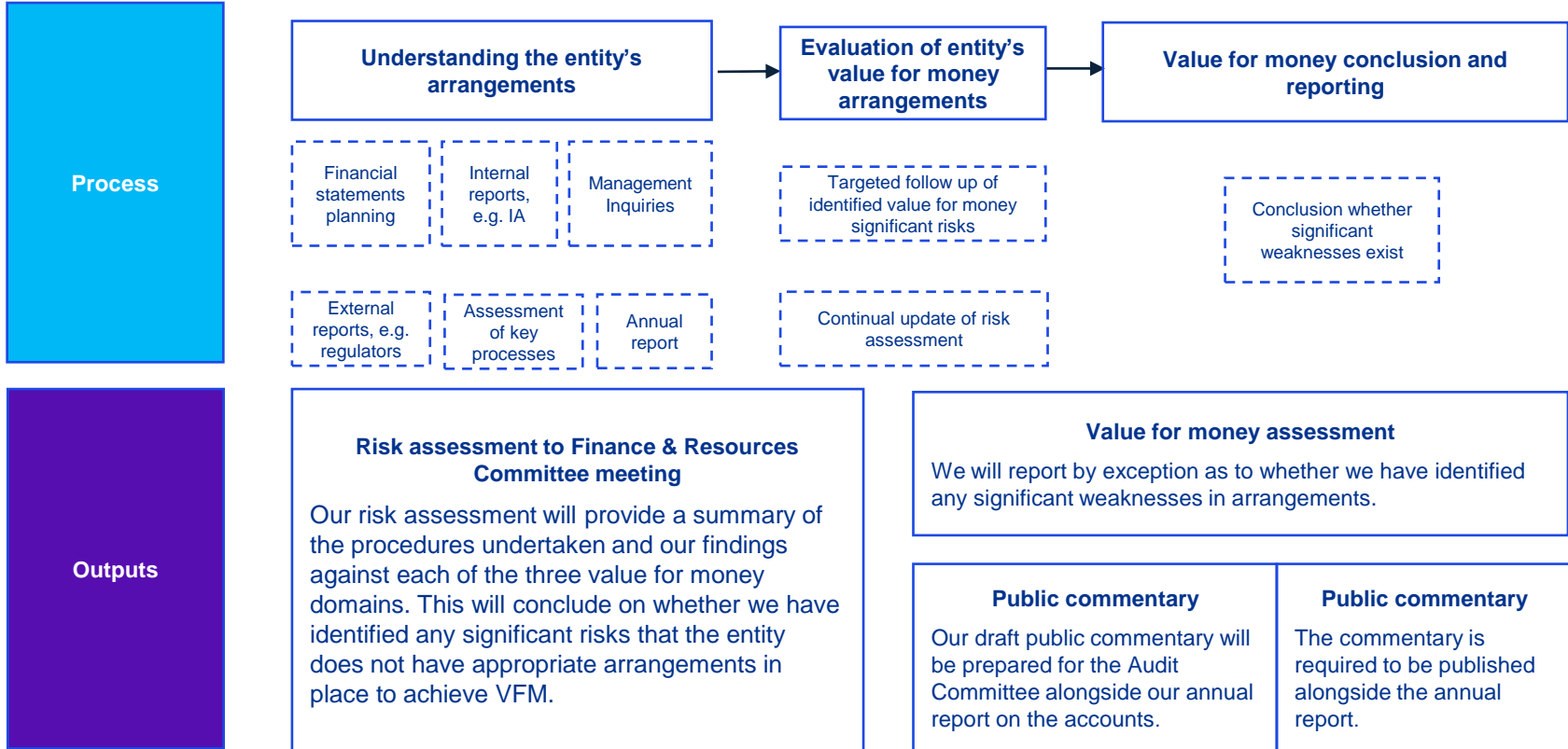
How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:



Appendix

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Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.



Richard is the director responsible for our audit. He will lead our audit work, attend the Finance & Resources Committee and be responsible for the opinions that we issue.



Nicole is the manager responsible for our audit. They will co-ordinate our audit work, attend the Finance & Resources Committee and ensure we are co-ordinated across our accounts and VFM work.



Bilal is the in-charge responsible for our audit for the first year. They will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:



This will be Richard's first year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

Audit cycle & timetable

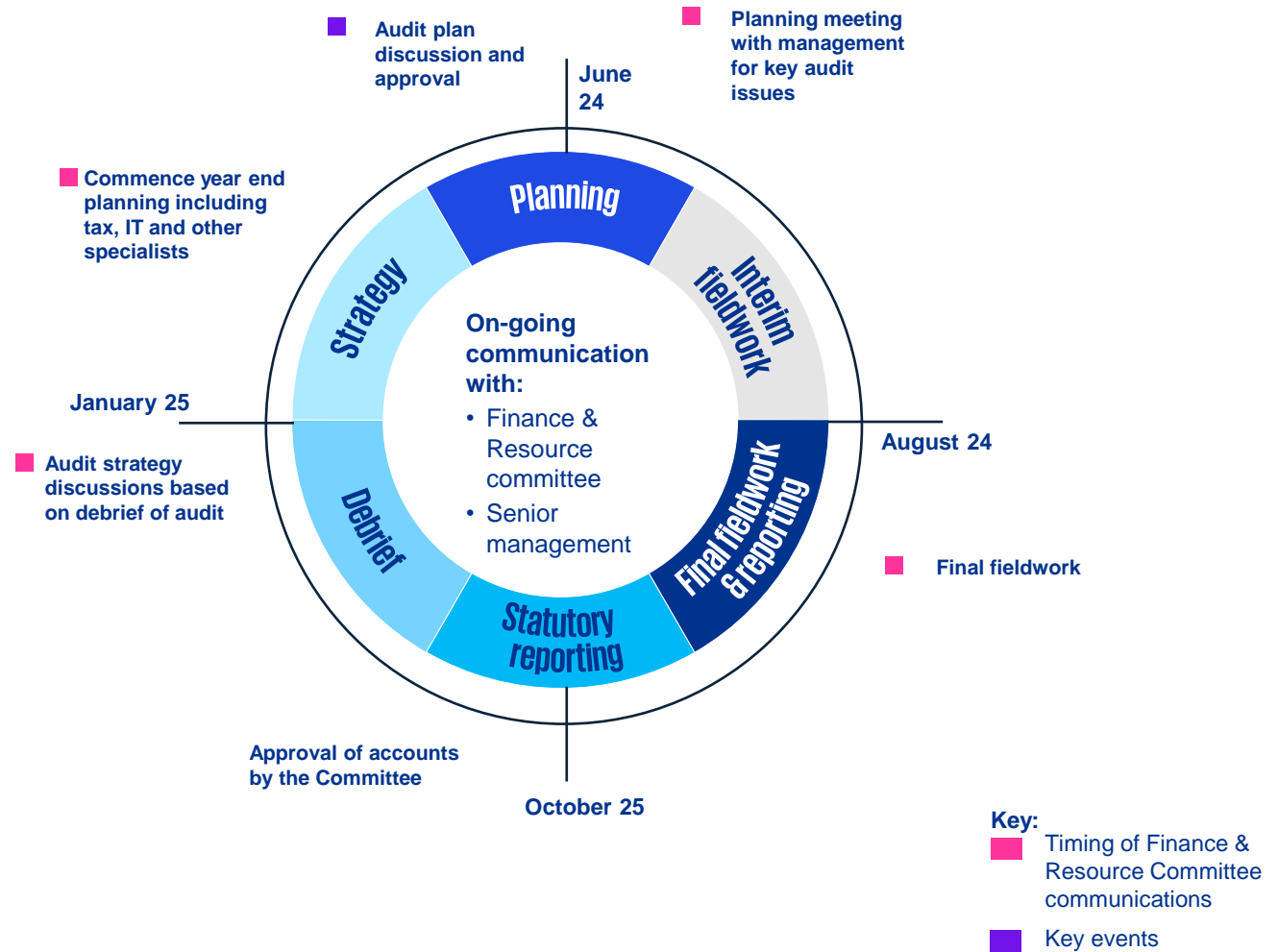
Our schedule 2023-2024

We have worked with management to generate our understanding of the processes and controls in place at the Fire Authority in its preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by 31 October 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Fire Authority at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit schedule may be subject to change.



Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

| Entity | 2023/24 (£'000) |
|-----------------|-----------------|
| Statutory audit | 94,838 |
| TOTAL | 94,838 |

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud. The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- Audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Finance and Resource Committee members

Assessment of our objectivity and independence as auditor of Nottinghamshire and City of Nottingham Fire Authority

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

No non- audit services provided

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

| | 2023/24 |
|-------------------|---------------|
| | £'000 |
| Statutory audit | 94,838 |
| Total Fees | 94,838 |

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

KPMG LLP

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

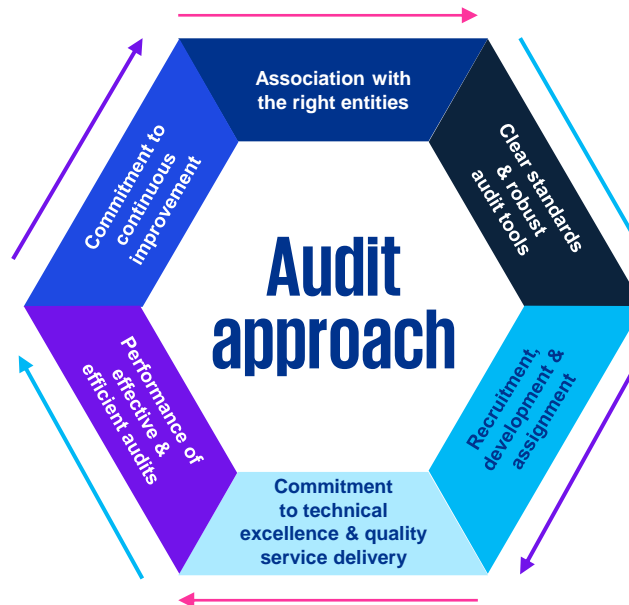
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

ISA (UK) 315 Revised: Overview



Summary

In the prior period, ISA (UK) 315 Revised “Identifying and assessing the risks of material misstatement” was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard’s scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

| Area | Our approach following the revisions |
|--|--|
| Risk assessment procedures and related activities | <ol style="list-style-type: none">1) Increased focus on applying professional scepticism – the key areas affected are:<ul style="list-style-type: none">• the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence;• remaining alert for indications of inauthenticity in documents and records, and• investigating inconsistent or implausible responses to inquiries performed.2) Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud.3) We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud. |
| Internal discussions and challenge | We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud. |

FRC's areas of focus



Reporting on the effects of inflation and other uncertainties

The FRC released their [Annual Review of Corporate Reporting 2022/23](#) in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the entity.

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the company has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.

FRC's areas of focus



Climate-related reporting

The FRC released their [Annual Review of Corporate Reporting 2022/23](#) in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the entity.

Companies in scope for either UK Climate-related Financial Reporting (through the Companies Act requirements last year) or Taskforce on Climate-Related Disclosures (TCFD) (through listing rules or other regulatory requirements) have now reported for the first time. Companies should be reconsidering these disclosures and reflecting any changes in the business or strategy that have happened since last years reporting, to ensure the disclosure remain relevant and reflects the impact of climate-related risk on the Company.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions and sensitivities should be consistent with information provided elsewhere in the annual report, including those related to climate and other commitments, and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Providing quality disclosures in this area remains particularly important in the light of ongoing economic and political uncertainty. The FRC has noted that often disclosures did not contain sufficient information about the key assumptions or appeared inconsistent with disclosures given elsewhere in the annual report.

Disclosures should explain the significant judgements made and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements and estimates relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Significant estimates should be reassessed each year and changes to assumptions explained.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

FRC's areas of focus (cont.)

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

FRC's areas of focus (cont.)

| Income taxes | Provisions and contingencies | Revenue | Presentation of financial statements and related disclosures | Fair value measurement |
|---|--|---|--|--|
| <p>Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.</p> <p>Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.</p> | <p>Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.</p> <p>Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.</p> | <p>Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.</p> <p>Accounting policies and relevant judgement disclosures should be provided for all significant obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.</p> <p>Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.</p> | <p>The FRC expects companies to disclose company-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.</p> | <p>Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a thematic review. Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.</p> <p>The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.</p> |

FRC's areas of focus (cont.)

Thematic reviews

Over the past year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application
- Reporting by the UK's largest private companies

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:



Travel, hospitality and leisure



Construction materials



Retail and personal goods



Gas, water and multi-utilities



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