NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

EXTERNAL AUDITORS' REPORT TO THOSE CHARGED WITH GOVERNANCE 2015/16

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

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Agenda Item No:

Date: 23 September 2016

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

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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 2016 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 KPMG 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 opinion by the statutory deadline of 30 September 2016, and an unqualified Value for Money conclusion. In addition, the Auditors confirm that the Annual Governance Statement complies with the relevant CIPFA / SOLACE guidance on corporate governance.

2.3 The audit did not identify any material or significant errors in the financial statements. There were a few minor presentational corrections required and one adjustment to an accounting policy. None of these impacted on the

Authority's reported General Fund balance, and all amendments suggested by the Auditors have been made.

2.4 There were no recommendations made in the ISA 260 report for 2014/15 and therefore no follow up was required this year.

2.5 The Auditors' report confirms that the Authority's accounts were completed by the statutory deadline of 30th June and presented for audit, that accounting processes and working papers were of good quality, and that Officers responded efficiently to audit queries. The statutory deadline for closing local authority accounts is being brought forward and will be 31st May for the 2017/18 accounts. The Finance Team has been working towards this earlier closedown since 2014/15 and this year had planned to complete the accounts by 10th June. The Head of Finance therefore agreed to a proposal by the Auditors to commence the audit on 13th June, however the deadline was not achieved this year due to the discovery of an error in the valuation of a fire station by the Valuation Office 5 years earlier. The unravelling of five years' of transactions relating to this error, and the correction of these transactions, proved to be complex and time consuming and the accounts could not be completed until 28th June as a result. This meant that the Auditors could not complete their audit work in the original time allocated for the audit and had to return to the Authority at a later date to continue the work. The additional cost of the audit, as a result of this issue, is £1,631.

2.6 The ISA 260 report makes three recommendations:

2.6.1 **The closedown plan for 2016/17 should allow for an earlier closedown and preparation of the financial statements.** The management response to this recommendation is that the closedown plan for 2016/17 will aim for a deadline of 7th June 2017, and work is in progress to ensure that closedown work processes continue to improve in efficiency.

2.6.2 **The Authority should ensure that there is an audit trail to evidence appropriate authorisation of all journals.** The management response to this recommendation is that for those few journal types where electronic authorisation does not take place, a revised process has been put in place to record evidence of manual authorisation.

2.6.3 **Related party returns should be provided promptly in order to verify the accuracy of the related party transactions within the accounts.** The management response to this recommendation is that the Finance Team will work with the Clerk to the Fire Authority in future to ensure that all related party confirmations from Members are returned within an appropriate timescale.

2.7 Section four of the ISA 260 report includes the Auditors' review of the Medium Term Financial Strategy, which is reported elsewhere on the agenda for this meeting.

3. FINANCIAL IMPLICATIONS

The annual cost of external audit work this year is £32,681, which is £1,631 higher than budgeted for due to the issue explained in paragraph 2.5.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITY IMPACT ASSESSMENT

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. RECOMMENDATIONS

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

9.2 That Members approve the management representation letter to the External Auditors as set out in Appendix B.

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

None.

JOHN BUCKLEY
CHIEF FIRE OFFICER

NEIL TIMMS
TREASURER TO THE FIRE AUTHORITY

Appendix A

KPMG

External Audit Report 2015/16

Nottinghamshire and City of Nottingham Fire and Rescue Authority

Draft September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Section one

Introduction

This document summarises:

- The key issues identified during our audit of the 2015/16 financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's 2015/16 arrangements to secure value for money (VFM).

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Nottinghamshire and City of Nottingham Fire and Rescue Authority ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on-site work for this took place during August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now almost completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Section two

Headlines

This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's 2015/16 financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that our audit of your 2015/16 financial statements has not identified any material adjustments and there are no uncorrected misstatements. We have agreed a number of minor presentational changes to the accounts with the Finance team. Overall, the quality of the financial statements was good and we would like to thank the Finance team for their hard work in producing the accounts.
Key financial statements audit risks	We identified one key financial statements audit risk relating to the new firefighters' pension scheme in our 2015/16 External Audit Plan issued in March 2016. We have worked with officers throughout the year to discuss this risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.

Section two

Headlines (cont.)

This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft 2015/16 accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. The audit was, however, delayed due to the time taken to process an error in the valuation of one asset and produce a final set of accounts. Officers dealt efficiently with audit queries. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following 2015/16 VFM risk as part of our VFM risk assessment. — Financial resilience We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work on this VFM risk area. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified 2015/16 VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Finalisation of the work on the VFM conclusion; — SERCOP analysis and cashflow statement; — Review of the treatment of the error identified in the valuation of one asset; — Receiving assurance from the auditor of Leicestershire Pension Fund; and — Checking and agreeing the final set of financial statements. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to the Head of Finance. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2015/16 financial statements.

KPMG

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

The wording of your 2015/16 Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's 2015/16 financial statements following approval of the Statement of Accounts by the Authority on 23 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix two for more information on materiality) for this year's audit was set at £700k. Audit differences below £35k are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management and we have identified no uncorrected misstatements above our reporting threshold.

There were no significant audit adjustments to the accounts but we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one significant risk affecting the Authority's 2015/16 financial statements. We have almost completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk 1

— New pension fund

A new pension fund has been introduced for firefighters from 1 April 2015 and the 2015/16 accounts will now include this scheme as well as the previous two pension schemes and the injury benefit scheme, adding to the complexity of the disclosure. The new arrangements provide for different membership categories, depending on factors such as age and the number of years to retirement. There is a risk that the data provided to the actuary for such factors is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

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— Findings

- We have reviewed the Authority's arrangements for providing the relevant information for the actuarial assessment. The Authority provides limited information to the pension fund administrators at Leicestershire County Council but we have agreed this information to source data. We have also agreed the pension disclosures in the accounts to the information from the independent actuary and have found no errors.
- We have liaised with the auditor of the pension fund at Leicestershire County Council who will provide assurance on the operation of the pension fund. This work is still underway but we do not anticipate any issues arising.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This was not considered as a significant risk but an area of importance where we would carry out some audit procedures to ensure there is no risk of material misstatement.

We have now reviewed this issue. The table sets out our findings for the area of audit focus.

Area of focus 1

Changes to accounting standards

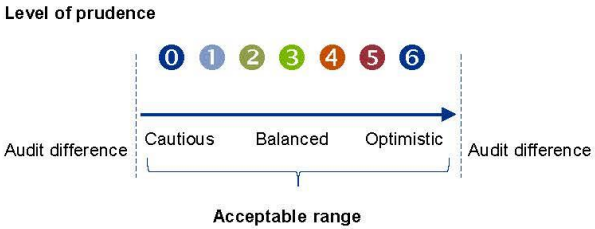
Our audit will consider changes to accounting standards, for example the measurement at fair value of any surplus assets which are not held for sale and when you should recognise a liability for a levy imposed by a government.

Findings

The Authority does not have a material amount of surplus assets but we have undertaken a review of the treatment adopted in respect of their treatment and have identified an amendment to the accounting polices. We have not identified any issues in respect of the recognition of liabilities from levies.

Judgements

We always consider the level of prudence within key judgements in your 2015/16 financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	***14/15***	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£533k *(PY: £313k)*	The Authority's 2015/16 provision balance comprises the losses expected for insurance, the retained duty systems and for business rate appeals. We consider the overall accounting basis to be appropriate.
Property, Plant and Equipment (valuations / asset lives)	3	3	£45 million *(PY: £43 million)*	We have agreed PPE valuations carried out in 2015/16 back to valuation certificates, carried out by the Authority's valuer. We have concluded that the Authority values its assets in accordance with accounting standards and the Code,
Pensions	3	3	£449 million *(PY: £460 million)*	The 2015/16 pension deficit has decreased over the year mainly due to the actuarial assumptions that have been applied. We consider the overall accounting basis to be appropriate.

Accounts production and audit process

We have noted the 2015/16 accounts presented for audit were of good quality as were the supporting working papers.

However, we did not receive a full set of 2015/16 accounts until some weeks after the audit visit. This was due to an error in the valuation of an asset in previous years, the correction of which took a considerable amount of time. There were therefore delays in the audit process and unplanned extra work to resolve the issue.

Officers dealt efficiently with audit queries.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained it effective processes for accounts production. The Authority must now aim to bring forward the production of the accounts in readiness for the new deadlines whilst also ensuring that presentational errors are kept to a minimum. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2016. However, this was some weeks after the planned date for the audit visit due to on an error in the valuation of an asset in previous years, the correction of which took a considerable amount of time. There were therefore delays in the audit process and unplanned extra work to resolve the issue.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in March 2016 and discussed with the Head of Finance, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers dealt efficiently with audit queries, responding in a reasonable time

Additional findings in respect of the control environment for key financial systems

We have the following matters to report to you in respect of the control environment for key financial systems:

— There were two journals from our sample testing for which no authorisation could be located. We have raised a specific recommendation on this issue.

— Two members did not return their forms to confirm their related party transactions until very late in the audit process. It is important that these returns are provided promptly in order to verify the accuracy of the related party transactions within the accounts.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2015/16 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottinghamshire and City of Nottingham Fire and Rescue Authority for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire and City of Nottingham Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Authority meeting. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

KPMG

Section four: Value for Money

VFM Conclusion

Our 2015/16 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall 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.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met

Specific VFM Risks

We have identified a specific 2015/16 VFM risk around financial resilience. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

We have undertaken some work to date in response this risk.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— assessed the Authority's key business risks which are relevant to our VFM conclusion;

— identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and

— considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out some work on this risk. This work is now almost complete and we also report on this below.

Specific VFM Risks (cont.)

Key VFM risk873k	Risk description and link to VFM conclusion	Assessment
Financial resilience	**Financial Resilience** The Government's Autumn Statement and Spending Review indicated its intention to change funding sources over the next few years, with less reliance on Revenue Support Grant and increasing dependence on business rates income. The Authority has anticipated the reductions in Government funding in budget forecasts, as well as inflationary pressures. It budgeted for a surplus of £570k in 2015/16 and while the forecast surplus for the year end falls short of this, the Authority still anticipates a surplus of £470k. However, even with anticipated increases in council tax, there is a budget gap of over £2m over the period of the Medium Term Financial Plan and the Authority will need to ensure that it continues to deliver efficiencies in order to close this gap.	We have reviewed the Authority's Medium Term Financial Plan (MTFP) and outturn for 205/16. The key findings are: — The Authority recognises the budget pressures it faces in the medium term, most notably reductions in external funding provided centrally which are predicted to reduce by 21% over five years. Projections in the revised plan show the need to make savings of £3.8million over the life of the current MTFP, unless council tax increases are agreed for future years. — The actual outturn for 2015/16 is a surplus of £873k which is higher than the budgeted surplus due to favourable variances on supplies and services expenditure and income. The Authority has reported a detailed analysis of the reason for the variances against budget. — The Authority's general fund reserves target is £3.8 million and the working balance at the end of 2015/16 was £3.5 million in earmarked reserves and £7.4 million general fund balance. The Authority therefore holds a reasonable level of reserves for future requirements. — Government grant income is based on known settlement funding or reasonable assumptions concerning future entitlement. We have agreed amounts included in the MTFP for revenue support grant and baseline finding to the local government finance settlement from DCLG. — The Authority has policies for sustainability, council tax increases and reserves which we have reviewed. Whilst the Authority has made savings over a number of years, it recognises that strategic solutions are required to achieve the level of savings required in future. It has established its strategic direction for achieving savings which include changing patterns and ways of working, collaboration with other emergency services and a review of the asset base. — The Authority flags a number of risks and uncertainties associated with its MTFP, including business rates collection by billing authorities, consistency of surpluses/deficits on collection fund accounts and HR issues. We have reviewed the assumptions contained within the MTFP and concluded they are reasonable.

Appendices

Appendix one

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
1	*Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	*Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	*Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**Accounts Production Process** The deadline for the production of the accounts is moving to 31 May with effect from 2017/18. The Authority now only has one more year to bring forward the production of the accounts in light of this change. This will need to be done whilst ensuring that the quality of the accounts is not diminished. **Recommendation** The closedown plan for 2016/17 should allow for an earlier closedown and preparation of the financial statements.	
2	2	**Journal authorisation** Our testing identified two journals without evidence of authorisation. **Recommendation** The Authority should ensure that there is an audit trail to evidence appropriate authorisation of all journals.	
3	2	**Related party returns** Two members did not return their forms to confirm their related party transactions until very late in the audit process. **Recommendation** Related party returns should be provided promptly in order to verify the accuracy of the related party transactions within the accounts.	

Appendix two

Audit differences

This Appendix sets out the audit differences.

The financial statements have been amended for all the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Authority meeting). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

There were no uncorrected misstatements.

Corrected audit differences

Material misstatements

There were no material misstatements.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and we understand that the financial statements will be amended for all of them. We did not identify any significant adjustments to the accounts but a number of minor amendments focused on presentational improvements have been made to the draft financial statements. The Finance team are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix two

Materiality and reporting of audit differences

For 2015/16 our materiality is £700k for the Authority's accounts.

We have reported all audit differences over £35k for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same materiality level as reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £700k which equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Authority

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £35k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

Appendix three

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Authority meeting.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Appendix three

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire and City of Nottingham Fire and Rescue Authority Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire and City of Nottingham Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix three

Audit Independence

Audit Fees

Our scale fee for the audit as outlined in our 2015/16 audit plan was £31,050 plus VAT (£41,400 in 2014/15). The actual fee was £1,631 higher than the scale fee due to delays in the audit process. This fee is subject to approval by Public Sector Audit Appointments (PSAA).

Non-audit services

We have not carried out any non audit services in 2015/16.

kpmg.com/uk

Appendix B

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Tel: 0115 967 0880
Email: sue.maycock@notts-fire.gov.uk

Mr Cardoza
KPMG LLP
One Snowhill
Snow Hill, Queensway
Birmingham
B4 6GH

23 September 2016

Dear Mr Cardoza

This representation letter is provided in connection with your audit of the financial statements of Nottinghamshire and City of Nottingham Fire and Rescue Authority ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

   In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures.*
11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Authority on 23rd September 2016.

Yours sincerely,

Councillor Darrell Pulk	Neil Timms
CHAIR OF THE FIRE AUTHORITY	TREASURER TO THE FIRE AUTHORITY

Appendix to the Authority Representation Letter of Nottinghamshire and City of Nottingham Fire and Rescue Authority: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A penson fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the

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    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the

reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi. The entity is controlled, or jointly controlled by a person identified in (a).

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.