Northamptonshire Commissioner Fire and Rescue Authority

Annual Audit Letter for the year ended 31 March 2019

February 2021

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). It is available from the Chief Executive of each audited body and via the PSAA website **OR** As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website.

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

01 Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Northamptonshire Commissioner Fire and Rescue Authority (the '' Authority'') following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's: ► Financial statements	Unqualified with emphasis of matter in relation to cost pressures as a result of the Covid-19 pandemic. The financial statements give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

Our audit was substantially concluded by the middle of March 2020. Since that point, the Authority have experienced the significant operational and financial implications caused by the Covid-19 outbreak. From an audit perspective, we were unable to issue our audit opinion on the 2018-2019 financial statements until we have considered the appropriateness of management's disclosures on events after the reporting date and the basis for authorising the financial statements as a going concern.

We established early on that as the Covid-19 outbreak happened towards the end of March 2020, there were no conditions that existed at the 31st March 2019 that would lead to an adjusting post balance sheet event. The Authority included a non-adjusting post balance sheet event disclosure indicating the impact that the Covid-19 outbreak could have on significant accounting transactions and judgements, including the recoverability of debtors and the carrying value of assets. We were satisfied that the Authority's disclosure was appropriate for its circumstances.

We performed additional work to review management's assessment on going concern covering the period at least 12 months from the reporting date of the end of July 2020. We reviewed the Authority's cashflow and budget projections, stress tested critical income and expenditure assumptions and the impact this would have on the available to use reserves. We consulted with our professional practice department on the Authority's going concern disclosures and the impact on our audit report. We concluded that the Authority's disclosures were appropriate and did not need to modify our audit report. We did not believe there were any conditions that gave rise to a material uncertainty on the Authority's ability to continue to provide Fire and Rescue Services for the period of the going concern assessment. We did however, consistent with all open audits for the 2018-2019 financial year, express an emphasis of matter in our audit report which draws the reader of accounts attention to the going concern disclosure note. This is not a modification or qualification to our audit opinion.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Audit Committee meeting on 11 March 2020, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan on 20 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues
The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.
We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2020.
Our detailed findings were reported to the Audit Committee meeting on 11 March 2020.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our walkthrough testing included considering what controls are in place to address significant risks. We confirmed that these controls were in place, although our approach was not to rely on controls. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We have not identified any material misstatements from the incorrect capitalisation of expenditure items.

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
Pension liability valuation We focused on the following: • Obtaining updated documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaising with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to FRS; • Assessing the work of the LGPS Pension Fund and the Firefighter Pension actuary including the assumptions they have used by relying on the work of PWC, and considering any relevant reviews by the EY actuarial team; and • Review and testing the accounting entries and disclosures made within the financial statements to ensure consistency with the IAS 19 entries in both actuarial reports. Fire Fighters Pension Scheme (only), we have: ▸ Testing a sample of lump sums and pension payments for the fire fighter pensioners; ▸ Completing a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and ▸ Assessing management's arrangements to reconcile the active and pensioner membership numbers.	➢ We assessed the assumptions within the Authority's updated actuarial reports and reviewed the movement on the total fund asset values. The impact of these changes is not material and no adjustments have been proposed. ➢ Management has removed the contingent liability disclosure relating to McCloud as the sums have now been accounted through the Accounting for Pension Costs Notes in the financial statements. ➢ We have not identified any issues with the accounting entries and disclosures made within the financial statements for the Local Government Pension Scheme of Firefighters Pension Fund. Furthermore, our EY Pensions Team have reviewed the assumptions made for the McCloud impact on the Fire Fighters Pension Schemes and noted that they are within a reasonable range.
Focus on faster close We undertook the following: • Discussions relating to the risks, implications and expectations of each other in communications and project planning. • Attendance at the JIAC meetings where there were updates of the progress, challenges and ability to meet the deadline at each meeting.	➢ We are satisfied that the Authority was able to prepare their accounts by the deadline.

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
Property, plant and equipment and investment property valuations We focused on aspects of the land and building valuations which could have a material impact on the financial statements, primarily: • Review of the work performed by the NCFRA appointed valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. • Review a representative sample of these assets and test key asset information and assumptions used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). • Determining whether the accounting entries were correctly processed in the financial statements.	• We engaged our specialist, EY Real Estates, to review the Authority's estimates in relation to the fire stations. • Following their review we concluded that the value of the assets and therefore those fire station assets not valued in the current year are within an expected range of values. • We also concluded that the Authority's external valuer to be appropriately qualified with the relevant skills to perform the valuation analysis. • The valuation was undertaken in accordance with relevant financial reporting guidance, and the key assumptions used in the valuation were appropriate and within an acceptable range, and was in line with the Authority's accounting policies. • We were satisfied that the classification of assets reported in the financial statement is materially correct.
Completeness and accuracy of the opening balances and the disaggregation of the NCFRA balance sheet from NCC We focused on the correctness, completeness and accuracy of the processes of the governance transfer in relation to the financial statements, primarily: • Review of the postings to NCFRA from Northamptonshire County Council (NCC). • Review of the correctness of accounting judgements associated with income, expenditure, assets and liabilities that transfer to NCFRA and are inconsistent with the statutory transfer scheme and orders. • Review of the accounting judgements and disclosures associated contracts, leases, funding and finance towards assets under constructions, and with any overage clauses and agreements. • We engaged an EY FAAS specialist to undertake a technical review of the accounts of NCFRA and NCC.	The Authority has held extensive meetings with NCC and LGSS to ensure that the transfer is undertaken appropriately and correctly, and we are satisfied that the balances taken on by the Authority transferred from NCC are complete in terms of the statutory instrument approved by the Home Office. We have substantively tested material balances taken on by NCFRA and the issues raised in the technical review have been agreed to be amended in the revised accounts.

Financial Statement Audit (cont'd)

Other Areas of Audit Focus – New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts
- IFRS 16 – Leases (2020/21)

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation of the potential impact. We therefore assessed the Authority's assessment of the impact of the new standards and checked compliance with additional disclosure requirements.

Standard	Audit Findings
IFRS 9 – Financial Instruments	Our audit procedures for financial instruments have been completed, we did not identify any audit issues.
IFRS 15 – Revenue from Contracts	Our audit procedures for financial instruments have been completed, we did not identify any audit issues.
IFRS 16 – Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, and will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the Authority.

04 Value for Money

Value for Money

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

At the planning stage of the audit we identified one significant risk in relation to Securing the Authority financial resilience. We obtained information from the Authority's financial team on the assumptions set out in the medium term financial strategy and completed a qualitative and quantitative assessment of the Authority's financial resilience.

Both the Firefighter, Fire and Crime Commissioner and the Chief Financial Officer have made balanced statements in the revenue budget papers on the importance of the NCFRA moving towards having 10% of spend in both general (4%) and earmarked (6%) reserves by the end of the MTFP so that financial stability underpins the operational budgets and ongoing operational, budgetary pressures including the appropriate investment to support the NCFRAs strategic direction and risk management plans. NCFRA financial officers have worked with the Chief Fire Officer and operational teams to improve the rigour of financial controls, budget monitoring and establishing, using zero-based budgeting techniques, a more robust baseline for core expenditure.

We have undertaken appropriate procedures are satisfied that in a short period of time, NCFRA have put in place all appropriate arrangements and made significant strides to build financial stability, but we will continue to review closely during our 2019/20 and 2020/21 external audit. We have therefore concluded that we have no matters to include in the auditor's report about your arrangements to secure economy efficiency and effectiveness in your use of resources and issued an unmodified opinion.

05 Other Reporting Issues

Other Reporting Issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have submitted the required return and have no issues to report on this work.

Other powers and duties

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

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

Other reporting issues

Other matters

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

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

We have no matters to report.

06 Data Analytics

Data analytics – Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

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

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

In 2018/19, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

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

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

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. *Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.* *There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.*	in response to the ongoing pandemic and its pressures on local authority finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 (Leases) in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022. CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.

08 Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final fee 2018/19	Planned fee 2018/19	Scale fee 2018/19
	£'s	£'s	£'s
Audit Fee – Code work	25,000	25,000	25,000
Total Fees	**25,000**	**25,000**	**25,000**

All fees exclude VAT

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