Hampshire Fire and Rescue Authority
Audit planning report

Year ended 31 March 2021

June 2021

EY
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23 June 2021

Standards and Governance Committee
Hampshire & Isle of Wight Fire & Rescue Authority
Headquarters
Leigh Road
Eastleigh
SO50 9SJ

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as the auditor of Hampshire Fire & Rescue Authority (HFRA). Its purpose is to provide you with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also designed to ensure that our audit is aligned with your service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit of Hampshire Fire and Rescue Authority, and outlines our planned audit strategy in response to those risks (subject to finalisation).

This report is intended solely for the information and use of the Standards and Governance Committee of the Hampshire & IOW Fire & Rescue Authority as the successor body to HFRA, and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Standards and Governance Committee and management of Hampshire & IOW Fire & Rescue Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and Governance Committee and management those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and Governance Committee and management of Hampshire & IOW Fire & Rescue Authority l for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below. We concluded that only those procedures included under ‘Inappropriate capitalisation of revenue expenditure’ are required.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	The valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements. Enhanced procedures are required to challenge and evaluate key inputs and assumptions. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE as of 31 March 2021.
IAS19 – Pension Accounting	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require Hampshire Fire and Rescue Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. HFRA’s pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the balance sheet. Accounting for this scheme involves significant estimation and judgement. Due to complexity and size, enhanced procedures are required to challenge and evaluate key inputs and assumptions.
Disclosures on Going Concern	Inherent risk	No change in risk or focus	The unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Authority’s actual year end financial position and performance for the going concern period of 12 months after the auditor’s report date, along with commentary on the merger with Isle of Wight Fire Service.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality
£2.15m

Planning Materiality has been set at £2,151,740 which represents 2% of the prior years gross expenditure on services).

Audit differences
£0.1m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £107,500 which is 5% of materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and Governance Committee.

Performance materiality
£1.61m

Performance materiality has been set at £1,613,805 which represents 75% of Planning materiality.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Authority give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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

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

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority. The extent of our procedures will depend on the materiality of the Authority's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of LA's and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 9 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

We identify and respond to this risk on every audit engagement.

What will we do?

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.

Perform mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that no other procedures are required.

Financial statement impact

Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings Land and buildings is one of the most significant balances in Authority's Balance Sheet (NBV of £136m as at 31 March 2020). The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE as of 31 March 2021.	We will: • Consider the competence, capability and objectivity of the organisation's internal valuer; • Consider the scope of the valuer's work; • Ensure L&B assets have been revalued within a 5 year rolling programme as required by the Code; • Consider if there are any specific changes to assets that should have been communicated to the valuer; • Sample test key inputs used by the valuer when producing valuations; • Consider the results of the valuer's work; • Challenge the assumptions used by the valuer by reference to external evidence and our EY valuation specialists (where necessary); • Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; • Consider the potential impact of Covid-19 on valuation uncertainties; • Test a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and • Review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated. • There are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 38.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Authority must also do similar in respect of the Firefighters Pension Fund. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2020 this totalled £742 million for all schemes. The information disclosed is based on the IAS 19 reports issued to the Authority by the actuary to the County Council and also the Fire Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. In the prior year the 'McCloud' judgement impacted the estimate. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the actuary to be basing their assumptions taking into account the organisation's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.	We will: • Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority's scheme members; • Assess the work of the actuary of both LGPS and Firefighters Pension Fund including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Review Hampshire Pension Fund's financial statements and compare the year end asset value with the estimate used by the actuary when producing the Authority's IAS 19 report; and • Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. • As with valuation of land and buildings, there are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 38.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Disclosures on Going Concern There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The Authority is then required to ensure that its going concern (or basis of preparation) disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19. We will also look to see that management have considered within their assessment and disclosed the merger with Isle of Wight (IoW) Fire Service creating the new Hampshire & IOW Fire & Rescue Authority.	• Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate. We expect to see specific commentary on the merger with IoW Fire Service and how continuity of services is therefore achieved; • Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts; • Review the financial modelling and forecasts prepared by the Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion, based on the new Hampshire & IoW Fire & Rescue Authority; • Ensure that an appropriate going concern disclosure has been made within the financial statements; and • Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate. There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570), see Appendix D on page 39.

03 Value for Money risks

Value for Money

The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal controls that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we are still required to consider whether the Authority have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority have in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statements
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement.

Value for Money

Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:
- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:
- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Standards and Governance Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.
However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, the areas of focus will be on the arrangements that the Authority has in place in relation to the creation of the new Hampshire & Isle of Wight Fire & Rescue Authority. We will continue to update the Standards and Governance Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.

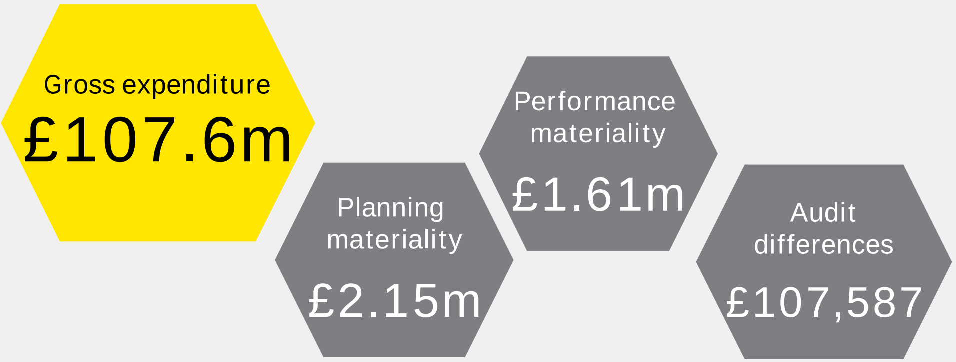
04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £2.15m. This represents 2% of the Authority's gross expenditure. It will be reassessed throughout the audit process and once the draft 2020/21 statements have been prepared. This is based on the rationale that's public sector organisation do not have a focus on earnings profits. We consider industry factors, and using gross revenue expenditure is the industry norm.

Main Statements:



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.61m for the primary statements which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and firefighters' pension fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statements or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Standards and Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1k for officers and senior employees' remuneration and audit fees disclosures. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period, to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

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

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

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

2. Arrangements to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Authority has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

Our initial assessment of the key processes across the entity (commissioner and constabulary) has identified the following key processes where we will seek to rely on controls, both manual and IT:

- Accounts receivable;
- Accounts payable;
- Payroll; and
- Cash and Bank.

Hampshire County Council Integrated business centre (IBC) have commissioned an ISAE 3402 type 2 report from EY's Financial Audit IT (FAIT) team. The ISAE 3402 report provides the users of the IBC with assurance over the suitability of the design and existence of controls and on the operating effectiveness of these controls during the financial year.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Kevin Suter
Associate Partner

Sarah Croft
Senior Manager

Kelly Peachey
Assistant Manager

Property Valuation Team	Pension Specialist
EY Real Estate Specialists as required	EY Actuaries

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

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

Area	Specialists
Pension valuation	Management Specialist – AoN Hewitt. EY Specialist - EY actuaries PWC as commissioned by the NAO
PPE valuation	Management Specialist - Management's in-house valuation experts. EY Specialist - EY real estates will be used if our risk assessment of the PPE procedures deem this appropriate.

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

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

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

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes Interim audit testing (in progress)	July 2021	Standards and Governance Committee	Audit Planning Report
Year end audit	July – August 2021		Verbal Update
Audit Completion procedures	September 2021	Standards and Governance Committee	Audit Results Report Audit opinions and completion certificates Auditor’s Annual Report – The NAO has confirmed that this should be reported within 3 months of the opinion on the Financial Statements.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with Hampshire Fire & Rescue Authority. No additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

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

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies.

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

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Total Fee	27,893	27,893
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	15,860	15,860
Scale fee variation – Covid-19 and Going Concern considerations, addressing risks on PPE valuations & IAS 19 work (Notes 2 and 3), and new Value for Money requirements (Note 4)	TBC	6,684
Total audit	TBC	50,437

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management, who have challenged the level of fees, and therefore it has been referred to PSAA for consideration.
3. For 2020/21, as noted at Appendix D, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs. These will be discussed in due course with management and we will update the S&G Committee as the audit progresses.
4. As explained in section 3 of this report, the NAO's new 2020 Code of Audit Practice sets out new requirements for our work and reporting on Value for Money. We are unable to quantify the impact at the planning stage of the audit

.

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Authority; and

► The Authority has an effective control environment.

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

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

Appendix B

Required communications with those charged with governance

We have detailed the communications that we must provide to the Standards and Governance Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Standards and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Appendix B

Required communications (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Standards and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence For public interest entities and listed companies, communication of minimum requirements as detailed in FRC's Ethical Standard 2016 (revised): • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Standards and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit Planning Report and Audit Results Report

Appendix B

Required communications (continued)

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

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Standards and Governance Committee reporting appropriately addresses matters communicated by us to the Standards and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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

Impact of changes in auditing standards

ISA 540 (Accounting Estimates)

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

Impact of changes in auditing standards - continued

ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists;
- Specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;
- Introduction of the concept of management bias in respect of going concern;
- A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.

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