

Report title

External Audit Plan 2020/21

Report to

Corporate Services Directorate Board
Commissioner's Board
London Fire Commissioner

Date

8 June 2021
16 June 2021

Report by

Assistant Director - Finance

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I agree the recommended decision below.



Andy Roe

London Fire Commissioner

Date **This decision was remotely signed on 05 July 2021**

Executive Summary

This report presents the external audit plan 2020/21. The plan, attached at Appendix A, summarises the external auditor's assessment of the key risks and outlines their planned audit strategy in response to those risks. The report also sets out the fees for the audit programme of works, to meet the requirements of the Local Audit and Accountability Act 2014 and other auditing standards and professional requirements.

Recommended decision

For the London Fire Commissioner

That the London Fire Commissioner notes the External Audit Plan 2020/21, attached at Appendix A.

Introduction and Background

1. This report presents the external audit plan for the 2020/21 Statement of Accounts and Value for Money audits, as prepared by the London Fire Commissioner (LFC's) external auditors Ernst and Young LLP (EY). The External Plan 2020/21 at Appendix A sets out EY's assessment of key risks, provides details of their approach to the audit, the processes they will employ in addressing

those risks and in determining their audit opinion on the LFC's accounts, and their conclusion on the LFC's arrangements for securing economy, efficiency and effectiveness.

2. The external auditors will also review and report to the National Audit Office on the LFC's Whole of Government Accounts (WGA) return.
3. The audit plan also details the external audit scale fees and additional fees for the 2020/21 audit.
4. The audit planning for 2020/21 was started late due to the delays in finalising the audit for 2019/20, with this not concluded until March 2021. This is of course not ideal and does add to the pressures for 2020/21, however it is expected that the progress made as part of the 2019/20 accounts and audit process will help address these challenges. This should then allow the plan to approve draft accounts by 30 June and the audited accounts to be published by 30 September to be achieved.

External Audit assessment of risks facing the LFC

5. Summarised in the table below are the key financial statement risks facing the LFC that the external auditor has identified in the audit plan. Full details are set out in External Audit Plan at Appendix A.
6. These risks have not materially changed from 2019/20. There were, of course, significant challenges in the accounts and audit process for 2019/20, however it is expected that the progress made in 2019/20 will reduce these challenges for 2020/21. The risk on property valuations is an area where the challenges are expected to be less than experienced in 2019/20.

Key Risks
<p>Misstatements due to fraud or error As identified in ISA 240, management is in a unique position to 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.</p> <p>In addition to the overall response, EY consider where these risks may manifest themselves and identify separate fraud risks as necessary below.</p>
<p>Risk of fraud in revenue recognition – Other Income Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.</p> <p>EY have assessed the income and expenditure streams and concluded that this risk relates to other non-grant income.</p>
<p>Risk of error in the valuation of the net pension liability – Fire Fighter Pension Scheme and Local Authority Pension Scheme The LFC's current pension fund net deficit is a material and judgemental item. Small changes in assumptions when valuing these assets and liabilities can have a material impact on the financial statements. The Code requires the London Fire Commissioner to disclose this liability on the Balance Sheet.</p> <p>EY have lowered our risk assessment from significant risk to higher inherent risk due to the conclusion of significant judgements such as McCloud in the prior year.</p>

Risk of error in property valuations

Auditing standards (ISA 620) require EY to gain particular assurances when an expert has been engaged and where this influences material figures in the financial statements. The LFC engages a professional valuer to provide it with asset valuations. The bulk of its estate relates to fire stations. In 2019/20 the valuer revisited the methodology resulting in a number of material adjustments impacting on both the current and prior period. Considering the level of error identified in 2019/20 EY assess there to be a significant risk of material misstatement over property valuation in 2020/21.

Other Areas of Audit Focus

7. The External Audit Plan also identifies other areas of audit focus, as follows

- **Pension Liability** - The LFC's current pension fund net deficit is a material and judgemental item. Small changes in assumptions when valuing these assets and liabilities can have a material impact on the financial statements. The Code requires the LFC to disclose this liability on the Balance Sheet.
- **Going Concern** - There is a presumption that the LFC will continue as 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. In light of the continued impact of Covid-19 on day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the authority to ensure its going concern assessment is thorough and appropriately comprehensive.

8. There are expected to remain challenges in the both the areas identified above. The requirements in the remedy on the McCloud/Sargeant judgement continue to lead to uncertainty and this will remain until the remedy is fully implemented and the financial issues addressed. Work on going concern was increased in 2019/20 due to the pandemic, and whilst the impact of the pandemic itself is reducing the financial uncertainty caused remains.

Value for Money Risks

9. The LFC is required to maintain an effective system of internal control 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. The External Audit Plan sets out new requirements in this area including

- **VFM Requirements** - Under the 2020 Code EY are still required to consider whether the LFC has 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 EY 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 LFC a commentary against specified reporting criteria (see below) on the arrangements the LFC has 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 LFC plans and manages its resources to ensure it can continue to deliver its services;
- **Governance** - How the LFC ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness** - How the LFC uses information about its costs and performance to improve the way it manages and delivers its services.

10. The LFC completed significant additional work on VFM as part of the 2019/20 audit, in particular to set out progress against the recommendations from the inspection undertaken by HM Inspector of Constabulary and Fire & Rescue Services (HMICFRS). It is expected that this work should mean the LFC is well placed to respond to the additional VFM requirements, and limit the additional work required for 2020/21. However the further HMICFRS inspections undertaken in 2020 will be considered as part of the audit and will require a review of progress against any recommendations.

Audit Team Changes

11. During the 2019/20 audit we saw some significant changes in the audit team. This has however now settled and the team that concluded last year's audit will lead the team for 2020/21. This will therefore see the team led by Janet Dawson, Audit Partner, and with key senior staff including Chloe Weaver, Audit Manager and Giulia Carmignani, Lead Senior.

Audit timetable

12. The audit timetable is provided in Appendix A. A key element of this is the commencement of the audit at the start of July and is when the auditors will be on-site. The audit is to be completed by the end of September when the audited Statement of Accounts and Audit Results Report are to be presented to Commissioner's Board

Audit Fees

13. The table below sets out the audit fees for 2020/21, and also provides details of the expected final audit fees for 2019/20.

	Expected Final Fees 2019/20 £	Planned Fees 2020/21 £
Scale Fee	51,961	51,961
Additional fees for changes in regulatory requirements and associated risks	47,200	47,200
Further fees due to Covid-19, VFM conclusion and errors identified	64,723	
Total Audit Fee	163,884	99,161

14. The contract with EY for the external audit service is put in place under an agreement with Public Sector Audit Appointments Ltd (PSAA), as are most local government bodies' audit services. PSAA's responsibilities also include approval of all fees for the audit.
15. The fees for 2019/20 are still subject to review by PSAA. The fees have been referred by EY to PSAA for review and approval, and officers expect to be consulted as part of the PSAA process. The PSAA process will consider the increased audit responsibilities and the appropriateness of the additional fees, considering these also in light of additional fees across all audit bodies for all audit firms.
16. The fees for 2020/21 include the additional fee for the changes in audit scope, and these will in turn be subject to PSAA review on conclusion of the 2020/21 audit.

Alternative Options Considered and Consultation

17. Audit firms have experienced significant challenges in completing 2019/20 audits by the statutory timescales, and with problems expected to continue into the 2020/21 audits. This has seen significant additional fees being charged by audit firms as the scope of the audits has increased, with additional resources required to meet audit requirements.
18. The Ministry for Housing, Communities and Local Government (MHCLG) has now undertaken further consultation with two recently closed on additional funding to help meet additional audit fees, and changes in requirements placed on PSAA on agreeing audit fees and contract term. These consultations follow those from PSAA on its approach. Officers have responded to these consultations and will continue to engage in the discussions on the provision of external audit services.
19. Work is expected to continue across the sector on the audit arrangements, and this may also include alternatives to the PSAA arrangement. Early discussions have commenced on whether local government bodies in London should consider a different approach to procuring external audit services, and officers are engaging with the GLA on this.

Objectives and Expected Outcomes

20. The report sets out the external audit plan for 2020/21. This is to allow EY to meet its audit requirements, and for the LFC to then be able to approve and publish the audited Statement of Accounts 2020/21 by the statutory deadline of 30 September 2021.

Impacts

Equality Impact

21. The London Fire Commissioner and decision takers are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on different people, taking this into account and then evidencing how decisions were reached.
22. It is important to note that consideration of the Public Sector Equality Duty is not a one-off task.
23. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.

24. The protected characteristics are: Age, Disability, Gender reassignment, Pregnancy and maternity, Marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), Race (ethnic or national origins, colour or nationality), Religion or belief (including lack of belief), Sex, and Sexual orientation.
25. The Public Sector Equality Duty requires us, in the exercise of all our functions (i.e. everything we do), to have due regard to the need to:
- a. Eliminate discrimination, harassment and victimisation and other prohibited conduct.
 - b. Advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.
 - c. Foster good relations between people who share a relevant protected characteristic and persons who do not share it.
26. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard to the need to;
- a. remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic;
 - b. take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
 - c. encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
27. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard to the need to:
- a. tackle prejudice, and
 - b. promote understanding
28. The recommendations set out in this paper aim to ensure we meet our legal duty set out in the Equality Act 2010 and Public Sector Equality Duty through a number of means. These equality comments only take into consideration the initial decisions in relation to the budgeting process. Future decisions will be subject to separate equality comments and where appropriate, Equality Impact Assessments (EIAs). This is based on the case of [R \(Brown\) v Secretary of State for Work and Pensions \[2008\]](#) which established six principles, known as the "Brown Principles", which are taken into account in making a decision in relation to this paper. The principles are:
- A. decision-makers must be made aware of their duty to have due regard to the identified needs.
 - B. the duty must be fulfilled both before and during consideration of a particular policy and involves a "conscious approach and state of mind".
 - C. it is not a question of ticking boxes, the duty must be approached in substance, with rigour and with an open mind, and a failure to refer expressly to the duty whilst

exercising a public function will not be determinative of whether due regard has been had.

- D. the duty is non-delegable.
- E. the duty is continuing.
- F. it is good practice for an authority to keep a record showing that it has considered the identified needs.

29. In the conduct of the audit the auditors consider a number of equality elements in relation to the LFC. The Value for Money conclusion provides an opportunity to report on any areas where the auditors conclude that there were challenges in the economy, efficiency and effectiveness in the use of resources. The auditors in reaching their conclusion will also considering reports by other key stakeholders such as HMICFRS.

Procurement and Sustainability

30. There is no direct procurement and sustainability impact arising from this report.

Strategic Drivers

31. This report provides the external audit plan to allow the LFC to meet the statutory requirement of approving and publishing audited Statement of Accounts 2020/21 by 30 September 2021.

Workforce Impact

32. There is no direct workforce impact arising from this report.

Finance comments

33. This report is prepared by the Assistant director – Finance and there are no further Finance comments to add.

Legal comments

34. The London Fire Commissioner is required to comply with the provisions of the Local Audit and Accountability Act 2014 ("2014 Act") and subsidiary legislation and guidance by virtue of Schedule 2 of the 2014 Act.

35. The 2014 Act requires that the LFC's accounts for a financial year must be audited both:

- a) in accordance with the 2014 Act and provision made under it, and
- b) by an auditor (a "local auditor") appointed in accordance with this Act or provision made under it.

36. Ernst and Young are the appointed auditor and this report, and Appendix A, provides an update on current and future external audit arrangements.

List of Appendices

Appendix	Title	Protective Marking
1.	External Audit Plan 2020/21	



**London Fire
Commissioner
Provisional Audit planning
report**

Year ended 31 March 2021

14 May 2021



Private and Confidential
London Fire Commissioner
169 Union Street
London
SE1 0LL

14 May 2021

Dear Fire Commissioner

Audit planning report

We are pleased to attach our draft Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide those charged with governance 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 2015 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 to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the London Fire Commissioner, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of those charged with governance 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 2 June 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

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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.psa.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 Commissioner and management of London Fire Commissioner in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Commissioner and management of London Fire Commissioner 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 Commissioner and management of London Fire Commissioner 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 London Fire Commissioner 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.
Risk of fraud in revenue recognition - Other Income	Fraud risk	Change in risk & focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We have assessed the income and expenditure streams and concluded that this risk relates to other non-grant income.
Risk of error in the valuation of the net pension liability - Fire Fighter Pension Scheme and Local Authority Pension Scheme	Higher Inherent risk	Reduction in Risk	The London Fire Commissioner's current pension fund net deficit is a material and judgemental item. Small changes in assumptions when valuing these assets and liabilities can have a material impact on the financial statements. The Code requires the London Fire Commissioner to disclose this liability on the Balance Sheet. We have lowered our risk assessment from significant risk to higher inherent risk due to the conclusion of significant judgements such as McCloud in the prior year.
Risk of error in property valuations	Significant risk	No change in risk or focus	Auditing standards (ISA 620) require us to gain particular assurances when an expert has been engaged and where this influences material figures in the financial statements. The London Fire Commissioner engages a professional valuer to provide it with asset valuations. The bulk of its estate relates to fire stations. In 2019/20 the valuer revisited the methodology resulting in a number of material adjustments impacting on both the current and prior period. Considering the level of error identified in 2019/20 we assess there to be a significant risk of material misstatement over property valuation in 2020/21.

Overview of our 2020/21 audit strategy (cont.)

Materiality

Planning
materiality

£11m

Materiality has been set at £11 million, which represents 1.8% of the prior year gross expenditure on provision of services.

Performance
materiality

£8.3m

Performance materiality has been set at £7.5 million, which represents 75% of materiality.

Audit
differences

£0.5m

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, and firefighters' pension fund financial statements) greater than £0.5m. Other misstatements identified will be communicated to the extent that they merit the attention of the London Fire Commissioner.

Please see the Audit Materiality section of this report (section 04) for further information and definitions.

Overview of our 2020/2021 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 London Fire Commissioner 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 conclusion on the London Fire Commissioner's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the London Fire Commissioner'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 London Fire Commissioner.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with 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 pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. We have included an estimate into the fee page in Appendix A and we will discuss these with management as to the impact on the scale fee.



02

Audit risks



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. We will notify you of any changes to our assessment of risks as they occur.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA 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.

What will we do?

We will respond to the risk by:

- ▶ Making inquiries of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understanding the oversight given by the London Fire Commissioner, in his role as those charged with governance, of management's processes for safeguarding against fraud; and
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.

We will also 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.

In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary on the next page.

Our response to significant risks (continued)

Risk of fraud in revenue recognition - Other non-grant Income*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.

The only material revenue income stream which is not grant related, and which we have therefore assessed as at risk of manipulation, is income relating to the Metropolitan Fire Brigade (MFB) Act and Other Income.

MFB Act income recognised in each financial year is a combination of that levied in the previous and current calendar years. Recognition is therefore complex and susceptible to manipulation.

Other Income relates to income from insurance claims, reimbursements, rent and fees and charges.

In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. At planning stage, we have concluded that in the case of the London Fire Commissioner, this is not a material, likely risk.

What will we do?

Our approach will focus on:

- Sample testing other non grant income at a lower testing threshold and ensuring that underlying evidence supports the recognition of income within the financial year;
- Review and test MFB revenue recognition policy and ensure that it is consistent with the Act and with accounting standards; and
- Test a sample of MFB revenue transactions to ensure that they have been recognised at the appropriate amount and in the correct accounting period, including the correct receipts in advance split.

Our response to significant risks (continued)

Risk of error in property valuations

What is the risk?

Auditing standards (ISA 620) require us to gain particular assurances when an expert has been engaged and where this influences material figures in the financial statements.

The London Fire Commissioner engages a professional valuer to provide it with asset valuations. The bulk of its estate relates to fire stations. These are specialised assets, and therefore a depreciated replacement cost methodology should be used to determine the existing use value.

In 2019/20 improvements were made to the methodology used to value these assets resulting in a number of material adjustments to the financial statements including prior period adjustments.

Considering the level of error identified in 2019/20 we assess there to be a significant risk of material misstatement over property valuation in 2020/21.

What will we do?

We will respond to this risk by:

- Reviewing the valuation instructions provided to the valuer against the requirements of the Code of Accounting Practice for Local Government;
- Engaging our internal expert to assess the appropriateness of the methodology applied by the valuer in valuing specialised assets;
- Confirming that the information provided by the valuer as the management's expert has been appropriately reflected in the financial statements;
- Reviewing and testing the accounting entries and disclosures made within the financial statements.
- Reviewing the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment and
- Reviewing assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;

Audit risks

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?
<p>Pension Liability</p> <p>The London Fire Commissioner's current pension fund net deficit is a material and judgemental item. Small changes in assumptions when valuing these assets and liabilities can have a material impact on the financial statements. The Code requires the London Fire Commissioner to disclose this liability on the Balance Sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the London Fire Commissioner by the actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>We will respond to this risk by:</p> <ul style="list-style-type: none">• Liaising with the auditors of the London Pensions Fund Authority, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the London Fire Commissioner ;• Assessing the conclusions drawn on the work of the actuaries, Barnett Waddingham and GAD, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own pensions specialists; and• Reviewing and testing the accounting entries and disclosures made in relation to IAS19.
<p>Going Concern</p> <p>There is a presumption that the London Fire Commissioner 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. In light of the continued impact of Covid-19 on day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the authority to ensure its going concern assessment is thorough and appropriately comprehensive.</p> <p>The London Fire Commissioner is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.</p>	<p>We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the London Fire Commissioner's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none">• Challenging management's identification of events or conditions impacting going concern;• Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);• Reviewing the London Fire Commissioner's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;• Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern;• Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.



03

Value for Money Risks





Value for money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control 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.

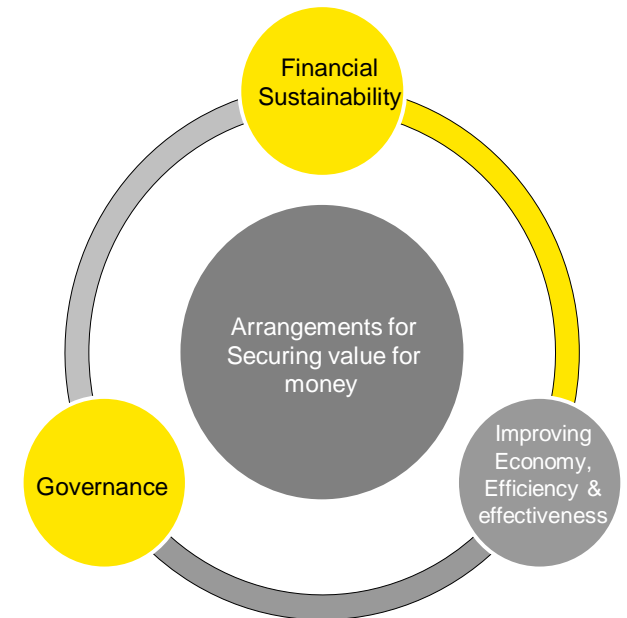
As part of the material published with its financial statements, the London Fire Commissioner is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the London Fire Commissioner 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 responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the the London Fire Commissioner has 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 the London Fire Commissioner a commentary against specified reporting criteria (see below) on the arrangements the the London Fire Commissioner has 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 the London Fire Commissioner plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
How the the London Fire Commissioner ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**
How the the London Fire Commissioner 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 the London Fire Commissioner'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 the London Fire Commissioner's arrangements, we are required to consider:

- The London Fire Commissioner's governance statement
- Evidence that the London Fire Commissioner's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as HMICFRS) 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. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the the London Fire Commissioner 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 London Fire Commissioner'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 London Fire Commissioner ;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the London Fire Commissioner's reported performance;
- Whether the issue has been identified by the London Fire Commissioner'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 the London Fire Commissioner has had to respond to the issue.



Value for money

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 the London Fire Commissioner.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the the London Fire Commissioner 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 the London Fire Commissioner'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 complete our detailed VFM planning. However, one area of focus we have already identified, is the arrangements that the the London Fire Commissioner has in place in relation to Findings of External Regulators.

In 2019/20 we issued a qualified VFM conclusion in this area following findings from regulators in respect of staff training, managing staff performance and policies in place to debrief incidents. The London Fire Commissioner put in place the Transformation Delivery Plan in response to these risks and so we shall assess the progress made against this plan.

The London Fire Commissioner continues to report to the Mayor and the Home Office on all improvement activity associated with the recommendations raised in the Inquiry's Phase 1 Report and by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). As part of our VFM work we shall review the current monitoring and reporting activity to assess whether any significant weaknesses in arrangements exist in the year up to 31 March 2021.



04

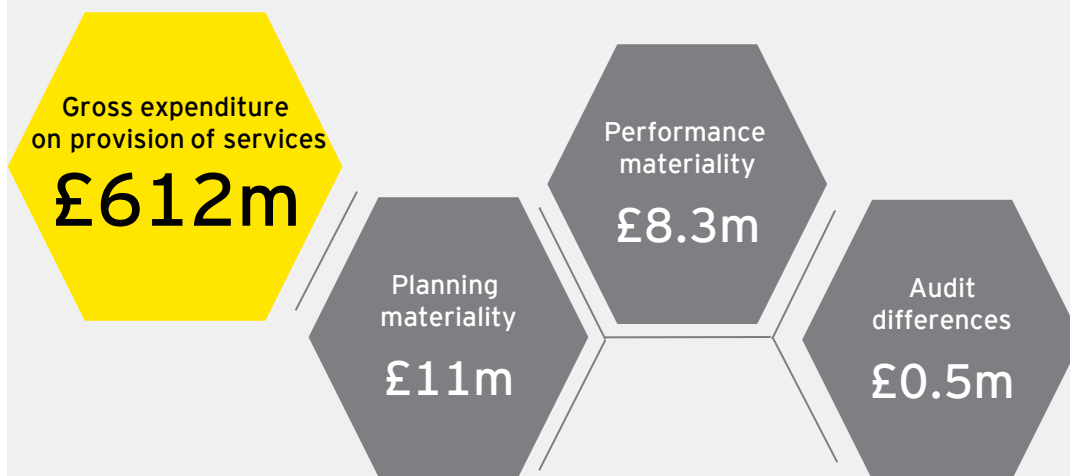
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £11m. This represents 1.8% of the London Fire Commissioner's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. As a provider of public services, an activity-based measure focused on expenditure is an appropriate basis. In setting the level of materiality we have considered the level of reserves, the stable sources of funding, and the London Fire Commissioner's history of meeting its financial targets.



We request that the London Fire Commissioner confirm his 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 £8.3m which represents 75% of planning materiality. In determining this level we have considered our expectation of the level of errors based a range of factors including the control environment and the quantum and nature of misstatements in the prior year. We have concluded that the control environment is strong.

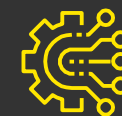
Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and firefighters' pension fund financial 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 statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Commissioner, or are important from a qualitative perspective.



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 London Fire Commissioner's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources 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 [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the London Fire Commissioner has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls;
- ▶ Review of the work of Internal Audit;
- ▶ Reliance on the work of experts in relation to areas such as pensions, private finance initiative and property valuations; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 London Fire Commissioner.

Internal audit:

We will 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:

Janet Dawson
Lead Audit Partner

Chloe Weaver
Manager

Giulia Carmignani
Lead Senior

EY Pensions
(Pensions
Specialist)

Mark Gerold
Director - EY
Real Estate
(Valuations
Specialist)

Peter Codd
Manager - EY Real
Estate (Valuations
Specialist)

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	EY Real Estate Specialists Management Specialist - Dron & Wright
Pensions disclosure	EY Pensions Specialists Management Specialist - Barnett Waddingham - Local Government Pension Scheme Management Specialist - Government Actuary's Department - Firefighters Pension Scheme

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 London Fire Commissioner'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





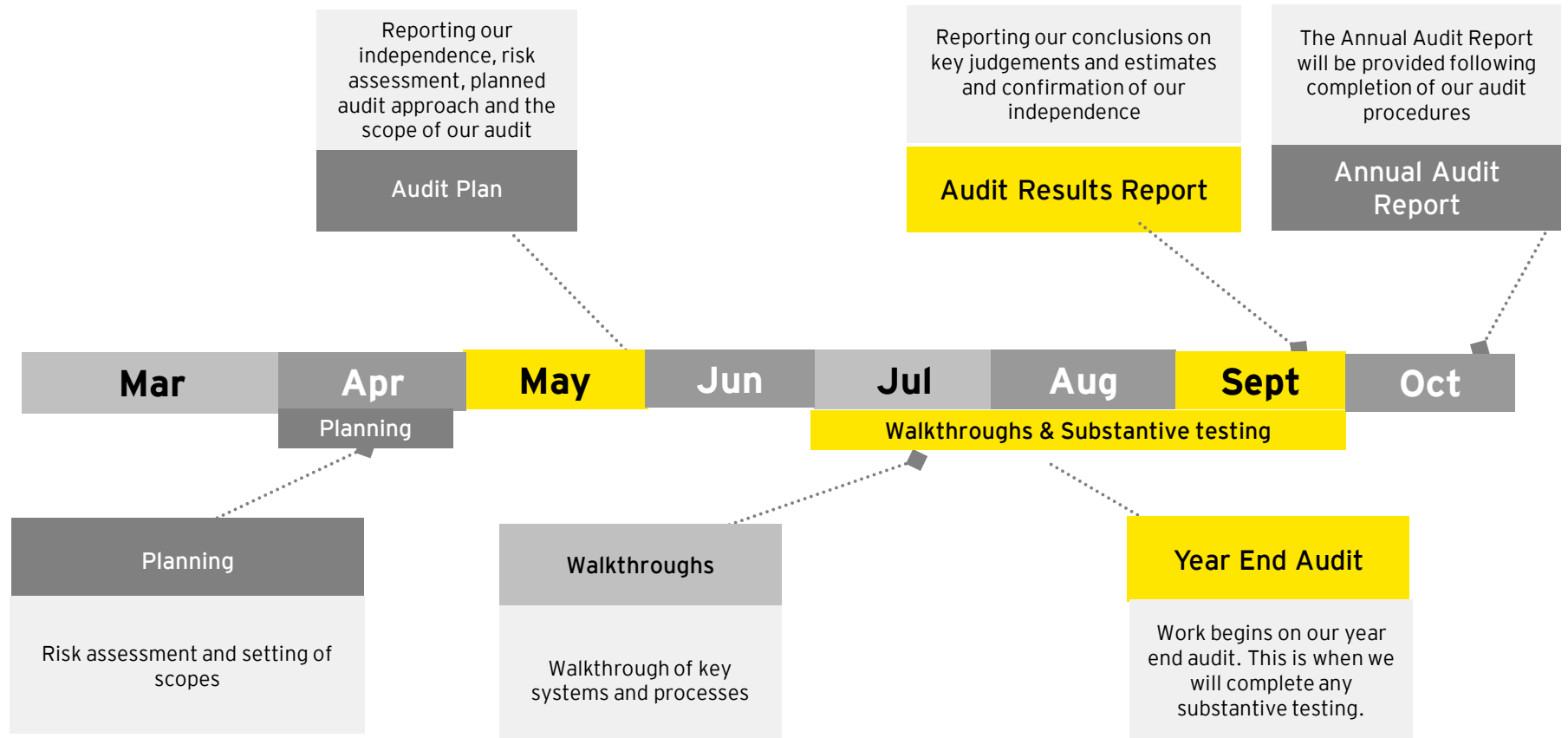
Audit timeline

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 London Fire Commissioner and we will discuss them management as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





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 June 2016, 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
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ 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 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; ▶ Written confirmation that all covered persons are independent; ▶ 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 any contingent fee arrangements for non-audit services provided by us or our network firms; 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 also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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 Janet Dawson, 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 entity. 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 audit fees is not permitted to exceed 70%.

At the time of writing, we have not agreed to undertake any non-audit services and therefore 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 organisation. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

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

Next Steps

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

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 end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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 Scale Fee	51,961	51,961
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	47,200	47,200
Additional work required due to changes in scope and as a result of Covid19	-	10,990
Additional work required for qualified VFM conclusion	-	1,755
Additional work required for internal consultation of audit report	-	3,323
Additional work required as a result of errors identified during the audit	-	48,655
Total fee	99,161	163,884

All fees exclude VAT

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 Council; 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 management 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.

Note that the final fee for 2019/20 has been discussed with management but is still subject to approval from PSAA.

Note 1:

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the London Fire Commissioner and additional work to address increase in Regulatory standards. This additional fee has been discussed with management and is now subject to approval by PSAA Ltd.

Fees

Summary of key factors

1. **Status of sector:** Financial reporting and decision making in local public bodies has become increasingly complex in recent years, with accounting and reporting requirements resulting in complex and lengthy statements of accounts, which can be hard to understand for the user of the accounts.
2. **Audit of estimates:** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
3. **Regulatory environment:** Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
4. **Resourcing:** As a result of the above, public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality. We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.





To respond to these factors we have to:

- ▶ Increase our sample sizes, seek higher levels of corroborative evidence and engage with our internal specialists on a wider array of matters;
- ▶ Increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality; and
- ▶ Invest in our audit quality infrastructure, as a firm our compliance costs have doubled as a proportion of revenue over the past five years.

Appendix B





Required communications with the London Fire Commissioner

We have detailed the communications that we must provide to the London Fire Commissioner.

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the London Fire Commissioner 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 - May 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 - September 2021
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ 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 - September 2021




Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Misstatements	<ul style="list-style-type: none"> ▶ 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 – September 2021
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the London Fire Commissioner 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 – September 2021
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> ▶ 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 – September 2021
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Audit Planning report – May 2021</p> <p>Audit results report – September 2021</p>

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report - September 2021	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 London Fire Commissioner into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the London Fire Commissioner may be aware of 	Audit results report - September 2021	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - September 2021	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - September 2021	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - September 2021	
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - September 2021	
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 - May 2021 Audit results report - September 2021	

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 entity'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 London Fire Commissioner to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the London Fire Commissioner reporting appropriately addresses matters communicated by us to the London Fire Commissioner and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Appendix C

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 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.

EY | Assurance | Tax | Transactions | Advisory

About EY

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

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ED None

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