



CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

30 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Cambridgeshire and Peterborough Fire Authority (the Authority) for the year ended 31 March 2018.

It is addressed to the Authority but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE AUTHORITY

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Authority's financial statements
- Whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 31 July 2018.

Our audit identified three errors above our reporting threshold that would reduce the deficit for the year by £121,000. As these were not material, they were not corrected by management.

USE OF RESOURCES

We issued our unmodified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.

FINANCIAL STATEMENTS

OPINIONS	We issued our unmodified opinion on the Authority’s financial statements on 31 July 2018.
	<p>This means we consider:</p> <ul style="list-style-type: none">• The financial statements give a true and fair view of the financial position and its income and expenditure for the year• The financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Authority financial statements as a whole was set at £800,000. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Authority in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Authority and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Authority or appeared to be unusual.</p>	<p>No issues were identified by our review of journals and review accounting estimates for management bias.</p> <p>We found no significant transactions that were outside the normal course of business or otherwise appeared unusual.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We concluded that the presumed risk of fraudulent revenue recognition could be rebutted for income received in respect of taxation and non-specific government grants. These items are determined either at the beginning of the year as part of the Authority's budget setting process or by central government. This reduces the opportunity for manipulation.</p> <p>For the remaining revenue streams, the risk of fraudulent revenue recognition remained in respect of accuracy and existence.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none">• Carrying out audit procedures to gain an understanding of the Authority's internal control environment applicable to the revenue streams subject to the risk of fraudulent revenue recognition.• Performing substantive testing on an increased sample of transactions selected from these income streams to ensure that they were recorded at the correct amount and in the correct period.	<p>We did not identify any deficiencies in the internal control environment relating to the recognition of income.</p> <p>Substantive testing of a sample of income transactions did not identify any errors relating to the accuracy or existence of the income recognised.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Due to the significant value of the Authority's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the instructions provided to the external valuer and the external valuer's skills and expertise in order to determine whether we could rely on the management expert. • Confirming that the basis of valuation for assets valued in year was appropriate based on their usage. • Reviewing managements' considerations of price movements in the current year and comparing these to independent data to assess their reasonableness. 	<p>The Authority engaged an external valuer to value all of its property assets as at 31 March 2018.</p> <p>From our review of the instructions provided to the external valuer and the external valuer's reports we were satisfied that we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued was appropriate based on the nature and use of the assets.</p> <p>No issues have been identified from our review of the source data provided to the external valuer. The assumptions used and valuation movements were found to be reasonable.</p> <p>We identified that management did not undertake their own review of the outcome of the valuation exercise to ensure that it was consistent with their expectations. We raised a recommendation regarding this matter.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or that the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none">• Agreeing the information provided by the actuary to corresponding disclosures in the financial statements.• Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.• Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.• Checking whether any significant changes in membership data had been communicated to the actuary.	<p>The disclosures in the Authority's financial statements were consistent with the information provided by the actuary.</p> <p>The assurances from the auditor of Cambridgeshire Pension Fund have identified that there had been a significant movement between the fund asset values provided to the actuary and the year-end values included in the pension fund's accounts. The impact on the Authority's pension liability was not material.</p> <p>We reviewed the reasonableness of the assumptions used by the pension fund actuary and did not identify any issues.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Production of financial statements compliant with the Code	<p>The audit of the 2016/17 financial statements identified a number of errors, including departures from CIPFA's Code of Practice, in the draft financial statements presented for audit.</p> <p>To assist with the preparation of the 2017/18 financial statements, the Authority implemented a third party software solution to help meet the faster close timetable and also ensure compliance with the Code to address matters identified during the prior year audit.</p> <p>At the time of preparing our risk assessment, the Authority was in the process of implementing the software solution. This required the Authority's existing financial system to be mapped correctly to the new software to ensure that the balances reported in the financial statements were complete and presented correctly.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the design of controls implemented by the Authority to ensure that the existing chart of accounts was mapped correctly to the third party software. • Reconciling the trial balance produced by the Authority's main accounting system to the financial statements. • Checking disclosures in the financial statements to confirm that transactions and balances had been correctly presented in the financial statements in accordance with the Code. 	<p>The Authority reviewed the accuracy of the mapping of the existing chart of accounts by applying the software tool to the prior year trial balance and comparing the output to the prior year audited financial statements. This allowed the Authority to identify and correct mapping issues prior to the preparation of the 2017/18 financial statements.</p> <p>As part of this exercise, the Authority identified a number of immaterial classification errors in the prior year comprehensive income and expenditure statement. These were amended in the published unaudited accounts but no explanatory note was included and columns containing amended values were not headed as 'Restated'.</p> <p>We reconciled the Authority's trial balance to the financial statements and no differences or omissions were identified.</p> <p>We identified a significant number of disclosure errors in the published unaudited accounts. When reviewing the published unaudited accounts, management also identified non-material classification errors between line items within the creditors note.</p> <p>The Authority had to invest a significant amount of time and effort addressing the issues identified in the unaudited published accounts during the final audit visit in June/July 2018. Additional time was also spent by the audit team supporting this process and reviewing revised versions of the financial statements.</p>

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.
	<p>This means we consider that the Authority has proper arrangements to:</p> <ul style="list-style-type: none">• Ensure it took properly informed decisions• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Authority including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

Our risk assessment did not identify any use of resources significant risks.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan	9 January 2018
Audit completion report	23 July 2018

FEES

The statement of accounts published on 31 May 2018 were not compliant with the CIPFA Code. We have incurred additional cost as a result of the extra work arising. We will discuss and agree any additional fee with management.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	31,865	31,865
Additional fees arising due to significant number of disclosure errors identified in unaudited published accounts	TBC	-
Total audit fees	TBC	31,865

We have not provided any non-audit services.



FOR MORE INFORMATION:

ZOE THOMPSON
Engagement lead

T: +44 (0)1473 320 734
M: +44 (0)7912 040 905
E: zoe.thompson@bdo.co.uk

BARRY PRYKE
Manager

T: +44 (0)1473 320 793
M: +44 (0)7583 032 401
E: barry.pryke@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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