



CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Fire Authority but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Fire Authority

It is the responsibility of the Fire 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 Code of Audit Practice (the Code), and to review and report on:

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

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter.

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
28 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

We reported our detailed findings to the Policy and Resources Committee on 22 September 2016. We reported on uncorrected misstatements which management and the Policy and Resources Committee concluded were immaterial.

USE OF RESOURCES

We issued an unqualified conclusion on the Fire Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

FINANCIAL STATEMENTS

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

Scope of the audit of the financial statements

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 Fire 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 assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Fire 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 directing of the efforts of the audit team.

| REVENUE RECOGNITION | RESPONSE | FINDINGS |
|--|---|--|
| <p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Fire Authority's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</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 Fire Authority's budget setting process or by central government. This reduces the opportunity for manipulation.</p> <p>For the remaining revenue streams, we concluded that the risk of fraudulent revenue recognition remains.</p> <p>Specific consideration was also given to the treatment of the income received from the developers of the Parkside site previously owned by the Fire Authority.</p> | <p>We responded to this risk by gaining an understanding of the Fire Authority's internal control environment for the significant income streams which are subject to the risk of fraudulent revenue recognition, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We also performed 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> <p>Finally, a review of documentation associated with the Parkside development was carried out to confirm the nature of the income received from the developer. The treatment of this income was reviewed to ensure its recognition in the financial statements was consistent with the applicable accounting framework.</p> | <p>No issues were identified by our testing of revenue or income received in relation to the Parkside development.</p> |

FINANCIAL STATEMENTS

Continued

| VALUATION OF LAND AND BUILDINGS | RESPONSE | FINDINGS |
|---|---|---|
| <p>Fire authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value in existing use at the balance sheet date.</p> <p>The Fire Authority undertakes a rolling programme of revaluations to ensure that all items of PPE required to be measured at current value in existing use are revalued at least once every five years. Management engage an external valuer to undertake the valuation of land and buildings.</p> <p>There is a risk over the accuracy of the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p> | <p>We responded to this risk by reviewing the competence, objectivity and independence of the external valuer engaged by management to assist with the valuation of land and buildings.</p> <p>We agreed a sample of revaluations recognised in the financial statements to the external valuer’s report to ensure that they have been accurately recorded.</p> <p>We challenged managements’ assumptions in relation to assets not valued during the year to ensure their value is accurately reflected in the financial statements.</p> | <p>We are satisfied that the valuation of land and buildings reflected in the financial statements is not materially misstated.</p> |

FINANCIAL STATEMENTS

Continued

| PENSION LIABILITY ASSUMPTIONS | RESPONSE | FINDINGS |
|--|--|--|
| <p>The net pension liability comprises the Fire Authority’s share of the market value of assets held in the four Firefighters’ Pension schemes and Cambridgeshire Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension funds and has regard to local factors such as mortality rates and expected pay rises, along with other assumptions around inflation, when calculating the liability.</p> <p>There is a risk the valuations are not based on accurate membership data or use inappropriate assumptions to value the liability.</p> | <p>We agreed the disclosures included in the Fire Authority’s financial statements to the information provided by the pension fund actuary.</p> <p>As the auditors of the Cambridgeshire Pension Fund, we reviewed the controls for providing accurate membership data to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data using the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p> | <p>Our audit of Cambridgeshire Pension Fund identified a difference between the movement in fund asset values provided to the actuary by Cambridgeshire Pension Fund and the year-end values included in the Pension Fund’s accounts. We calculated that the estimated value of the understatement of the Fire Authority’s share of the pension fund liability arising as a result of this issue was £154,000. No adjustment was made to the Fire Authority’s financial statements in respect of this issue and we are satisfied that this does not have a material impact on the financial statements.</p> <p>No issues were identified from our review of the assumptions used in respect of either the Firefighters’ Pension schemes or the Cambridgeshire Pension Fund and our work on accounting estimates did not identify any evidence of bias.</p> |

FINANCIAL STATEMENTS

Continued

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.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £656,000. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.75 per cent) which we consider to be one of the principal considerations for the Fire Authority in assessing the financial performance.

We agreed with the Overview and Scrutiny Committee that we would report all individual audit differences in excess of £30,000.

Audit differences

Our audit found one audit difference not corrected in the final financial statements that impacted on the reported deficit:

- £53,000 understatement of expenditure due to the incorrect calculation of depreciation associated with fire stations.

Correcting for this misstatements would result in the Fire Authority reporting a £53,000 higher deficit for the year.

A second audit difference was identified which has no impact on the reported deficit:

- £154,000 understatement of the Fire Authority's share of the Cambridgeshire Pension Fund liability due to a difference in the movement in fund asset values provided to the actuary by the Pension Fund and the year-end values included in the Pension Fund's accounts

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Our audit also identified unadjusted disclosure matters, including

- notes relating to balances which are not material to the financial statements not being deleted; and
- rows or columns with nil entries which should be removed from the respective notes as there are no relevant transactions to disclose.

Other matters we report on

Annual governance statement

We were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

The Fire Authority is required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We were satisfied that the information given in the narrative report for the financial year for which the financial statements were prepared was consistent with the financial statements.

FINANCIAL STATEMENTS

Continued

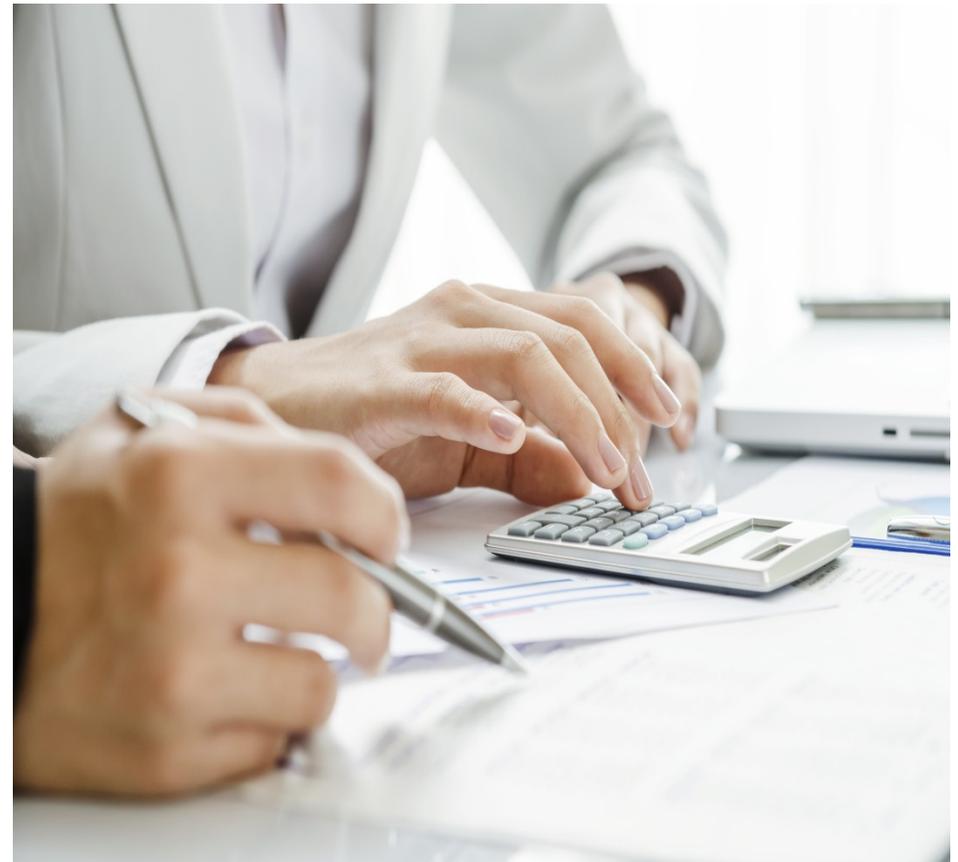
Internal controls

We did not find any significant deficiencies in internal control during the course of our audit. A number of other areas for improvement in the control environment were identified which we have discussed with management.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

The Fire Authority falls below the threshold for review and there was no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.



USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

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

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 using information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Fire Authority including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

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

| SUSTAINABLE FINANCES | RESPONSE | FINDINGS |
|---|--|--|
| <p>As with the majority of the public sector, the Fire Authority will continue to face downward pressure on the funding available to it in the coming years.</p> <p>The Fire Authority's medium term financial strategy (MTFS), published in February 2016, identified that estimated savings of £2.6m will be required over the next six years. This is dependent upon the Fire Authority increasing its precept by 2% in each year included within the MTFS. It is likely that larger savings would be required should the annual increase in council tax be less than 2% in any of those years.</p> <p>The proposed provisional local government settlement, published by central government in December 2015 (and reflected in the Fire Authority's MTFS) was dependent on the Authority publishing an efficiency plan for the four year period beginning 2016/17. This presented a further risk to the financial position of the Fire Authority, as the absence of such a plan may result in further funding reductions.</p> | <p>We reviewed the assumptions used in the Medium Term Financial Strategy and assessed the reasonableness of the cost pressures and the amount of government grant reductions applied. We reviewed the Fire Authority's other strategic documents (e.g. Service Improvement and Business Development Programmes, Asset Management Plan) to confirm that they are consistent with the MTFS and vice versa.</p> <p>We considered how the Fire Authority intends to address the budget gap it has identified from 2016/17 onwards and have reviewed the progress made in relation to the efficiency plan.</p> | <p>The Fire Authority has a track record of achieving its budgets and associated efficiency savings. In addition, the Fire Authority does have access to some unrestricted reserves that although limited, provide a degree of headroom to help absorb adverse variances.</p> <p>Looking forward the scale of the challenge will be more difficult in 2017/18 and therefore it is important that the Fire Authority continues to monitor its financial position very closely.</p> <p>In overall terms, although the financial position is getting more difficult, the Fire Authority enters this period with reasonable arrangements in place to ensure it remains a financially sustainable organisation.</p> |

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have not exercised our statutory powers and have no matters to report.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 30 September 2016.

APPENDIX

Reports issued

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

| REPORT | DATE |
|--|-------------------|
| Audit Plan | 23 February 2016 |
| Report to the Policy and Resources Committee (ISA 260 report to those charged with governance) | 20 September 2016 |
| Annual Audit Letter | 28 October 2016 |

Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

| AUDIT AREA | PLANNED FEES | FINAL FEES |
|---------------------------------------|---------------|---------------|
| Code audit | 31,865 | 31,865 |
| Fee for audit services | 31,865 | 31,865 |
| Audit related services: | | |
| - None | - | - |
| Fee for audit related services | - | - |
| Non audit related services: | | |
| - None | - | - |
| Total fees | 31,865 | 31,865 |

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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