CAMBRIDGESHIRE & PETERBOROUGH FIRE AUTHORITY

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017

25 October 2017

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 year ended 31 March 2017. 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. It will be published on the website of Public Sector Audit Appointments Limited.

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), and to review and report 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
25 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS
We issued our unmodified true and fair opinion on the financial statements on 29 September 2017. We reported our detailed findings to the Policy and Resources Committee on 28 September 2017. We reported on four uncorrected misstatements which management and the Policy and Resources Committee concluded were immaterial.

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 29 September 2017.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified true and fair opinion on the financial statements on 29 September 2017.

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 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 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.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Management override Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We also obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	No issues were identified.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Revenue recognition Auditing Standards presume that income recognition presents a fraud risk. We rebutted the risk for income received in respect of taxation and non-specific government grants as these items are determined either at the beginning of the year as part of the Authority's budget setting process or by central government. For the remaining revenue streams, we considered that the risk of fraudulent revenue recognition remained.	We tested an increased sample of other income to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	No issues were identified.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Land and buildings valuations Authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. Management engages external valuers to undertake a rolling revaluation programme which ensures that all assets are revalued at least once every three years. We considered there to be a risk over the valuation of land buildings where valuations were based on market assumptions or where updated valuations have not been provided for a class of assets at the year-end.	We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert. We were satisfied that we could rely on their work. We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We contacted the valuers directly to challenge the assumptions applied. Our testing of a representative sample of revaluation movements identified that the revaluation of the Yaxley Fire Station had been incorrectly accounted for, resulting in the value of the asset being understated by £500,000. Management corrected this misstatement in the financial statements. We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations. Management had not considered the implications of valuation changes to those assets not revalued in the year. An adjustment of £833,000 was made in the financial statements to reflect the increase in value of those assets.	Two misstatements were corrected by management in the financial statements in relation to the Yaxley Fire Station and value of assets not formally revalued in the year. One unadjusted misstatement was reported for £20,000 in relation to the understatement of the depreciation charge for Yaxley Fire Station.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Pension liability assumptions The net pension liability comprises the Authority's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions to members of both the Cambridgeshire Pension Fund and the four Fire Fighters' Pension Schemes. 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 fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There was a risk that the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability.	We agreed the disclosures to the information provided by the pension fund actuary. We sought assurance from the auditors of Cambridgeshire Pension Fund in relation to the controls for providing accurate membership data to the actuary. One issue was noted in relation to the calculation of the liability where 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 accounts. We reviewed the reasonableness of the assumptions used by the pension fund actuary. We agreed the disclosures to the information provided by the actuary. We reviewed the reasonableness of the assumptions used by the pension fund actuary and had no matters to report.	One unadjusted misstatement was reported to the Policy and Resources Committee for £304,000 in relation to the difference between the fund asset values used by the actuary and those recognised in the Pension Fund financial statements.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Changes in the presentation of the financial statements In 2016/17, a change to the presentation of some areas of the financial statements was required, including: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note These changes also required a restatement of the 2015/16 CIES. There was a risk that these presentational changes were not correctly applied in the financial statements.	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes had been correctly reflected within the financial statements. The draft financial statements presented for audit did not include any of the presentational changes required. Management agreed to make the necessary changes, however there was a significant delay in presenting us with a revised set of financial statements which demonstrated compliance with the relevant guidance. This revised version, which was received on 2 August 2017, still included material departures from the presentational requirements of the relevant guidance. Management provided a further set of revised financial statements that were compliant with the new requirements in mid September.	A significant number of changes were made to the draft financial statements presented for audit prior to finalisation, however there was no impact on the reported deficit on the provision of services.

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.

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 £870,000. 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 the financial performance.

We agreed with the Policy and Resources Committee that we would report all individual audit differences in excess of £17,000.

AUDIT DIFFERENCES

We reported one material of £947,000 difference in relation to the prior year that was corrected in the financial statements regarding the reversal of a provision for costs associated with the modified pension scheme.

In addition we made the following corrections in the financial statements:

- £500,000 for Yaxley Fire Station as noted previously
- £833,000 for the increase in valuation of land and buildings not revalued in the year as noted previously

In addition we found three audit differences which were not corrected in the final financial statements as follows:

- £125,000 of expenditure relating to 2017/18 accrued for in error
- £304,000 understatement of the net pension liability associated with the Local Government Pension Scheme due to a difference between the value of the investments used by the actuary to calculate the net pension liability and the value of investments recognised in the pension fund's financial statements.
- £20,000 understatement of depreciation in relation to Yaxley Fire Station

In addition, there was one brought forward unadjusted audit difference for £53,000 that impacted on the prior year.

Correcting for these remaining misstatements would have resulted in the Authority reporting a £158,000 lower deficit for the year.

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

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework' (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We identified two significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

- **Draft financial statements** - the financial statements presented for audit included a number of material departures from the guidance. This is indicative of a lack of robust procedures to ensure the statutory financial statements comply with the Code, including review by senior officers prior to publication.
- **Valuation of assets** - management had not considered the implications of the increases in value of those assets revalued in the year for those assets which were not subject to formal revaluation. Failure to consider potential increases or decreases in the value of assets not subject to in year valuation may result in the carrying value of other land and buildings included in the Authority's balance sheet being materially incorrect.

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 Authority falls below the threshold for review and there is 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 our unmodified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

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 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 governance statement and annual report, and information available from the risk registers and supporting arrangements.

We did not identify any significant risks in relation to use of resources.

APPENDIX

REPORTS ISSUED

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

REPORT	DATE
Audit plan	March 2017
Audit completion report	September 2017
Annual audit letter	October 2017

FEES

We reported our original fee proposals in our audit.

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Authority audit - scale fees	31,865	31,865
Total audit	**31,865**	**31,865**

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