



# CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

Annual Audit Letter

Year ended 31 March 2020

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# EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

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 review and report on:

- Our opinion on the financial statements; and
- Whether the Authority have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

**BDO LLP**

22 December 2020

## Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings and the valuation of pooled property assets within the pension fund, due to a material uncertainty included in the final valuation report by the valuers of these assets. Issued on 1 December 2020.
Use of resources	Unmodified conclusion issued on 1 December 2020.

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.

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# FINANCIAL STATEMENTS

## Audit conclusion

We issued our audit report on 1 December 2020.

We issued an unqualified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

## Final materiality

Final materiality was calculated at £860,000 based on a benchmark of 2% of gross expenditure.

## Material misstatements

We identified one error that was material in the Authority's accounts. This only affected the classification of debtors and creditors on the balance sheet.

We also identified one material misstatement in relation to the pension liability needing to be updated for the latest developments in the McCloud case.

## Unadjusted audit differences

We identified audit adjustments, the net impact if posted, would decrease the net deficit on provision of services for the year by £337,000.

We reported these audit differences and the Fire Authority Committee accepted management's decision not to amend the Statement of Accounts for these differences because the impact was not material.

# 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 the risk was addressed by our audit	Results
<p><b>Management override of controls</b></p> <p>Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction</li> <li>Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias</li> <li>Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.</li> </ul>	<p>We used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting close process for any unusual transactions.</p> <p>We identified a number of journal entries that we considered to be high risk. All were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.</p> <p>We assessed and corroborated significant management estimates and judgements in the following key areas:</p> <ul style="list-style-type: none"> <li>- Depreciation</li> <li>- Accruals and accrued income</li> <li>- Valuation of land and buildings</li> <li>- Pension liability</li> <li>- Going concern assumptions</li> </ul> <p>We found no evidence of management override in these estimates.</p>

# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p><b>Valuation of non-current assets</b></p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert</li> <li>Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage</li> <li>Reviewed the accuracy and completeness of information provided to the valuer, such as floor areas</li> <li>Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets</li> <li>Followed up on valuation movements that appear unusual</li> <li>Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remained materially correct.</li> </ul>	<p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely on their work.</p> <p>We checked that the basis of the valuation for each asset was appropriate and looked at the assumptions and input data that informed the valuation.</p> <p>Our work in this area identified a small number of assets where the split of the valuation movement between the revaluation reserve and the CIES had been applied incorrectly.</p> <p>The valuer included a material uncertainty statement in their final valuation reports in respect of the year-end valuations, in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p><b>Valuation of Pension Liability</b></p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>• Agreed the disclosures to the information provided by the pension fund actuary</li> <li>• Reviewed the competence of the management expert (actuary)</li> <li>• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>• Reviewed the controls in place for providing accurate membership data to the actuary</li> <li>• Contacted the pension fund auditor, requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data</li> <li>• Checked that any significant changes in membership data had been communicated to the actuary.</li> </ul>	<p>No issues were found in assessing the competency of managements experts, or in the agreement of disclosures to the information provided by the actuary.</p> <p>We compared the key financial and demographic assumptions used by the actuary, to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO. We considered that the assumptions and methodology used by the Pension Fund actuary were appropriate, and resulted in an estimate of the net pension liability which falls within a reasonable range.</p> <p>We requested that a revised actuary report was obtained that took into consideration the proposed remedy for the McCloud Judgement. This resulted in a £1.140 million reduction in the pension liability with £1.081 million of this being adjusted through the comprehensive income and expenditure statement.</p> <p>Adjustments were also made for a number of disclosure misstatements within the pension fund note.</p> <p>The auditor of the Cambridgeshire Pension Scheme, highlighted immaterial errors in the asset values, which were reported as unadjusted misstatements.</p>

# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Production of financial statements compliant with the Code	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• A review of the controls implemented by the Authority to ensure that the chart of accounts had been mapped correctly in the 'Big Red Button' software</li><li>• A review of the reconciliation between the trial balance and the financial statements including investigation into any non-trivial differences or omissions identified</li><li>• A review of the prior period comparatives against the prior year signed financial statements</li><li>• A review of the financial statements specifically focused on the areas where deficiencies were identified in the prior year</li><li>• A review of the disclosure checklist prepared by the Authority to confirm that all required disclosures had been correctly presented in the financial statements in accordance with the Code</li></ul>	<p>We found that the number and volume of issues identified was lower than has been identified in prior years, evidencing the increased level of checks performed on the financial statements by management. In particular we noted that the majority of the points raised specifically as issues in the prior year audit completion report had been addressed.</p> <p>However, we identified a number of disclosure errors in the published unaudited accounts which were still present and there was a delay in providing the accounts to BDO due to deficiencies in the big red button software tool. All of the issues were amended in the final financial statements.</p>

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# USE OF RESOURCES

## **Audit conclusion**

We did not identify any significant risks in respect of the Authority's use of resources. We issued an unmodified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



# REPORTS ISSUED AND FEES

## Fees summary

	2019/20	2018/19
	£	£
Audit fee	TBC	£24,536
Audit fee - PSAA scale fee	£24,536	£24,536
Proposed Amendment	TBC <sup>1</sup>	-
Non-audit assurance services	-	-
<b>Total fees</b>	<b>TBC</b>	<b>£24,536</b>

<sup>1</sup> An additional fee for 2019/20 will be agreed with management at a meeting later this year to enable us to conclude on additional costs and have discussions with management.

## Communication

Communication	Date (to be) communicated	To whom
Audit Planning Report	May 2020	By e-mail to members of Overview and Scrutiny Committee
Audit Progress Report	July 2020	Policy and Resources Committee
Audit Completion report	October 2020	Fire Authority Committee
Annual Audit Letter	January 2021	Overview and Scrutiny Committee



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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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