#### Agenda Item 7

### CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

#### AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

23 July 2018



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#### WELCOME

We have pleasure in presenting our Audit Completion Report to the Policy and Resources Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Policy and Resources Committee. At the completion stage of the audit it is essential that we engage with the Policy and Resources Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Policy and Resources Committee meeting on 26 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Policy and Resources Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the Appendices.

We would also like to take this opportunity to thank the management and staff of the Fire Authority for the co-operation and assistance provided during the audit.

## **OVERVIEW**

This summary provides an overview of the audit matters that we believe are important to the Policy and Resources Committee in reviewing the results of the audit of the financial statements and use of resources of the Fire Authority for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

| AUDIT SCOPE AND OBJECTIVES      |   |  |
|---------------------------------|---|--|
| Audit status                    | We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section on page 5.   |  |
| Audit risks update              | No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 9 January 2018.  |  |
| Materiality                     | Our final materiality is £800,000. We have reduced our materiality from £890,000 as reported in our Audit Plan following receipt of the draft financial statements, which show gross expenditure lower than that used to calculate materiality at the planning stage.   |  |
| Changes to audit approach       | There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.  |  |
| KEY AUDIT AND ACCOUNTI          | NG MATTERS  |  |
| Material misstatements          | Subject to completion of the outstanding matters on page 5, our audit has not identified any material misstatements.  |  |
| Unadjusted audit<br>differences | <ul> <li>We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. These include:</li> <li>£105,000 relating to unadjusted misstatements identified by our 2016/17 audit</li> <li>£583,000 relating to overstatement 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.</li> </ul> |  |
| Control environment             | The unaudited statement of accounts certified by the Treasurer and published on 31 May 2018 contained a number of material departures from the requirements of the Code. Management have been unable to demonstrate that the unaudited statement of accounts was subject to robust checks or an appropriate level of review by a senior officer prior to publication. We reported the same issue following completion of last year's audit. This is a significant deficiency in internal control.   |  |

### **OVERVIEW**

| KEY MATTERS FROM OUR                  | KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES  |  |  |
|---------------------------------------|---|--|--|
| Use of resources risk<br>assessment   | Our risk assessment did not identify any use of resources significant risks. We have updated our risk assessment following our completion of the interim review of financial controls and review of the draft financial statements and we have not identified any additional significant risks. |  |  |
| AUDIT OPINION                         |   |  |  |
| Financial statements                  | Subject to the successful resolution of outstanding matters set out on page 5, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.  |  |  |
| Other information                     | We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.  |  |  |
| Annual Governance<br>Statement        | We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.   |  |  |
| Use of resources                      | Subject to the successful resolution of outstanding matters set out on page 5, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.                               |  |  |
| OTHER MATTERS FOR THE                 | ATTENTION OF THE POLICY AND RESOURCES COMMITTEE   |  |  |
| Whole of Government<br>Accounts (WGA) | The Fire Authority is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.  |  |  |
| Audit independence                    | Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.  |  |  |
| Management letter of representation   | The draft management letter of representation, to be approved and signed, is set out in Appendix VI.  |  |  |

### **OUTSTANDING MATTERS**

We have substantially completed our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Policy and Resources Committee meeting at which this report is considered:

Receipt of outstanding information from management

2 Completion of audit procedures relating to the valuation of land and buildings.

Receipt of bank an investment confirmations from

- Lloyds Bank Plc
  - National Westminster Bank Plc

4 Receipt of final draft of the Statement of Accounts and completion of audit procedures to confirm all agreed amendments have been made

5 Final review and approval by you of the Statement of Accounts

6 Completion of manager and director review of audit fieldwork

7 Subsequent events review

8 Management letter of representation, as attached in Appendix VI to be approved and signed

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#### AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

#### **Key:** Significant risk Normal risk

|   | AUDIT AREA | RISK DESCRIPTION   | HOW RISK WAS ADDRESSED BY OUR AUDIT   | AUDIT FINDINGS AND CONCLUSION   |
|---|------------|--|---|---|
| 1 |            | Auditing standards presume that a risk of<br>management override of controls is present<br>in all entities and require us to respond to<br>this risk by testing the appropriateness of<br>accounting journals and other adjustments<br>to the financial statements, reviewing<br>accounting estimates for possible bias and<br>obtaining an understanding of the business<br>rationale of significant transactions that<br>appear to be unusual.<br>By its nature, there are no controls in<br>place to mitigate the risk of management<br>override. | <ul> <li>We have:</li> <li>Tested the appropriateness of journal<br/>entries recorded in the general ledger<br/>and other adjustments made in the<br/>preparation of the financial statements.</li> <li>Reviewed accounting estimates for<br/>biases and evaluated whether the<br/>circumstances producing the bias, if any,<br/>represent a risk of material<br/>misstatement due to fraud.</li> <li>Obtained an understanding of the<br/>business rationale for significant<br/>transactions that are outside the normal<br/>course of business for the entity or that<br/>otherwise appear to be unusual.</li> </ul> | We have not identified any inappropriate or unusual<br>journals and we did not identify any bias in accounting<br>estimates. There were no significant transactions outside<br>the normal course of business for the entity.<br>We have no matters to report. |

|   | AUDIT AREA         | RISK DESCRIPTION  | HOW RISK WAS ADDRESSED BY OUR AUDIT   | AUDIT FINDINGS AND CONCLUSION  |
|---|--------------------|---|---|--|
| 2 | Recognition<br>[S] | Under auditing standards there is a<br>presumption that income recognition<br>presents a fraud risk.<br>We consider that the presumed risk of<br>fraudulent revenue recognition can be<br>rebutted for income received in respect of<br>taxation and non-specific government<br>grants. These items are determined either<br>at the beginning of the year as part of the<br>Fire Authority's budget setting process or<br>by central government. This reduces the<br>opportunity for manipulation.<br>For the remaining revenue streams, we<br>consider that the risk of fraudulent<br>revenue recognition remains in respect of<br>accuracy and existence. | <ul> <li>We have:</li> <li>Carried out audit procedures to gain 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.</li> <li>Performed substantive testing on an increased sample of transactions selected from these income streams to ensure that they have been recorded at the correct amount and in the correct period.</li> <li>Reviewed the Parkside development agreements to ensure the appropriate accounting treatment has been applied.</li> </ul> | We have not identified any deficiencies in the internal<br>control environment relating to the recognition of income.<br>Substantive testing of a sample of income transactions has<br>not identified any errors relating to the accuracy or<br>completeness of the income recognised.<br>There has been no change to the treatment applied to<br>amounts recognised in respect of the Parkside<br>development.<br>We have no matters to report. |

|   | AUDIT AREA                                | RISK DESCRIPTION   | HOW RISK WAS ADDRESSED BY OUR AUDIT  | AUDIT FINDINGS AND CONCLUSION   |
|---|---|--|--|---|
| 3 | Valuation of Land<br>and Buildings<br>[S] | Fire authorities are required to ensure that<br>the carrying value of property, plant and<br>equipment (PPE) is not materially different<br>to the fair value at the balance sheet date.<br>The Fire Authority undertakes a rolling<br>programme of revaluations to ensure that<br>all items of PPE required to be measured at<br>fair value are revalued at least once every<br>three years. Management engage an<br>external valuer to undertake the valuation<br>of land and buildings.<br>There is a risk over the accuracy of the<br>valuation of land and buildings where<br>valuations are based on assumptions or<br>where updated valuations have not been<br>provided for a class of assets at year-end. | • Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. | Our work in this area remains ongoing. We will provide a verbal update to the Policy and Resources Committee. |

|   | AUDIT AREA                              | RISK DESCRIPTION   | HOW RISK WAS ADDRESSED BY OUR AUDIT   | AUDIT FINDINGS AND CONCLUSION   |
|---|---|--|---|---|
| 4 | Pension Liability<br>Assumptions<br>[S] | The net pension liability comprises the Fire<br>Authority's share of the market value of<br>assets held in the Cambridgeshire Pension<br>Fund and the estimated future liability to<br>pay pensions to members of both the<br>Cambridgeshire Pension Fund and the four<br>Firefighters' Pension Schemes.<br>An actuarial estimate of the pension fund<br>liability is calculated by an independent<br>firm of actuaries with specialist knowledge<br>and experience. The estimate is based on<br>the most up to date membership data held<br>by the pension funds and has regard to<br>local factors such as mortality rates and<br>expected pay rises along with other<br>assumptions around inflation when<br>calculating the liability.<br>There is a risk the valuations are not based<br>on accurate membership data or use<br>inappropriate assumptions to value the<br>liability. | <ul> <li>We have:</li> <li>Obtained assurance over the controls<br/>for providing accurate membership<br/>data to the Local Government Pension<br/>Scheme actuary from the auditor of<br/>Cambridgeshire Pension Fund.</li> <li>Reviewed the competence, objectivity<br/>and independence of the actuaries<br/>responsible for the valuation of the<br/>liabilities associated with the<br/>Firefighters' Pension Schemes and the<br/>Cambridgeshire Pension Fund.</li> </ul> | We have agreed the disclosures to the information<br>provided by the actuary.<br>The assurances from the auditor of Cambridgeshire Pension<br>Fund have been received with one issue noted in relation<br>to the calculation of the liability. There had been a<br>significant movement between the fund asset values<br>provided to the actuary and the year-end values included<br>in the pension fund accounts. An unadjusted error has<br>been included within Appendix I as a consequence of the<br>updated information.<br>We have reviewed the reasonableness of the assumptions<br>used by the pension fund actuary and have no matters to<br>report. |

|   | AUDIT AREA   | RISK DESCRIPTION  | HOW RISK WAS ADDRESSED BY OUR AUDIT  | AUDIT FINDINGS AND CONCLUSION  |
|---|--|---|--|--|
| 5 | Production of<br>financial statements<br>compliant with the<br>Code<br>[S] | The audit of the 2016/17 financial<br>statements identified a number of<br>misstatements, including departures from<br>CIPFA's Code of Practice, in the draft<br>financial statements presented for audit.<br>To assist with the preparation of the<br>2017/18 financial statements, the Fire<br>Authority has chosen to implement a third<br>party software solution to help meet the<br>faster close timetable and also ensure<br>compliance with the Code to address<br>matters identified during the prior year<br>audit.<br>At the time of preparing our risk<br>assessment, the Fire Authority was in the<br>process of implementing the software<br>solution. This required the Fire Authority's<br>existing financial systems to be mapped<br>correctly to the new software to ensure<br>that the balances reported in the financial<br>statements are complete and presented<br>correctly. | <ul> <li>We have:</li> <li>Reviewed the design of controls<br/>implemented by the Fire Authority to<br/>ensure that the existing chart of<br/>accounts is mapped correctly to the<br/>third party software. Where<br/>appropriate, we will test the operating<br/>effectiveness of these controls.</li> <li>Reconciled the trial balance produced<br/>by the Fire Authority's main accounting<br/>system to the financial statements and<br/>investigate any non-trivial differences<br/>or omissions identified.</li> <li>Checked disclosures to confirm that<br/>transactions and balances have been<br/>correctly presented in the financial<br/>statements in accordance with the<br/>Code.</li> </ul> | <ul> <li>The Fire 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 Fire Authority to identify and correct mapping issues prior to the preparation of the 2017/18 financial statements.</li> <li>As part of this exercise, the Fire 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'.</li> <li>We have reconciled the Fire Authority's trial balance to the financial statements. No differences were identified.</li> <li>We identified a significant number of disclosure errors in the published unaudited accounts:</li> <li>The narrative statement did not include information required by the Code.</li> <li>Net expenditure chargeable to the general fund balance shown in the Expenditure and Funding Analysis did not agree to management information.</li> <li>Material balances in the primary statements did not include cross references to supporting notes.</li> <li>Primary statements and supporting notes included line items with nil balances in both the current and prior year.</li> </ul> |

| AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT AUDIT FINDINGS AND CONCLUSION   |
|------------|------------------|---|
|            |                  | <ul> <li>The accounting policies note was rolled forward from<br/>prior years without amendment and did not reflect the<br/>policies currently in place.</li> </ul>   |
|            |                  | Other notes were duplicated and/or had not been     updated for the current year.   |
|            |                  | <ul> <li>A number of notes related to immaterial balances and<br/>should have been removed to improve clarity.</li> </ul>   |
|            |                  | <ul> <li>The note disclosing cash flows from investing activities<br/>reported purchases and proceeds from short and long<br/>term investments as net rather than gross.</li> </ul>   |
|            |                  | <ul> <li>The opening capital financing requirement reported in<br/>the capital expenditure and capital financing note did<br/>not agree to the prior year closing balance.</li> </ul>   |
|            |                  | <ul> <li>Narrative disclosures relating to credit, liquidity and<br/>market risks associated with financial instruments<br/>were omitted.</li> </ul>  |
|            |                  | When reviewing the published unaudited accounts,<br>management also identified non-material classification<br>errors between line items within the creditors note.  |
|            |                  | We received an updated version of the statement of<br>accounts on 12 July 2018. This addresses a number of the<br>issues identified. We are awaiting the final draft of the<br>statement of accounts. We will perform checks on the final<br>draft once we have completed our audit procedures. |

| AUDIT AREA  | RISK DESCRIPTION  | HOW RISK WAS ADDRESSED BY OUR AUDIT   | AUDIT FINDINGS AND CONCLUSION  |
|---|---|---|--|
| 6 Faster close<br>timetable and<br>capacity of the<br>finance team<br>[S] | The introduction of the faster close<br>timetable requires draft accounts to be<br>submitted for audit by 31 May and audited<br>accounts published by 31 July. In the prior<br>year as noted above the Fire Authority had<br>not produced draft financial statements<br>compliant with the Code. Also, with the<br>accelerated accounts production<br>timetable, additional pressure will be<br>placed on the small finance team and an<br>increased number of estimates will need<br>to be made as part of the closedown<br>process.<br>This is likely to increase the risk that<br>mistakes which could result in material<br>misstatement will be made in the<br>production of the accounts. | We held ongoing discussions with<br>management regarding their plans<br>(including use of the third party software<br>solution referred to above) for delivering to<br>the earlier deadlines.<br>We have undertaken early substantive audit<br>work on the Month 10 data. | We had also agreed with management that we would<br>complete early work on the complex area of land and<br>building valuations (which is also subject to a significant |

#### MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

|   | AUDIT AREA      | AUDIT FINDINGS   |
|---|-----------------|--|
|   | Fraud           | Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan to the Overview and Scrutiny Committee on 29 March 2018. |
| Ĩ | Related parties | Whilst the Fire Authority is responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.<br>Subject to completion of the outstanding matters on page 5, we have not identified any significant matters in connection with related parties  |

#### **OTHER REPORTING MATTERS**

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

| MATTER  | COMMENT   |
|---|---|
| i i i i ca co i co i co i co i co i co i  | We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.   |
| We are required to report by exception if<br>the Annual Governance Statement does<br>not meet the disclosure requirements set<br>out in the guidance 'Delivering Good<br>Governance in Local Government<br>Framework' (2016 Edition) published by<br>CIPFA/SOLACE or is misleading or<br>inconsistent with other information that<br>is forthcoming from the audit. | <ul> <li>Our audit identified that the following required disclosures were omitted from the Annual Governance Statement:</li> <li>An opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework; and</li> <li>Reference to how issues raised in the previous year's annual governance statement have been resolved.</li> </ul> |

### **CONTROL ENVIRONMENT**

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Policy and Resources Committee.

As the purpose of the audit is for us to express an opinion on the Fire Authority's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Fire Authority's internal audit function has issued a number of observations and recommendations on the Fire Authority's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We have identified the following significant deficiencies in the Fire Authority's internal controls in 2017/18.

#### **DRAFT FINANCIAL STATEMENTS**

As reported above in the Key Audit and Accounting Matters section, the unaudited statement of accounts published on 31 May 2018 included a number of material departures from the Code. This is indicative of a lack of robust procedures to ensure the statutory unaudited financial statements comply with the Code, including review by senior officers prior to publication. We reported this issue following both our 2015/16 and 2016/17 audits. Our 2016/17 audit completion report included the following recommendations regarding this matter:

- Complete CIPFA's disclosure checklist in full as part of the financial statements closedown process.
- Arrange for a review of the draft financial statements to be undertaken by a senior officer.
- Matters arising from either of the above processes should be addressed in the draft financial statements prior to publication.

Management have confirmed that CIPFA's disclosure checklist was used as part of the 2017/18 financial statements closedown process. We have not been provided with a completed version of the checklist to evidence this. Management have confirmed that no review of the draft financial statements was undertaken by a senior officer prior to publication.

While management have agreed to amend the financial statements in respect of the errors identified, resolution of these matters has required a significant amount of time and effort on the part of both officers and the audit team during the field work phase of the audit.

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

### WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

|   | MATTER   | COMMENT  |
|---|--|--|
| 1 | Auditors are required to review Whole of<br>Government Accounts (WGA) information prepared<br>by component bodies that are over the prescribed<br>threshold of £500 million in any of: assets<br>(excluding property, plant and equipment);<br>liabilities (excluding pension liabilities); income or<br>expenditure. The Fire Authority falls below the<br>threshold for review and there is no requirement<br>for further work other than to submit the section<br>on the WGA Assurance Statement to the WGA audit<br>team with the total values for assets, liabilities,<br>income and expenditure. | Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Fire Authority met this deadline. |

#### **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 (value for money) and report to you on an 'except for' basis. This is 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.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

Our risk assessment did not identify any use of resources significant risks. We have since updated our risk assessment following our completion of the interim review of financial controls and review of the draft financial statements and we have not included any additional significant risks.

We have not identified any matters which require reporting to you.

### **APPENDICES**

#### **APPENDIX I: AUDIT DIFFERENCES**

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Policy and Resources Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

#### ADJUSTED AUDIT DIFFERENCES

Subject to completion of the outstanding matters on page 5, our audit has not identified any material misstatements.

#### UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit work which would decrease the deficit on provision of services by £105,000 if corrected. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

#### **APPENDIX I: AUDIT DIFFERENCES**

|   |       | INCOME AND EXPENDITURE |       | STATEMEMENT OF I | FINANCIAL POSITION |
|---|-------|------------------------|-------|------------------|--------------------|
|   |       | DR                     | CR    | DR               | CR                 |
|   | £'000 | £'000                  | £'000 | £'000            | £'000              |
| Net operating expenditure for the year before adjustments   | 9,744 |                        |       |                  |                    |
| DR Net liabilities  |       |                        |       | 105              |                    |
| CR Deficit on provision of services   | (105) |                        | (105) |                  |                    |
| (1) Impact of brought forward unadjusted misstatements  |       |                        |       |                  |                    |
| DR Net Pension Liability  |       |                        |       | 583              |                    |
| CR Pensions reserve   |       |                        |       |                  | (583)              |
| (2) Judgemental misstatement arising from the difference<br>between the fund asset values used by the actuary and<br>those recognised in the financial statements of the<br>Pension Fund. |       |                        |       |                  |                    |
| TOTAL UNADJUSTED AUDIT DIFFERENCES  | (105) | -                      | (105) | 688              | (583)              |
| Deficit on provision of services if adjustments accounted for   | 9,639 |                        |       |                  |                    |

### **APPENDIX II: RECOMMENDATIONS AND ACTION PLAN**

| Key: | Significant | deficiency in internal | . control 💻 Other | deficiency in interna | l control |
|------|-------------|------------------------|-------------------|-----------------------|-----------|
|------|-------------|------------------------|-------------------|-----------------------|-----------|

| AREA  | OBSERVATION AND IMPLICATION   | RECOMMENDATION  | MANAGEMENT RESPONSE   | RESPONSIBLE OFFICER    | TIMING  |
|---|---|---|---|------------------------|---|
| STATEMENT OF ACCOUNTS AND F   | INANCIAL STATEMENTS   |   |   |                        |   |
| Presentation of financial<br>statements   | Our audit identified that the financial<br>statements presented for audit<br>included a number of material<br>departures from the Code. This is<br>indicative of a lack of robust<br>procedures to ensure the statutory<br>financial statements comply with the<br>Code, including review by senior<br>officers prior to publication.<br>Resolution of these matters has<br>required a significant amount of time<br>and effort on the part of both officers<br>and the audit team. | Complete CIPFA's disclosure<br>checklist in full as part of the<br>financial statements closedown<br>process.<br>Arrange for a review of the draft<br>financial statements to be<br>undertaken by a senior officer.<br>Matters arising from either of the<br>above processes should be<br>rectified in the draft financial<br>statements before publication.            | Accept the<br>recommendation.<br>In future years, it is<br>anticipated that the new<br>system that is used to<br>produce the accounts will<br>be further refined ensuring<br>compliance.<br>This will be checked by<br>Senior Management  | Deputy Chief Executive | May 2018  |
| Management review of valuation<br>of land and buildings and the net<br>pension liability. | Management engage external valuers<br>to undertake valuations of land and<br>buildings and an actuary to value the<br>net pension liability, both of which are<br>significant accounting estimates.<br>Management have not undertaken a<br>review of the outcome of the above<br>engagements to ensure that they are<br>consistent with their expectations.   | As part of the accounts<br>preparation process, identify<br>significant accounting estimates<br>and for high level expectations<br>regarding movements in the<br>associated assets and liabilities.<br>Compare expectations to outputs<br>generated by management's<br>expert. Challenge the expert<br>where outputs are inconsistent<br>with management's expectation. | The Authority utilises<br>qualified professionals to<br>value assets and pension<br>liabilities. Whilst we<br>recognise our role in<br>challenge it also has to be<br>recognised that we engage<br>these professionals to<br>provide the required<br>information.<br>We will review these<br>figures, however, it must<br>be recognised that we<br>place reliance on their<br>professional judgement. | Deputy Chief Executive | Date of next<br>land and<br>buildings<br>revaluation<br>exercise. |

### **APPENDIX III: MATERIALITY**

#### MATERIALITY - FINAL AND PLANNING

|                           | FINAL (£) | PLANNING (£) |
|---------------------------|-----------|--------------|
| Materiality               | 800,000   | 890,000      |
| Clearly trivial threshold | 16,000    | 18,000       |

Planning materiality of £890,000 was based on 2% of gross expenditure reported in the 2016/17 statement of accounts.

Final materiality of £800,000 is based on 2% of gross expenditure reported in the 2017/18 unaudited accounts published on 31 May 2018.

### **APPENDIX IV: INDEPENDENCE**

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Fire Authority.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

### **APPENDIX V: FEES SCHEDULE**

|                                    | 2017/18<br>FINAL<br>PROPOSED | 2017/18<br>PLANNED | 2016//17<br>FINAL |  |
|------------------------------------|------------------------------|--------------------|-------------------|--|
|                                    | £                            | £                  | £                 | EXPLANATION FOR VARIANCES  |
| Code audit fee                     | TBC                          | 31,865             | 31,865            | The draft statement of accounts published on 31 May 2018 were not<br>compliant with the CIPFA Code (as described on p.g 10). We have<br>incurred additional cost as a result of the delays and extra work<br>arising. We will discuss and agree any additional fee with<br>management. |
| TOTAL AUDIT AND CERTIFICATION FEES | ТВС                          | 31,865             | 31,865            |  |

### **APPENDIX VI: DRAFT LETTER OF REPRESENTATION**

| TO BE TYPED ON CLIENT HEADED NOTEPAPER<br>BDO LLP |
|---|
| 16 The Havens                                     |
| Ransomes Europark                                 |
| lpswich   |
| Suffolk   |
| IP3 9SJ   |
| 27 July 2018                                      |

Dear Sirs

#### Financial statements of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Fire Authority's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Fire Authority.

The Deputy Chief Executive has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Fire Authority as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Fire Authority, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Fire Authority's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fire Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

#### **APPENDIX VI: DRAFT LETTER OF REPRESENTATION**

In relation to those laws and regulations which provide the legal framework within which the Fire Authority's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

a) assumptions used by the actuary in the calculation of the pension fund liability

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Firefighters schemes liabilities, as applied by the schemes' actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

|  | LGPS | Firefighters schemes |
|--|------|----------------------|
| Rate of inflation (CPI)                | 2.4% | 2.4%                 |
| Rate of increase in salaries           | 2.7% | 3.4%                 |
| Rate of increase in pensions           | 2.4% | 2.4%                 |
| Rate of discounting scheme liabilities | 2.6% | 2.7%                 |

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) assumptions used for land and buildings valuations.

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Matthew Warren Deputy Chief Executive Date:

[Name] [Title] Signed on behalf Cambridgeshire and Peterborough Fire Authority Date:

#### **APPENDIX VII: AUDIT QUALITY**

#### BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Fire Authority's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

#### FOR MORE INFORMATION:

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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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