CAMBRIDGESHIRE & PETERBOROUGH FIRE AUTHORITY

REPORT TO THE POLICY AND RESOURCES COMMITTEE

Audit for the year ended 31 March 2016 - Issued - 20 September 2016

BDO

PURPOSE AND USE OF THIS REPORT

We present our report to the Policy and Resources Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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 providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

This report has been prepared solely for the use of the Policy and Resources Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

CONTENTS

SUMMARY	5
KEY AUDIT AND ACCOUNTING MATTERS	6
SUMMARY OF AUDIT FINDINGS	14
OUTSTANDING MATTERS	16
OTHER REPORTING MATTERS	17
CONTROL ENVIRONMENT	18
WHOLE GOVERNMENT ACCOUNTS	19
USE OF RESOURCES	20

APPENDICES

I.	DEFINITIONS	24
II.	AUDIT DIFFERENCES	25
III.	RECOMMENDATIONS AND ACTION PLAN	28
IV.	MATERIALITY	29
V.	INDEPENDENCE	30
VI.	FEES SCHEDULE	32
VII.	DRAFT REPRESENTATION LETTER	33
VIII.	AUDIT QUALITY	35

SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- Our planning materiality as reported to the Overview and Scrutiny Committee in our planning report, was £670,000. We have revised our materiality level to £656,000 following receipt of the draft 2015/16 financial statements.

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We have no matters to report in relation to the annual governance statement.
- We are satisfied that the Fire Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
  i. Management has made corrections in the revised draft financial statements in respect of the cost to the Fire Authority of the modified pension scheme, which has increased the deficit for the year by £948,000.
- We have identified one unadjusted audit difference of £53,000 relating to depreciations charges.
- The draft accounts presented for audit contained a number of presentational errors and immaterial disclosures. Management have made amendments for some of these matters but the latest version of the financial statements available at the time of drafting this report still contains immaterial disclosures.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE

- The Fire Authority is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and that we have concluded are "significant audit risks", in the 2015/16 Audit Planning Report dated 23 February 2016. In the following table these significant risks have been highlighted in red and our audit findings have been reported against them.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Fire Authority's internal control environment and draft financial statements and confirm that no additional significant risks were identified. ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments to the financial statements. We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.	Our work on journals is substantially complete. No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION INCLUDING THE PARKSIDE DEVELOPMENT RECEIPT	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. We consider that the presumed risk of fraudulent revenue recognition can 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. For the remaining revenue streams, we consider that the risk of fraudulent revenue recognition remains in respect of completeness and accuracy. Specific consideration will also be given to the Parkside development monies.	We 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. We also 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. Finally, a review of the Parkside development agreements was carried out to ensure the appropriate accounting treatment had been applied.	No issues were identified by our testing of revenue or income received in relation to the Parkside development.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings from the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
VALUATION OF LAND AND BUILDINGS	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. 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. 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. We have reviewed the competence, objectivity and independence of the external valuer engaged by management to assist with the valuation of land and buildings. We have agreed a sample of revaluations recognised in the Financial statements to the external valuer's report to ensure that they have been accurately recorded. We have challenged managements' assumptions in relation to assets not valued during the year to ensure their value is accurately reflected in the financial statements.	We are satisfied that the valuation of land and buildings reflected in the financial statements is not materially misstated.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
PENSION LIABILITY ASSUMPTONS	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. 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. There is a risk the valuations are not based on accurate membership data or use inappropriate assumptions to value the liability. As the auditors of Cambridgeshire Pension Fund, we have reviewed the controls for providing accurate membership data to the LGPS actuary. We have also reviewed the competence, objectivity and independence of the actuaries responsible for the valuation of the liabilities associated with the Firefighters' Pension Schemes and the Cambridgeshire Pension Fund. We have reviewed the reasonableness of the assumptions used in the calculations 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 the reasonableness of the assumptions.	Our work in this area is still in progress. We will provide an update to the Policy and Resources Committee on 22 September.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings from the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CONSIDERATION OF RELATED PARTY TRANSACTIONS	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. There is a risk that related party disclosures are incomplete. We have documented the related party transaction identification procedures in place and reviewed relevant information concerning any such identified transactions. We have also discussed with management and reviewed Member and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed and undertaken our own completeness testing.	Our work in this area is still in progress. The work performed to date has identified that the Fire Authority does not have processes in place to ensure that members or senior officers who leave the Fire Authority during the year complete a related party declaration prior to their departure. We have made a recommendation regarding this matter and we will also request specific management representations in our letter of representation that the information is complete and accurate.
FRAUD AND ERROR	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error. We are not aware of any instances of fraud.	Our audit procedures have not identified any material errors due to fraud.
CONTRIBUTIONS TO MODIFIED PENSION SCHEME	From 1 April 2015, the Government introduced the Retained Firefighters' Pension Settlement. This gives retained fire fighters employed between 1 July 2000 and 5 April 2006, who were not given the opportunity to join the main firefighters pension scheme, to claim pension benefits. The Fire Authority did not recognise the employer contributions to the scheme (totalling £948,000) in the draft financial statements.	Management have adjusted the accounts to recognise the Authority's contribution to the modified pension scheme.

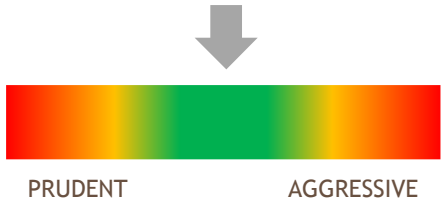
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PROPERTY, PLANT & EQUIPMENT (PPE) VALUATIONS 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 use or fair value at the Balance Sheet date. Management employs external experts (valuer) to undertake valuations. All PPE assets are revalued as part of the Fire Authority's rolling revaluation programme which ensures all assets are revalued at least once every five years. The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.	The Fire Authority engaged an external valuer to value its land and buildings as at 31 March 2016. We have reviewed relevant indices and other market information to confirm that there has been no material movement in property prices between the valuation date and the balance sheet date. This resulted in a upward revaluation movement of £611,000 in the year for PPE. We assessed the valuers' competence, independence and objectivity and determined we could rely on the management expert. We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements. We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS The pension liability comprises the Fire Authority's share of the market value of the five pension schemes (comprising four fire fighter schemes and the local government pension scheme) held at 31 March 2016 and the estimated future liability to pay pensions. Actuarial estimates of the fire fighters pension scheme liabilities and local government pension scheme liabilities is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.	As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £40.608 million compared to the balance at 31 March 2015. It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Fire Authority has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The key changes to the financial assumptions applicable to the Fire fighters pension schemes relate to: • an decrease in the pension increase rate from 2.4% to 2.2% • an decrease in the salary increase rate from 3.4% to 3.2% • an increase in the discount rate from 3.20% to 3.50% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). The key changes to the financial assumptions applicable to the local government pension scheme relate to: • an decrease in the pension increase rate from 2.4% to 2.2% • an decrease in the salary increase rate from 4.3% to 4.2% • an increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). These changes have resulted in the decrease in the present value of the scheme liabilities at 31 March 2016. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
DRAFT FINANCIAL STATEMENTS	The draft financial statements were presented to us for audit on 4 July 2016. We identified a number of presentational issues in the draft financial statements, including: • References to the incorrect financial year and year end date • Disclosures which appear to have been rolled forward from the prior year without amendment • Incomplete disclosures. Management have corrected the presentational issues identified. We have raised a recommendation regarding this matter.
IMMATERIAL DISCLOSURES	We review the financial statements for such disclosures on an annual basis and will discuss any items which we consider to be unnecessary with officers. We have made a number of suggestions regarding the removal of immaterial disclosures included in the draft accounts presented for audit. Management have addressed some of these matters but the latest version of the financial statements still includes notes with immaterial elements (either where the values associated with the disclosure are immaterial or where lines and columns with nil entries have been retained). Management have stated that the nature of the template used to prepare the financial statements has made it difficult to address all of our suggestions. We have raised a recommendation regarding this matter.
ACCOUNTING POLICIES	We are satisfied that the accounting policies adopted by the Fire Authority are consistent with the requirements of the Code.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

	MATTER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our Audit Planning Report to you dated 23 February 2016.
2	An overview of the planned scope and timing of the audit	See our Audit Planning Report to you dated 23 February 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

SUMMARY OF AUDIT FINDINGS

STATUS	REPORTING LEVEL
Not started	Significant issue
In progress	Raised for your attention
Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
Complete	Journals	Complete	No	No	No	No
Complete	Intangibles	Complete	No	No	No	No
Complete	Property, plant and equipment	Complete	No	No	Yes	No
Complete	Debtors	Complete	No	No	No	No
Complete	Cash and cash equivalents	Complete	No	No	No	No
Complete	Short term investments	Complete	No	No	No	No
Complete	Creditors	Complete	No	No	No	No
In progress	Pensions	Complete	No	Yes	No	No
Complete	Usable reserves	Complete	No	No	No	No
Complete	Unusable reserves	Complete	No	No	No	No
Complete	CIES income	Complete	No	No	No	No
Complete	CIES expenditure	Complete	No	No	No	No
Complete	CIES payroll	Complete	No	No	No	No
Complete	Other long term liabilities	Complete	No	No	No	No
In progress	Related party transactions	Complete	Yes	No	No	No
In progress	Cash Flow Statement	Complete	No	No	No	No

SUMMARY OF AUDIT FINDINGS

STATUS	RISK LEVEL
Not started	Significant issue
In progress	Raised for your attention
Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Whole of Government Accounts		No	No	No	No
	Annual Governance Statement		No	No	No	No
	Narrative Report		No	No	No	No
	Use of resources		No	No	No	No

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified 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 at which this report is considered:

1. Completion of those areas of the audit highlighted as in progress in the "Summary of audit findings" section.
2. Clearance of Engagement Manager and Engagement Partner review
3. Subsequent events review
4. Receipt of final set of financial statements for checking
5. Management representation letter, as attached in Appendix VII to be approved and signed

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
1	Local authorities are required to publish their draft Statement of Accounts by 30 June following the financial year to which those statements relate. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 4 July 2016. The working papers provided at the beginning of the audit comprised breakdowns of balances only and did not include all information requested in our detailed document request. While officers were able to provide the information when asked, provision of the requested information at the start of our field work would help improve the efficiency of the audit.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Fire Authority's review of effectiveness and our knowledge of the Fire Authority.	We are satisfied that the Annual Governance Statement meets the relevant disclosure requirements and is not inconsistent or misleading with other information of which we are aware.
3	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our work on the narrative report is currently in progress.

CONTROL ENVIRONMENT

Significant deficiencies and other observations

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 you.

We have not identified any **significant** deficiencies.

Observations regarding other deficiencies are included in the table below.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
NOMINAL LEDGER	The main accounting system includes many nominal ledger codes with identical descriptions, resulting in a large number of nominal ledger codes that are not used.	Having an excess of nominal ledger codes increases the risk of poorer accounting as officers may find it difficult to locate existing transactions or establish where new transactions should be posted. This increases the risk of misstatement in the financial statements.	Review nominal ledger codes with duplicate descriptions to establish which are not no longer used and disable them.	Agreed. A full review of the template will be undertaken.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, 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 controls 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 controls.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Fire 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.	The Fire Authority is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return. We expect to submit the relevant section of the assurance statement to the National Audit Office (NAO) by the deadline of 21 October 2016.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

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). 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.

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in March 2016. We have since undertaken a more detailed assessment of risk 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.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES	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. 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, including £0.5m in 2016/17 (representing 1.9% of the budget requirement) and £0.9m in 2017/18 (representing 3.2% of the budget requirement). 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. The proposed provisional local government settlement, published by central government in December 2015 (and reflected in the Fire Authority's MTFS) is dependent on the Authority publishing an efficiency plan for the four year period beginning 2016/17. This presents a further risk to the financial position of the Fire Authority, as the absence of such a plan may result in further funding reductions.	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, do provide a degree of headroom to help absorb adverse variances. 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. 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.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES (Continued)	We have 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 have 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. We have considered how the Fire Authority intends to address the budget gap it has identified from 2016/17 onwards have reviewed the progress made in relation to the efficiency plan. The revenue support grant (RSG) to be received by the Fire Authority in 2016/17 has been estimated at approximately £5.1 million. However, this level of grant is set to reduce significantly in 2017/18 to £3.8 million with a further reduction to £3.1 million in 2018/19. In its medium term financial strategy, the Fire Authority has planned to maintain its year on year increase in precept at less than 2%. This is not sufficient to generate additional income to absorb the loss of RSG. At the start of 2016, the Fire Authority had not identified all the actions that it needed to undertake to deliver a balanced budget for 2016/17 onwards although work had commenced to identify and address this position. Discussions with management indicate that actions had been started to ensure that the budget shortfall of £500,000 identified at the start of 2016/17 is eliminated by cost savings. Looking forward the budget gap for 2017/18 has been estimated at £0.9 million and savings will need to be identified to address this gap.	

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
INFORMED DECISION MAKING	We considered the Fire Authority's 2015/16 financial performance against the budget to help us assess the accuracy of the budget. Internal audit's work programme for 2015/16 included reviews of governance, succession planning and risk management. The Head of Internal Audit's annual opinion (based on the outcome of the work performed as part of the 2015/16 internal audit plan) confirmed that there are adequate and effective arrangements in place at the Fire Authority.	The 2015/16 budget proved to be reasonably accurate and the assumptions included in the 2016/17 forecast appear to have been reasonably based. We have no matters to report regarding informed decision making.
WORKING WITH PARTNERS AND OTHER THIRD PARTIES	The Fire Authority has an increasing number of partnerships with many other public sector organisations including local authorities, police authorities and other fire and rescue authorities. It also has a number of other arrangements in place with various voluntary and private sector organisations including charities such as MIND, Red Cross and Alzheimer's Society.	We have concluded that the Fire Authority's arrangements for working with others are reasonable. We have no matters to report regarding working with partners and other third parties.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Fire Authority	Cambridgeshire and Peterborough Fire Authority
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Fire Authority and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Fire Authority are the members of the Overview and Scrutiny Committee (to which our planning report was presented in February 2016) and the Policy and Resources Committee.
Management	The persons responsible for achieving the objectives of the Fire Authority and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: 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, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of the cost to the Fire Authority of the modified pension scheme, which has increased the deficit for the year by £948,000.

One other adjustment has been made to recognise the loss on disposal of a vehicle during the year. This has increased the reported deficit by a further £34,000.

Management have also corrected a classification error in the Firefighters pension fund account, increasing employers contributions by £863,000 and decreasing employees contributions by the same amount. This has no impact on the reported deficit.

UNADJUSTED AUDIT DIFFERENCES

One unadjusted audit difference has been identified by our audit work, relating to incorrect calculation of the depreciation charges on fire stations, which would increase the deficit on the provision of services in the CIES by £53,000 to £5.187 million (from £5.134 million) if adjusted.

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		DR £'000	CR £'000	DR £'000	CR £'000
Deficit on the provision of services	**5,134**				
DR Balance sheet depreciation		53			
CR CIES Depreciation					(53)
Being the factual understatement of expenditure due to the incorrect calculation of depreciation charges associated with fire stations					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**53**	**53**			**(53)**
Deficit on the provision of services if adjustments accounted for	**5,187**				

IMPACT ON GENERAL FUND BALANCE	GENERAL FUND BALANCE £'000
Balances before adjustments	**2,349**
Adjustments to CIES above	53
Adjustments via movement in Reserves Statement:	
CR Capital adjustment account	(53)
BALANCES AFTER ADJUSTMENTS	**2,349**

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- A number of notes to the financial statements include rows or columns with nil entries. As there are no relevant transactions to disclose, these should be removed.
- Notes relating to balances which are not material have not been deleted . Examples include:
    - Inventories
    - Provisions
    - Financial instrument adjustment account and accumulated absences account
    - Impairment losses
    - Cash flow operating activities and financing activities

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
REVIEW OF DRAFT FINANCIAL STATEMENTS AND IMMATERIAL DISCLOSURES	The draft financial statements were presented to us for audit on 4 July 2015. We identified a number of presentational issues in the draft financial statements, including: • References to the incorrect financial year and year end date • Disclosures which appear to have been rolled forward from the prior year without amendment • Incomplete disclosures We also highlighted a number of immaterial disclosures which remain in the latest version of the financial statements. Management have stated that the nature of the template used to prepare the financial statements has made it difficult to address all of our suggestions.	Review the suitability of the template used to prepare the financial statements and, if it is no longer fit for purpose, establish an alternative process for preparing the draft financial statements. Ensure draft financial statements are subject to review by a senior officer prior to publication and presentation for audit. As part of this review, consider whether any immaterial disclosures should be removed.	Agreed. A full review of the template will be undertaken.	Head of Finance	31st March 2017
RELATED PARTIES	It was identified during the audit that Members who have retired or left the Fire Authority by the year end are not subject to the same controls in relation to related party transactions. Live Members must complete a declaration form each year. However, any non live Member at 31 March 2016 does not.	Obtain a declaration from members or senior officers before they leave the organisation to ensure all potential related party transactions are captured. Incorporate this process into standard leavers procedures.	Where possible this will be complete.	Scrutiny and Assurance Manager	31st March 2017
NOMINAL LEDGER	The main accounting system includes many nominal ledger codes with identical descriptions, resulting in a large number of nominal ledger codes that are not used.	Review nominal ledger codes with duplicate descriptions to establish which are no longer used and disable them.	Agreed.	Head of Finance	31st March 2017

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	656,000	670,000
Clearly trivial threshold	30,000	30,000

Planning materiality of £670,000 was based on 1.75% of prior year gross expenditure as reported in the audited 2014/15 Financial Statements. Final materiality of £656,000 is based on 1.75% of gross expenditure as reported in the 2015/16 draft financial statements.

APPENDIX V: INDEPENDENCE

INDEPENDENCE – ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin – Engagement lead	1	31 March 2021
Barry Pryke – Engagement manager	1	31 March 2026

APPENDIX V: INDEPENDENCE
Continued

INDEPENDENCE – THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS
We have not provided services other than audit to the Fire Authority set out in Appendix VI.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

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

APPENDIX VI: FEES SCHEDULE

	2015/16	PwC 2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Audit fee	31,865	48,376(1)	N/A	N/A
TOTAL AUDIT FEE	**31,865**	**48,376**		
Non audit services • Preparation of pro forma set of accounts	-	8,750	N/A	N/A
TOTAL FEES	**31,865**	**57,126**		

(1) The prior year fee charged by PwC comprises the scale fee of £42,427 and an additional fee of £5,949 arising from their audit risk assessment and overruns.

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich IP3 9SJ

29 September 2016

Dear Sirs

Financial statements of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Fire Authority's financial statements (the 'financial statements') for the year ended 31 March 2016 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 of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), 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 2016 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) and for making accurate representations to you.

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.

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 international financial reporting standards 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 members, 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.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by members, 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.

APPENDIX VII: DRAFT REPRESENTATION LETTER
Continued

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 that the current value in existing use or fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

• current value in existing use or fair value of property, plant and equipment

• assumptions underpinning the reported pension liability as stated in Note D18 to the financial statements.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of members, 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 has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Matthew Warren

Treasurer

29 September 2016

Councillor Lucy Nethsingha

Chair of the Policy and Resources Committee

Signed on behalf of the Policy and Resources Committee

29 September 2016

APPENDIX VIII: 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 welcome feedback from external bodies and is committed to implementing a 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 Council'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 firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as 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.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

LISA CLAMPIN

Engagement partner

T: 01473 320 716

E: lisa.clampin@bdo.co.uk

BARRY PRYKE

Engagement manager

T: 01473 320 793

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 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.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

www.bdo.co.uk