



CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017
25 September 2017

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SUMMARY

| 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 below. |
| Audit risks | <p>Three additional significant risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 10 March 2017. All three additional significant risks were reported as “Normal risk” within our Audit Plan but elevated to significant risk for the following reasons:</p> <ul style="list-style-type: none"> Property, plant and equipment valuations - the movement in the assets revalued in the year was outside of our expectations Pension liability assumptions - a number of complex assumptions are used in order to calculate the year end liability Changes in the presentation of the financial statements - the draft accounts had not been restated and other presentational changes in the Code were not reflected. <p>No other significant audit risks were identified during the course of our audit procedures.</p> |
| Materiality | Our final materiality is £870,000. This has been updated from our Audit Plan to reflect final amounts in the financial statements. |
| 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 ACCOUNTING MATTERS | |
|----------------------------------|--|
| Material misstatements | Our audit identified no material misstatements, however, a material prior year adjustment has been made to the draft financial statements to reverse a provision made in the prior year of £947,000 in relation to costs associated with the modified pension scheme. |
| Adjusted misstatements | <p>In addition to the prior year adjustment identified above, our audit identified one immaterial misstatement regarding the revaluation of one asset. which management has amended in the final financial statements.</p> <p>The cumulative impact of the above adjustments has decreased net liabilities by £468,000 and increased the deficit on the provision of services by £277,000.</p> <p>The financial statements have also been updated to reflect the changes in the Code, in particular the presentation of the Comprehensive Income and Expenditure Statement (CIES) and restatement of the prior year CIES figures.</p> <p>A few other presentational changes have been made to the financial statements as a result of the audit.</p> |
| Unadjusted audit differences | Our audit identified three unadjusted audit differences in respect of the following: |

KEY AUDIT AND ACCOUNTING MATTERS

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

In addition, there is one brought forward unadjusted audit difference that impacts on the prior year. These would decrease net liabilities by £158,000 and decrease the deficit on the provision of services by £158,000.

Control environment

Our audit identified no significant deficiencies in internal controls.

SUMMARY

| AUDIT OPINION | |
|-----------------------------|--|
| Financial statements | Subject to the successful resolution of outstanding matters set out on page 6, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017. |
| Annual governance 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 6, we anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017. |

| OTHER MATTERS FOR THE ATTENTION OF THE POLICY AND RESOURCES COMMITTEE | |
|---|--|
| Whole of Government Accounts (WGA) | The Authority is below the audit threshold 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. No issues were identified. |
| Audit certificate | We will issue our audit certificate after we have completed our work on the financial statements, use of resources and whole of government accounts. |

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion 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 use of resources. As the purpose of the audit is for us to express an opinion on the 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.

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.

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 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.

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

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources.

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:

- 1 Clearance of outstanding issues on the audit queries tracker currently with management, including:
 - Response to queries raised regarding asset valuations
 - Receipt of evidence to support additional accrual sample
- 2 Clearance of Manager and Director review queries
- 3 Internal quality control review process
- 4 Subsequent events review
- 5 Receipt and review of final version of financial statements to confirm all agreed audit adjustments have been made and final approval of the financial statements
- 6 Management representation letter, as attached in Appendix VI, to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our earlier Audit Plan dated 10 March 2017 and additional the additional significant audit risks in relation to property, plant and equipment, pension liability assumptions and changes to the presentation of the financial statements during our updated planning process. 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 ■ Management override of controls | <p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p> | <p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We also obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</p> | <p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p> <p>We have not identified any unusual transactions.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

| AUDIT AREA | | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|------------|---------------------|---|---|---|
| 2 | Revenue recognition | <p>Under auditing Standards there is a presumption that income recognition presents a fraud risk.</p> <p>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 Authority’s budget setting process or by central government. This reduces the opportunity for manipulation.</p> <p>For the remaining revenue streams, we consider that the risk of fraudulent revenue recognition remains in respect of existence.</p> | <p>We tested an increased sample of other income to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p> | <p>No issues have been identified from our testing.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

| AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|--|--|---|---|
| 3 Land, buildings, dwellings and investment property valuations | <p>Authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>Management engages external valuers to undertake a rolling revaluation programme which ensures that all assets are revalued at least once every three years. Assets are valued as at 31 March of the financial year in question.</p> <p>We consider there to be a risk over the valuation of land buildings where valuations are based on market assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>This has been increased from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year and because the increase in valuation exceeds our expectations.</p> | <p>We 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.</p> <p>We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.</p> | <p>From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.</p> <p>We have contacted the valuers directly to challenge the assumptions applied. The valuation increases exceeded industry ranges for the location and therefore we have undertaken additional work to satisfy ourselves on the appropriateness of the assumptions used in the valuation.</p> <p>Our testing of a representative sample of revaluation movements identified that the revaluation of the Yaxley Fire Station had been incorrectly accounted for, resulting in the value of the asset being understated by £500,000. Management have agreed to correct this misstatement in the final version of the financial statements.</p> <p>Management have not considered the implications of the increases in value recognised as part of the valuation exercise for those assets which have not been revalued in year. Management have contacted the valuers and provided additional information. We are currently reviewing the valuers response and have raised additional queries, a verbal update will be provided to the Committee.</p> |

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|--------------------------------------|---|---|--|
| 4 | Pension liability assumptions | <p>The net pension liability comprises the Authority's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions to members of both the Cambridgeshire Pension Fund and the four Fire Fighters' Pension Schemes.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> <p>This has been increased from a normal risk to a significant risk due to volatility and uncertainty over assumptions applied.</p> | <p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We sought assurance from the auditors of Cambridgeshire Pension Fund in relation to the controls for providing accurate membership data to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used by the pension fund actuary.</p> | <p>We have agreed the disclosures to the information provided by the actuary.</p> <p>The assurances from the auditor of Cambridgeshire Pension Fund have been received with one issue noted in relation to the calculation of the liability. There had been a significant movement between the fund asset values provided to the actuary and the year-end values included in the pension fund accounts. An unadjusted error has been included within Appendix I as a consequence of the updated information.</p> <p>We have reviewed the reasonableness of the assumptions used by the pension fund actuary and have no matters to report.</p> |

| 5 | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|--|--|---|--|
| | Changes in the presentation of the financial statements | <p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement to the 2015/16 CIES.</p> <p>The Authority uses an Excel based model to prepare the financial statements which has as yet to be updated for the changes to the Code. There is a risk that these presentational changes are not correctly applied in the financial statements.</p> <p>This has been increased from a normal risk to a significant risk as the draft accounts were received in the same format as the prior year and had not been updated for the changes to the Code.</p> | <p>We reviewed the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We reviewed the Authority's methodology for allocating income and expenditure transactions to new CIES headings to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We reviewed the Authority's restatement of the prior year CIES and confirm that restated items reconcile to the audited 2015/16 financial statements.</p> | <p>The draft financial statements presented for audit did not include any of the presentational changes required by the Code.</p> <p>We requested that management make the necessary changes to ensure that the presentation of the financial statements were materially correct.</p> <p>While management agreed to make the changes, there was a significant delay in presenting us with a revised set of financial statements which demonstrated compliance with the Code. This revised version, which was received on 2 August 2017, still included material departures from the presentational requirements of the Code.</p> <p>Management have provided an updated version of the financial statements and our checks to confirm that the required amendments have been made is in progress. We will provide a verbal update on the outcome of this exercise to the Policy and Resources Committee to which this report is presented.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

| AUDIT AREA | AUDIT FINDINGS |
|------------|---|
| 6 | <p data-bbox="203 539 436 592">Presentation of financial statements</p> <p data-bbox="459 539 2092 592">As noted on page 11 above, the presentation of the CIES in the draft financial statements did not comply with the Code. The required supporting notes were also omitted.</p> <p data-bbox="459 635 2092 660">In addition to this matter, our audit identified a number of other disclosure errors in the financial statements presented for audit, including:</p> <ul data-bbox="504 667 2092 879" style="list-style-type: none"> <li data-bbox="504 667 2092 719">- Inconsistencies between disclosures relating to the Local Government Pension Scheme and fire fighter's pension schemes and the information held in the corresponding actuary's report <li data-bbox="504 726 2092 751">- Disclosures relating to termination benefits not being updated for the current year <li data-bbox="504 758 2092 810">- Inconsistencies between values reported in the narrative report in relation to capital spending and those included in the notes to the financial statements <li data-bbox="504 817 2092 879">- Disclosures relating to new requirements of the Code and accounting standards issued but not yet adopted not being updated for the current year <p data-bbox="459 885 2092 911">The omission of an explanatory note regarding a material prior period adjustment as required by the Code.</p> |
| 7 | <p data-bbox="203 943 436 968">Expenditure accruals</p> <p data-bbox="459 943 2092 995">Testing of a sample of seven expenditure accruals identified four items relating to 2017/18 incorrectly recognised in 2016/17. We have recorded a projected misstatement relating to this matter in the schedule of unadjusted audit differences at Appendix 1.</p> <p data-bbox="459 1034 2092 1086">The error rate in our sample is indicative of a weakness in the controls in place to ensure that expenditure is correctly accrued as part of the accounts closedown process. We have raised a recommendation regarding this matter.</p> |
| 8 | <p data-bbox="203 1155 436 1208">Componentisation of assets</p> <p data-bbox="459 1155 2092 1208">Our review of information provided to the valuer to support the revaluation exercise identified one fire station which included a tower component. Discussions with officers confirmed that the fire station in question did not have a tower.</p> <p data-bbox="459 1246 2092 1299">We are satisfied that the projected misstatement arising as a result of this matter does not exceed the clearly trivial threshold for reporting. However, we have raised a recommendation suggesting management review the accuracy of the component information held in the fixed asset register.</p> |

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 |
|--------|---|--|
| 14 | <p>The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2017.</p> <p>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.</p> | We have reported above within the key audit and accounting matters section of this report that the draft financial statements were not compliant with the changes to the Code. |
| 15 | <p>We are required to review the draft Annual Governance Statement and 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 Authority’s review of effectiveness and our knowledge of the Authority.</p> | We have no matters to report. |
| 16 | <p>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.</p> | We have no matters to report. |

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 you.

As the purpose of the audit is for us to express an opinion on the Authority'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 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 Authority's internal audit function has issued a number of observations and recommendations on the Authority's control environment during 2016/17. 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.

SIGNIFICANT DEFICIENCIES IN CONTROL

DRAFT FINANCIAL STATEMENTS

As reported above in the Key Audit and Accounting Matters section, the financial statements presented for audit included a number of material departures from the Code. This is indicative of a lack of robust procedures to ensure the statutory financial statements comply with the Code, including review by senior officers prior to publication. We highlighted a similar issue in the prior year.

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. Next year, the Authority will be required to publish its draft unaudited financial statements by 31 May 2018 (one month earlier than this year). Audited financial statements must be published by 31 July 2018 (two months earlier than this year). Failure to address the issues identified this year mean that it is unlikely that the Authority will achieve the earlier deadlines.

VALUATION OF ASSETS

As reported above in the Key Audit and Accounting Matters section, management have not considered the implications of the increases in value recognised as part of the valuation exercise for those assets which have not been revalued in year. We have requested that management undertake this review to establish whether or not those assets not subject to valuation in the year are held at a materially correct valuation in the Authority's balance sheet. This work is in progress at the time of drafting this report.

Failure to consider potential increases or decreases in the value of assets not subject to in year valuation may result in the carrying value of other land and buildings included in the Authority's balance sheet being incorrect.

We have identified other non-significant deficiencies in controls which have been reported and discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

| MATTER | COMMENT |
|--|--|
| <p>17 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 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.</p> | <p>Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Authority did not meet this deadline.</p> <p>The Authority initially attempted to lock the DCT for submission on 10 July 2017, but was unable to complete this task due to a technical issue. The Authority contacted HMT on this date regarding the issue, but HMT did not respond until 25 July 2017. The Authority sent the DCT to HMT on 27 July 2017.</p> |

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). 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, in the 2016/17 Audit Plan issued in March 2017. 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 risks.

We did not identify any significant risks during our planning processes, however, we did report to you a risk in our Audit Plan and therefore below we set out our findings in relation to this risk.

Key: ■ Normal risk

USE OF RESOURCES

| RISK AREA | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|--------------------------------|--|--|
| <p>1 Working with partners</p> | <p>The Policing and Crime Act has recently received royal ascent with the intention of promoting greater collaboration between emergency services. We will monitor the progress made in developing a business case for closer working with the Police and the proposed governance model.</p> <p>We reviewed the business case and proposed governance model as well as discussing progress at our on-going strategic liaison meetings.</p> | <p>The Local Business Case assessing the various collaboration options for the Police and Crime Commissioner (PCC) and the Fire Authority was published by the PCC for consultation in June 2017. The business case concludes that the preferred option for collaboration is the governance model. This involves the PCC taking on responsibility for the Fire Authority's statutory responsibilities and the disbanding of the Fire Authority in its current form.</p> <p>At the time of drafting this report, the PCC is considering responses to the consultation and it is anticipated that a revised version of the business case will be submitted to the Home Office by 30 September 2017. We note that there have been mixed responses to the consultation, however, the Home Office decision is expected in December 2017, with new governance arrangements being implemented from 1 April 2018. It is unlikely any significant resource input from the Fire Authority will be required for the transition before the Home Office announces its decision.</p> <p>The Fire Authority continues to collaborate with the PCC and Cambridgeshire Constabulary, most notably via the appointment of the Fire Authority's Deputy Chief Executive and s151 officer to the Interim s151 post at the PCC and a joint review of property assets held by both organisations in Huntingdon.</p> |

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

Our audit has not identified any material misstatements. One prior year material audit adjustment has been made in respect of a reversal of a provision made in the prior year of £947,000 in relation to costs associated with the modified pension scheme.

We identified the following non-material misstatement in the draft financial statements, which management has amended:

- Other land and buildings overstated by £500,000 due to revaluation of Yaxley fire station being incorrectly recorded

This amendment, together with the other non-material amendments that management has processed in the revised financial statements, has increased the deficit on the provision of services by £277,000.

UNADJUSTED AUDIT DIFFERENCES

There are three unadjusted audit differences identified by our audit work in the current year and 1 unadjusted audit difference brought forward from the prior year which would if corrected would decrease the deficit on the provision of services by £158,000. 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 / FUND ACCOUNT | | STATEMENT OF FINANCIAL POSITION / NET ASSETS | |
|--|--------------|---------------------------------------|--------------|--|--------------|
| | | DR | CR | DR | CR |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Deficit on the provision of services before adjustments | 12,658 | | | | |
| DR Net assets | | | | 53 | |
| CR Deficit on provision of services | (53) | | (53) | | |
| (1) Impact of brought forward unadjusted misstatements reported in 2015/16. | | | | | |
| DR Creditors - accruals | | | | 125 | |
| CR Deficit on provision of services | (125) | | (125) | | |
| (2) Projected misstatement arising from recognition of 2017/18 expenditure in 2016/17. | | | | | |
| DR Pension Reserve | | | | 304 | |
| CR Net pension liability | | | | | (304) |
| (3) Judgemental misstatement arising from the difference between the fund asset values used by the actuary and those recognised in the financial statements of the Pension Fund. | | | | | |
| DR Premises costs | 20 | 20 | | | |
| CR Accumulated depreciation | | | | | (20) |
| (4) Understatement of depreciation charge in relation to Yaxley Fire Station | | | | | |
| TOTAL UNADJUSTED AUDIT DIFFERENCES | (158) | 20 | (178) | 482 | (324) |
| Deficit on provision of services if adjustments accounted for | 12,500 | | | | |

APPENDIX I: AUDIT DIFFERENCES

| IMPACT ON GENERAL FUND | GENERAL FUND BALANCE £000s |
|-----------------------------------|-------------------------------------|
| Balances before adjustments | (12,016) |
| Adjustments to CIES above | (158) |
| BALANCES AFTER ADJUSTMENTS | (12,174) |

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|--|--|--|---------------------|---------------------|--------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Presentation of financial statements | Our audit identified that the financial statements presented for audit included a number of material departures from the Code. This is indicative of a lack of robust procedures to ensure the statutory financial statements comply with the Code, including review by senior officers prior to publication. Resolution of these matters has required a significant amount of time and effort on the part of both officers and the audit team. | 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 rectified in the draft financial statements before publication. | | | |
| Valuations of other land and buildings | Management have not considered the potential implications of the increases in value recognised as part of the valuation exercise for the portion of the portfolio which has not been revalued in year. | Engage external valuer to prepare a market report at the balance sheet date to determine whether or not there are any factors indicative of a material increase or decrease in assets not subject to revaluation in year. Consider valuation movements in year to confirm whether they are consistent with management expectations. | | | |

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|-------------------------------|--|--|---------------------|---------------------|--------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Accruals | <p>Our testing of a sample of seven expenditure accruals identified four items relating to 2017/18 incorrectly recognised in 2016/17.</p> <p>Failure to recognise accruals accurately will result in a misstatement of expenditure and payables.</p> | <p>Review controls in place to identify accruals to ensure that they are fit for purpose.</p> <p>Review accruals schedule as part of financial statements closedown process to identify any incorrect items.</p> | | | |
| Existence of asset components | <p>Our review of information provided to the valuer to support the revaluation exercise identified one fire station which included a tower component. Discussions with officers confirmed that the fire station in question did not have a tower.</p> <p>Inaccurate recording of asset components may result in an incorrect depreciation charge being recognised in the accounts.</p> | <p>Review component information held in asset register to ensure that it is correct.</p> | | | |

APPENDIX III: MATERIALITY

| MATERIALITY - FINAL AND PLANNING | | |
|---|----------|----------|
| | FINAL | PLANNING |
| Materiality | £870,000 | £750,000 |
| Clearly trivial threshold | £17,000 | £15,000 |
| Planning materiality of £750,000,000 was based on 2% of the prior year gross expenditure. We revised our materiality based upon the draft financial statements. | | |

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors 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. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

| INDEPENDENCE - ENGAGEMENT TEAM ROTATION | |
|---|--------------------------|
| Senior team members | Number of years involved |
| ZOE THOMPSON - Audit engagement lead | 1 |
| BARRY PRYKE - Audit manager | 2 |

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

| INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS |
|---|
| We have not provided services other than audit to the Authority |

We have not identified any potential threats to our independence as auditors.
Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

| | 2016/17 FINAL PROPOSED £ | 2016/17 PLANNED £ | 2015/16 FINAL £ | EXPLANATION FOR VARIANCES |
|-----------------------------------|-----------------------------------|-------------------------|-----------------------|---------------------------|
| Code audit fee | 31,865 | 31,865 | 31,865 | As per PSAA scale fee |
| Fees for other non-audit services | - | - | - | |
| TOTAL ASSURANCE SERVICES | 31,865 | 31,865 | 31,865 | |

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

XX September 2017

Dear Sirs

Financial statements of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Authority's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the 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 Authority as of 31 March 2017 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 Authority, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the 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 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 REPRESENTATION LETTER

In relation to those laws and regulations which provide the legal framework within which the 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 councillors, 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 councillors, 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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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.

Significant assumptions made are:

- assumptions used by the actuary in the calculation of the pension fund liability
- assumptions used for land and buildings valuations.

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 councillors, 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 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

Deputy Chief Executive

[date]

Signed on behalf of the Policy and Resources Committee

[date]

FOR MORE INFORMATION:

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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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