



Report to the Fire Authority Committee

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

Audit Progress Report: year ended 31 March 2021

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WELCOME

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

It summarises the results to date of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Fire Authority Committee. Throughout the audit, it is essential that we engage with the Fire Authority Committee on the progress to date of our audit of the financial statements and use of resources comprising: audit work on key risk areas performed to date, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls identified to date, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Fire Authority Committee meeting and to receiving your input.

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

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

Rachel Brittain

1 November 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Fire Authority Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Fire Authority Committee in reviewing the results of the audit of the financial statements and use of resources of the Authority for the year ended 31 March 2021.

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



Overview

Our audit work on the financial statements remains in progress and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Authority’s financial statements for the year ended 31 March 2021 in November 2021.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

Based on testing completed to date, we anticipate issuing an unmodified audit opinion on the Authority financial statements. This is subject to the completion of outstanding testing.

We have no exceptions to report at this stage in respect of the Authority’s value for money arrangements.

THE NUMBERS

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Final materiality

Final materiality was determined based on gross expenditure.

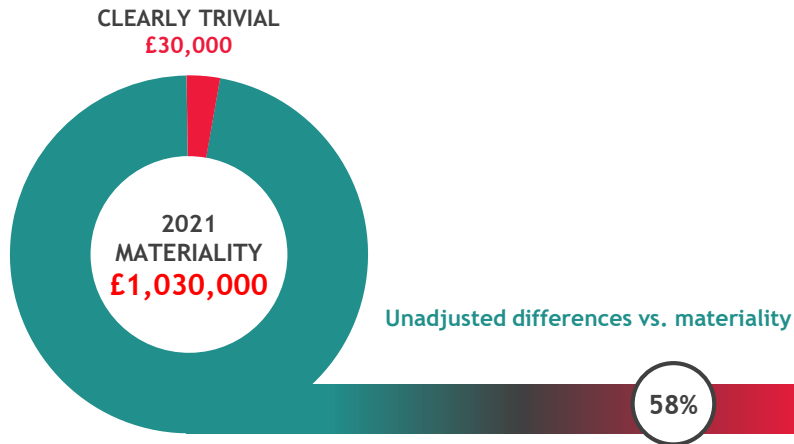
Our materiality levels have not required reassessment since our audit planning report issued on 12 July 2021, but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit.

Material misstatements

Our audit to date has not identified any material misstatements.

Unadjusted audit differences

There are eight unadjusted audit differences identified by our audit work to date which would decrease the deficit on the provision of services for the year of £7.275 million by £597,000, and would decrease net liabilities of £326.327 million by £128,000.



OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance to date with Authority accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient
- Our review of the consistency of the Narrative Report and other information included in the Statement of Accounts with the financial statements and our knowledge acquired in the course of the audit is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.
- Our review of the Annual Governance Statement to determine if it is inconsistent or misleading compared to other information we are aware of is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.
- The Authority are below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool (DCT).

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Draft letter of representation is included on pages 38 to 40. This is subject to change prior to completion of the audit.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Authority in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

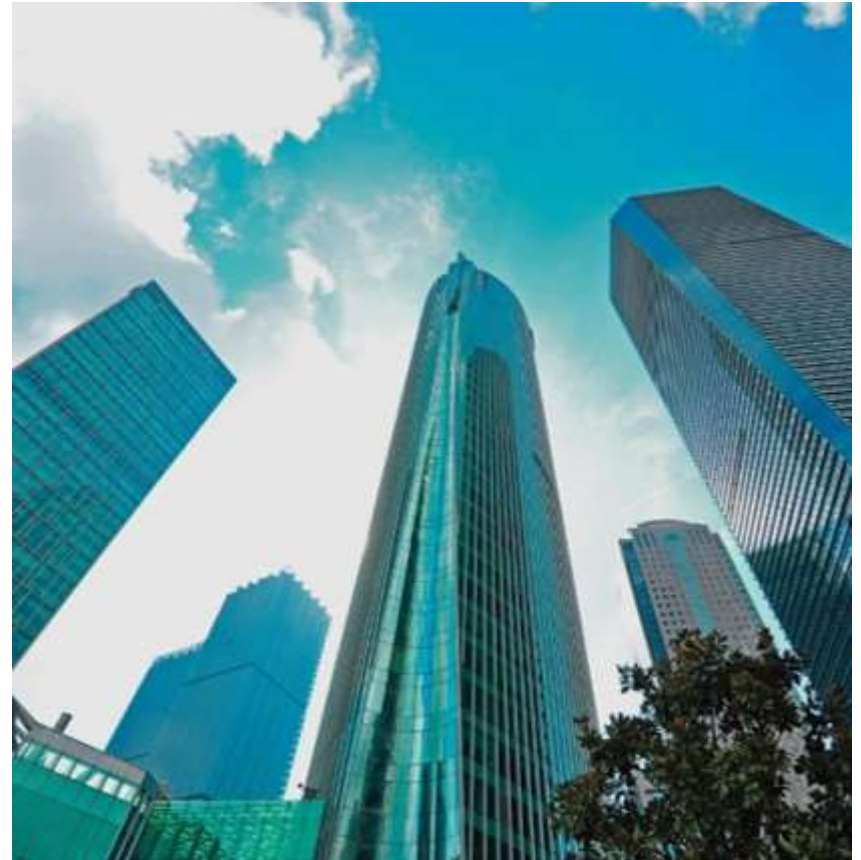


OUR METHODOLOGY

Summary

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.



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As identified in our Audit Planning Report dated 21 April 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified to date	Control Findings to be reported identified to date	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Expenditure cut-off	Significant	Yes	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	No	No	Yes
Valuation of pension liability	Significant	Yes	Yes	Yes, unadjusted	No	Yes



■ Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Verifying journal entries made in the year, by agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals and use our IT team to assist with the journal extraction
- Evaluating estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Assessing unadjusted audit differences for indications of bias or deliberate misstatement.

Results to date

We have used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.

We identified a number of unusual journal entries posted during the year, having reviewed the journals population for any of the following:

- Journals lines with a blank nominal ledger account number
 - Unbalanced journals entries
 - Journals posted by generic creator IDs
- Journals posted by individuals outside of the finance team
- Journals posted by senior management
- Potentially duplicate journals
- Manual journals posted by non finance/payroll staff
- Journals posted by non-employees
- Material journals posted in period 12
- Journals with blank preparer, approver or ID fields
- Journals where the debit side of the transaction was intangibles, PPE, debtors or creditors and credit side was expenditure (except for those that fell within our expectations)

Where journals meeting any of the above were identified, they were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.

MANAGEMENT OVERRIDE OF CONTROLS

Continued

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Results to date continued

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Depreciation
- Pension liability
- Going concern assumptions

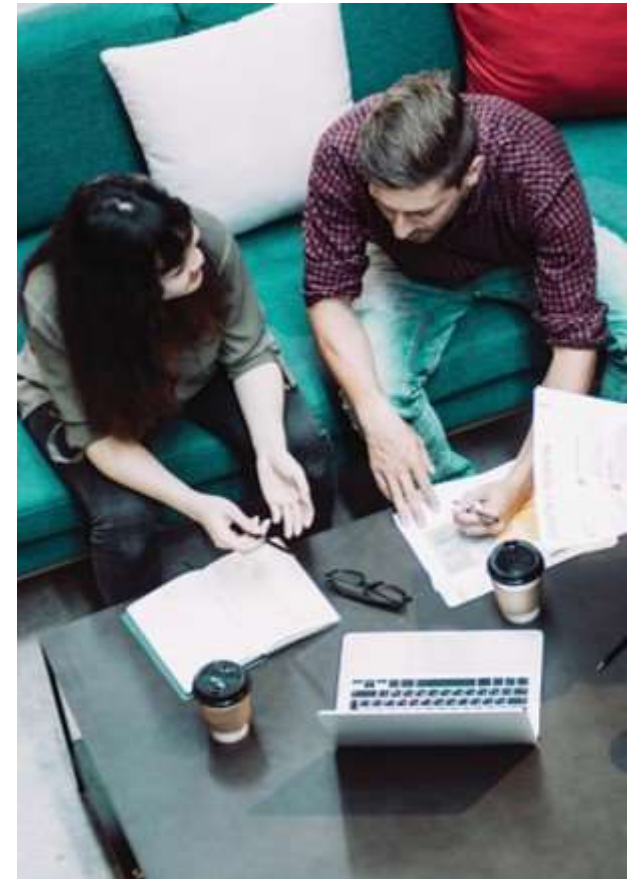
We have found no evidence of management override or bias for these estimates.

Ongoing work

Our review to assess and corroborate significant management estimates and judgements remains ongoing at the time of writing. We will provide a verbal update to the Audit and Risk Assurance Committee. This review is covering the following key areas:

- Accruals and accrued income
- Valuation of land and buildings

We have found no evidence to date of management override for these estimates.



Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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For public sector bodies the risk of fraud is relevant to expenditure recognition.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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Additional disclosure required	
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Risk description

Under International Standard on Auditing 240 “The Auditor’s responsibility is to consider fraud in an audit of financial statements”. In the public sector, the risk of fraud is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition.

For net-spending bodies in the public sector there is increased risk of fraud related to expenditure. For the Authority, we consider the risk of fraud to be in respect of the cut-off of non-payroll expenditure at year-end.

Planned audit approach

We will confirm that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure items around year-end. A financial threshold will be set to determine the samples to be selected for this testing. A lower threshold will be used to account for the significant risk.

Ongoing work

Our audit work on expenditure cut off to date has not identified any issues.

We have tested a sample of items, picked from the nominal ledger and bank statements around the year-end. The majority of this sample has been agreed to supporting documentation, and we confirmed that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary. Our testing over the final items in this sample remains ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.

We have not identified any indications of fraud in this area and have not identified any material misstatement as a result of error.

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The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Fire Authority's are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end. Revisions to ISA (UK) 540 mean that we need to update our approach to the audit of accounting estimates.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert
- Confirming that the basis of valuation for assets valued in year is appropriate based on their usage
- Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Following up valuation movements that appear unusual or outside of our expectations
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

Results to date

From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we are satisfied that we can rely on their work.

Ongoing work

Our testing in respect of revaluations remains ongoing as at the date of writing.

We will provide a verbal update to the Fire Authority Committee.

VALUATION OF NON-CURRENT ASSETS

Continued

Significant accounting estimates: £37.541m

Overview

Fire Authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for land and buildings included in PPE is a management estimate based on a combination of depreciated replacement cost (DRC) and existing use valuation (EUJ). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation.

Discussion

See also page 12 above.

The Fire Authority engaged an external valuer to value all of its land and buildings as at 31 March 2021. The valuer confirmed that there was a material movement in valuation between the previous valuation date and year-end, with the total net movement across all land and buildings assets being £2.034 million. A net revaluation gain has been recognised in respect of this.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

Our review of the valuations provided and the valuation methodology applied, to confirm that the basis of valuation for assets valued in year is appropriate based on the requirements of the Code, is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.

Our review of the valuations to expected movements using available market information is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability. Revisions to ISA (UK) 540 mean that we need to update our approach to the audit of accounting estimates.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Authority’s liability.

The risk is applicable to both the Local Government Pension Scheme (LGPS) and the Firefighter’s Pension Scheme liability.

Planned audit approach

- Our audit procedures will include the following:
- Agreeing the disclosures to the information provided by the pension fund actuary
 - Assessing the competence of the management expert (actuary)
 - Checking the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data

- Assessing the controls in place for providing accurate membership data to the actuary
- Contacting the pension fund auditor to complete an agreed work programme , including requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checking that any significant changes in membership data have been communicated to the actuary.

Results to date

We have received assurances from the auditor of Cambridgeshire Pension Fund. This highlighted a misstatement in the financial statements. The pension fund asset was valued as at 31 December 2020. There was an estimated increase in the value of this asset, by the pension fund auditor, of £441,000 between 31 December 2020 and 31 March 2021. An unadjusted audit difference has been raised for this amount on page 22.

In addition, our review of the expected return on plan assets identified that the value disclosed was different to expectations by £237,000. The Fire Authority was unable to provide an explanation for this difference. An unadjusted misstatements has been raised in respect of this on page 22.

We confirmed that assumptions used by the pension fund actuary are reasonable and in line with expectations.

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Letter of representation point	■

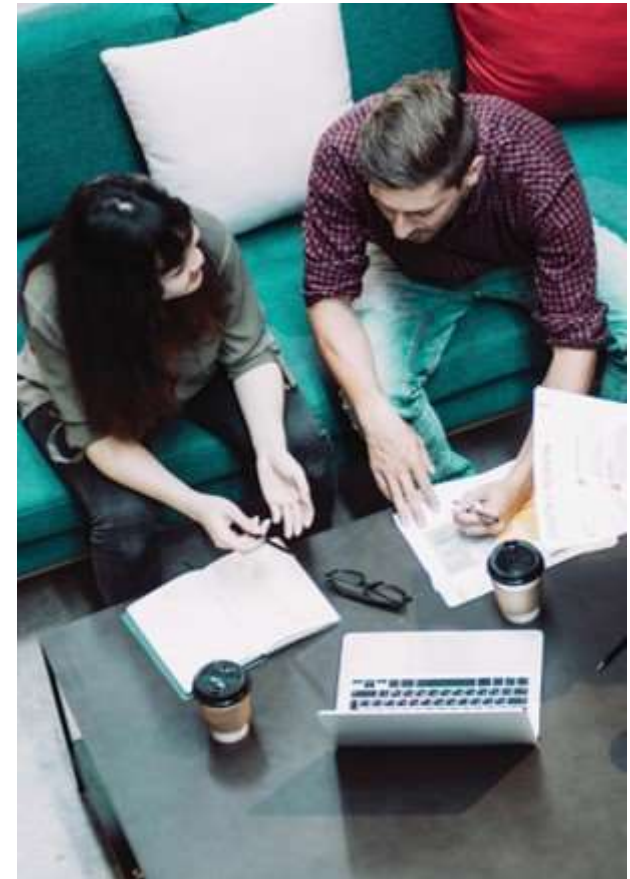
Results to date continued

We agreed the disclosures to the information provided by the actuary. The Actuary has not adjusted the pension fund liability as at 31/03/2021 for the movement in the McCloud liability since 31/03/2020. We have estimated that the maximum potential impact of this is a trivial amount on the Local Government Pension Scheme and an adjustment of £76,000 on the firefighter’s pension fund. An unadjusted audit difference has been raised for this amount on page 22.

Our review of benefits paid for the firefighter’s pension scheme identified that the value disclosed was different to expectations by £161,000. The Fire Authority was unable to provide an explanation for this difference. An unadjusted misstatements has been raised in respect of this on page 22.

Ongoing work

Our testing of the pension fund liability remains ongoing as at the date of writing. We will provide a verbal update to the Fire Authority Committee.



VALUATION OF PENSION LIABILITY

Significant accounting estimates: Local Government Pension Scheme

Significant accounting estimates: £18.696m

Overview	Discussion			
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.	The actuary has used the following assumptions to value the future pension liability:			
		Actual used	Actuary range	PwC assessment of actuary range to market expectations
	Rate of inflation	2.85%	2.80-2.85%	Top of expected range
	Salary increase	3.30%	2.85-3.85%	Middle of expected range (derived from RPI above)
	Pension increase	2.80%	2.80-2.85%	Bottom of expected range (derived from RPI above)
	Discount rate curve	2.05%	1.95-2.05%	Top of expected range
	Mortality - LGPS:			
	- Male current	23.2 years	21.8-24.3	Reasonable
	- Female current	26.2 years	25.2-26.7	Reasonable
	- Male retired	22.2 years	20.4-22.7	Reasonable
- Female retired	24.4 years	23.2-24.9	Reasonable	
	Conclusion			
	The impact of the higher inflation rate and lower pension increase tend to counteract each other and the overall liability calculation is reasonable.			



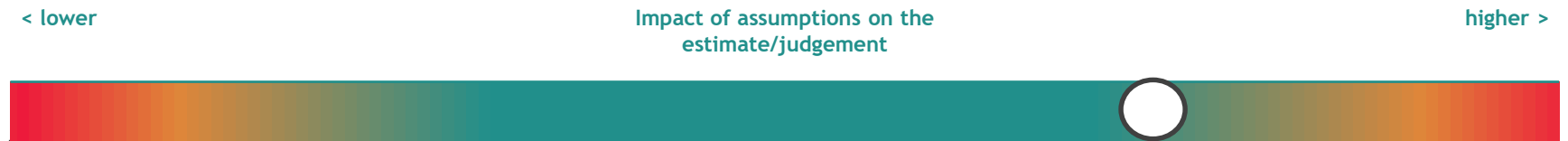
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VALUATION OF PENSION LIABILITY

Significant accounting estimates: Firefighter's Pension Scheme

Significant accounting estimates: £359.400m

Overview	Discussion			
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.	The actuary has used the following assumptions to value the future pension liability:			
		Actual used	Actuary range	PwC assessment of actuary range to market expectations
	Rate of inflation	2.85%	2.80-2.85%	Top of expected range
	Salary increase	3.30%	2.85-3.85%	Middle of expected range (derived from RPI above)
	Pension increase	2.85%	2.80-2.85%	Top of expected range (derived from RPI above)
	Discount rate curve	2.00%	1.95-2.05%	Middle of expected range
	Mortality - firefighters:			
	- Male current	26.6 years	26.6-27.4	Reasonable
	- Female current	28.9 years	28.9-27.2	Reasonable
	- Male retired	27.9 years	27.9-28.7	Reasonable
- Female retired	30.3 years	30.3-31.0	Reasonable	
Conclusion				
The impact of the higher inflation rate and lower pension increase tend to counteract each other and the overall liability calculation is reasonable.				



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GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity’s ability to continue as a going concern

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The Authority has prepared a detailed going concern assessment and undertaken a forecast of its budgets until 2023/24, within the Medium Term Financial Strategy 2021/22 to 2023/24. This covers more than twelve months from the expected date of sign off.

A detailed review of the budgets has been performed.

Additionally in accordance with paragraph 198 of Practice Note 10 we have also ascertained that:

- The government has no known intention of reviewing an area of policy affecting the entity
- No review of the entity has been announced
- No review has indicated that the entity could be rationalised or its future re-examined
- There is no known intention to privatise the activities of the entity.

We are therefore satisfied that there are no going concern issues for the Authority.

The Fire Authority received additional grant funding to assist with the additional costs associated with coronavirus. Two grants were received with values of £107,705 and £639,878 respectively. The Government also released some government grants early such as the pension grant and S31 grant to assist with cash flow. In April & May 2020, the Authority re-invested in short term (30 day) investments rather than 6-12 month investments to ensure they were able to call on funds if required. It was however found that there were no issues with cash flow and the investments did not need to be used to cover COVID-19 related expenditure.

The Authority have also been paying all approved invoices every week rather than on our normal 30 days terms or sooner depending on the supplier terms (as based on government advice) and this also had no impact on cash flow.

It was noted in the Fire Authority meeting held on 22 October 2020 that the grants received had not been fully utilised at this moment in time, and there was still remaining funding within them to fund future expenditure. It was noted in that meeting that they fully expect to utilise the grants, with the total additional spend incurred expected to be higher than the grants received, but they have not been spending up to that level so far. Subsequent meetings confirmed that the grants were fully utilised.

The two main financial risks arising from coronavirus are:

- The increase of government borrowing and the potential implications to future funding settlements although recent developments suggest a Comprehensive Spending Review will be undertaken, which may help to mitigate; and
- The impact on Council Tax collection funds and Business Rates going into 2021/22.

The Fire Authority receives collection fund income from the District councils on an annual basis in April of each year. It was confirmed that the payments were received as expected in April 2020. Payments were also received as expected in April 2021, although the income received was lower than it had been in previous years. There is an expectation that grant income will be received to fund any deficits in the usual collection fund income.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

In response to the risks identified, the Authority has put in place the following mitigating actions:

- Working with all public sector bodies in Cambridgeshire to brief MPs to feed the impacts into government; and
- Financial planning for 2021/22 and 4 year MTFP underway;

Based on the above, the financial implications of the pandemic on the Authority in the short term are not significant, and it is unlikely that any financial difficulties will arise in 2021/22. In the medium term, greater pressure could arise, especially if there is a shortfall in the income from council tax and NNDR on a recurring basis. The Authority may then become reliant on additional government grants to help them through the medium term.

The Authority is concluded to remain a going concern for a period of at least 12 months from the date of sign off. The coronavirus pandemic will create additional challenges from a finance perspective, but will not create a going concern issue.



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MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the senior officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures to date have not identified any fraud.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

Laws and regulations

The most significant considerations for your organisation are employment and data protection legislation. Our enquiries of management and review of relevant correspondence in this respect remains ongoing as at the date of testing. We will provide a verbal update to the Fire Authority Committee.

Our audit to date has not identified any non-compliance with laws and regulations that could have a material impact on the financial statements.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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We are required to bring to your attention unadjusted differences and we request that you correct them.

There are eight unadjusted audit differences identified by our audit work to date which would decrease the deficit on the provision of services for the year of £7.275 million by £597,000, and would decrease net liabilities of £326.327 million by £128,000.

There would be no impact on the general fund balance.

You consider these differences to be immaterial in the context of the financial statements as a whole.

It was also noted that the value of the capital financing requirement (Note 27) is calculated incorrectly. The opening balance for 2019/20 is incorrect by £275,000. The in-year adjustments in both 2019/20 and 2020/21 are correct, and therefore the closing balance as at 31/03/2021 is incorrect by £275,000.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Unadjusted audit differences					
Deficit on the provision of services for the year before adjustments	7,275				
Adjustment 1: Movement in value of pension fund asset between 31/12/2020 and 31/03/2021 (judgemental)					
DR Pension fund asset (net liability position)				441	
CR Re-measurement of the net defined benefit liability	(441)		441		
Adjustment 2: Adjustment for McCloud liability not factored in by Actuary (judgemental)					
DR CIES	76	76			
CR Pension fund liability					76
Adjustment 3: Differences identified on expected return on plan assets calculation (judgemental)					
DR Pension reserve				237	
CR Pension fund asset (net liability position)					237
Adjustment 4: Understatement of benefits paid (judgemental)					
DR Plan liabilities				161	
CR Plan assets (net liability position)					161

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Unadjusted audit differences					
Adjustment 5: Reallocation of credit balances included within debtors (factual)					
DR Other receivable amounts				380	
CR Other payables					380
Adjustment 6: Accrued income balances incorrectly classified as prepayments					
DR Other receivable amounts				389	
CR Prepayments					389

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Current year impact of prior year unadjusted audit differences

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Unadjusted audit differences					
Adjustment 7: Movement in value of pension fund asset between 31/12/2019 and 31/03/2020 (judgemental)					
DR Pension reserve				170	
CR Re-measurement of the net defined benefit liability	(170)		170		
Adjustment 8: Extrapolation of income relating to 2020/21, but incorrectly recognised in 2019/20 (projected)					
DR General fund				62	
CR CIES income	(62)		62		
Total unadjusted audit differences	(597)	76	673	1,840	1,243
Deficit on the provision of services for the year if above issues adjusted	6,678				

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ADJUSTED AUDIT DIFFERENCES: SUMMARY

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There are no audit differences identified by our audit work to date that we are expecting to be adjusted by management.

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

Matter	Comment
<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p>	<p>Our work to determine whether the other information in the Narrative Report is consistent with the financial statements and our knowledge is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.</p>
<p>We are required to report by exception if the Annual Governance Statement is 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>	<p>Our review of the consistency of the Annual Governance Statement with the financial statements and our knowledge is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.</p>

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Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council 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.	We are planning to submit the relevant section of the assurance statement to the National Audit Office once audit opinion is issued.

USE OF RESOURCES OVERVIEW

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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Fire Authority plan and manage their resources to ensure they can continue to deliver their services
- **Governance** - How the Fire Authority ensure that they make informed decisions and properly manage their risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Fire Authority use information about their costs and performance to improve the way they manage and deliver their services.

Risk of Significant Weakness

We have not yet completed our work on the Fire Authority’s value for money arrangements. To comply with requirements of the Code of Audit Practice 2020/21 a letter has been issued to the Overview and Scrutiny Committee Chair stating this and the reason for the delay.

In line with Auditor Guidance Note 3 (AGN 03) *Auditors’ Work on Value for Money (VFM) Arrangements* issued by the Comptroller and Auditor General in April 2021, we will report a commentary on value for money arrangements in our Auditor’s Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

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

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.

Our audit has not identified any significant deficiencies in internal control.



FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Issue and impact	Original recommendation	Progress	Management response
Management review of valuation of the net pension liability.	<p>Management engage an actuary to value the net pension liability, which is a significant accounting estimate.</p> <p>Management have not undertaken a review of the outcome of the above engagement to ensure that it is consistent with their expectations.</p>	<p>As part of the accounts preparation process, identify significant accounting estimates and for high level expectations regarding movements in the associated assets and liabilities.</p> <p>Compare expectations to outputs generated by management's expert. Challenge the expert where outputs are inconsistent with management's expectation.</p>	<p>We have confirmed that a review was undertaken in the current year. This was however a high level review, and a more detailed review is still required for this to be an effective control.</p>	[xx]

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Issue and impact	Original recommendation	Progress	Management response
Generic User IDs	<p>We identified that journals had been posted using a generic user account called "SquareSum Database Administrator". There were two journals posted using this account during 2018/19. One of them is a credit note to cancel a previous invoice, the second to raise a new invoice for this same amount. Management have confirmed that they cancelled the original invoice in order to raise a new invoice to the correct debtor.</p> <p>Posting journals using generic accounts is not considered best practice, and increases the risk of fictitious journals being posted.</p>	All the journals should be posted using individual user accounts of each creator.	Confirmed that there were no journals posted using generic user accounts in the current year.	Not applicable
Related party declaration forms	<p>Some members did not respond to the declaration of interest requests sent by the Finance team.</p> <p>Not responding on declaration of interest requests could result in the omission of related parties in the statement of accounts.</p>	The Fire Authority needs to ensure they obtain signed declaration of interest forms from all members and officers.	<p>There were two declarations which were not received in the current year, one relating to a Councillor who died during the year, which is exceptional circumstances, and one relating to a Councillor who left the Authority during the year.</p> <p>The control could be enhanced by requesting declarations from members who are leaving as part of leaving procedures before their leaving date, rather than trying to obtain them after they have left.</p>	[xx]

INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

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

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

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Authority.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Authority.

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

FEES

Fees summary

	2020/21	2019/20
Cambridgeshire and Peterborough Fire Authority	£24,536 ²	£24,536
Additional audit fee: recurring	£11,342 ¹	£11,342 ¹
Total audit fees	£35,878	£35,878
Fees for non-audit services	-	-
Total non-audit services fees	-	-
Total fees	£35,878	£35,878

Fee variances

¹Recurring increase to Scale Fee

The Public Sector Audit Appointments Limited (PSAA) scale fee is largely based on the historical position and so, it does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work. An additional fee has been proposed for 2019/20 to cover the costs associated with increased regulatory requirements. This fee is a proposal and is currently being agreed with PSAA.

²Use of resources fee variance

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.





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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Fire Authority.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report by exception, any significant weaknesses identified by our work on the Authority’s value for money arrangements and a summary of associated recommendations made.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Fire Authority Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Fire Authority as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Fire Authority Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	July 2021	Overview and Scrutiny Committee
Audit Progress report	November 2021	Fire Authority Committee
Audit Completion report	November 2021	Arrangements to be confirmed
Auditor’s Annual Report	January 2022	Overview and Scrutiny Committee

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sir / Madam

Financial statements of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2021 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 in particular that the financial statements give a true and fair view of the financial position of the Authority as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the 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 of the Authority 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 management and other meetings have been made available to you.

Going concern

We have made an assessment of the Authority's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Authority is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Authority's ability to continue as a going concern.

Laws and regulations

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.

Post balance sheet events

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.

Fraud and error

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

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

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

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

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. 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 as a whole.

Related party transactions

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.

There were no loans, transactions or arrangements between the Authority and the members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

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

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

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

	LGPS	Firefighter's schemes
Rate of inflation (CPI)	2.9%	2.9%
Rate of increase in salaries	3.3%	3.3%
Rate of increase in pensions	2.8%	2.9%
Rate of discounting scheme liabilities	2.1%	2.0%

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

b) assumptions used for land and buildings valuations.

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

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

Litigation and claims

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

Confirmation

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

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

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

Chair of the Policy and Resources Committee

[date]

AUDIT QUALITY



BDO is totally committed to audit quality

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

BDO welcomes feedback from external bodies and is committed to implementing 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 FRC’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

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

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



FOR MORE INFORMATION:

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

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