



Report to the Policy and Resources Committee

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

Audit Progress: year ending 31 March 2020

Position as at 21 July 2020

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OVERVIEW

Executive summary

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Our final audit fieldwork began on 15 June 2020. We have focused our work on performing as much of the audit testing as possible without receiving a first draft version of the financial statements. Audit testing has been performed from the trial balance and supporting working papers.

We have worked with the finance team to ensure the timetables for completion of the audit are fully understood and aligned, however issues with application of ‘the big red button’ have led to delays in providing financial statements to audit.

Overview

To date we have not yet received a full set of financial statements, as such we have not been able to complete our final risk assessment, complete our planning procedures or design our final audit strategy. Once we have received the financial statements, we will complete these areas. This may result in further risks being identified that require additional audit procedures to be completed.

This report summarises the key matters from our audit to date of the Cambridgeshire and Peterborough Fire Authority, in particular reporting on the progress to date in respect of our testing of the significant risks that were identified in the Audit Planning Report.

Our audit was conducted as set out in the Audit Planning Report circulated to the Overview and Scrutiny Committee members in May 2020, following the cancellation of the committee meeting.

Following the completion of our final audit, we will produce an Audit Completion Report which will be presented to the Policy and Resources Committee meeting on 22 October 2020.



Covid-19

Following the outbreak of the Covid-19 pandemic, the timeline for production of the financial statements has been amended with a revised target date of 31 August 2020, with the timeline for providing the audit opinion also extended to 30 November 2020. Following discussions with the finance team, we are working to the revised timetable. Our audit fieldwork commenced on 15 June 2020 in line with the original timetable, and we completed as much testing as possible using the trial balance and supporting working papers. The Authority is aiming to provide the draft financial statements ahead of the 31 August.

As a consequence of this pandemic, we have revisited our risk assessment regarding going concern and have not raised an additional significant risk in respect of this. Our use of resources risk assessment has also been reassessed, with our initial conclusion that there are no significant risks, determined to remain appropriate. Due to the fast changing nature of the situation, the final risk assessment will be based on the position in respect of this as at the point of signing the audit. We will therefore be presenting an updated risk assessment to the Policy and Resources committee in October 2020.

Our audit opinion will factor in all events which happen between year-end and the date of signing the financial statements. Additional work may therefore be required for any developments in the Covid-19 situation which occur within this period, if they have an impact on the Authority.

We will also need to ensure our audit procedures provide the required assurance levels up to the date of signing the opinion and samples will need to be extended in some areas, such as cut off testing, to achieve this.

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What is the progress of our audit?

Our audit to date included reviewing the full nominal ledger for the 2019/20 year and performing tests of detail with regards to the 12 months' transactional activity.

We undertook the following detailed work:.

- Carried out substantive sample testing of fees and charges income transactions, including cut off testing either side of the year-end.
- Carried out substantive sample testing of expenditure transactions, including cut off testing either side of the year-end. Further detail provided on page 12.
- Carried out risk based testing of journals for management override of controls. Further detail provided on page 11.
- Carried out substantive sample testing of payroll transactions.
- Carried out substantive testing of property, plant and equipment (PPE) transactions, including a review of the land and buildings valuations, carried out by the valuer, as at 31 March 2020. Further detail provided on pages 13 and 14.
- Agreed the balances in respect of cash, investments and borrowings to third party confirmations.
- Carried out substantive sample testing of year-end debtor and creditor balances.
- Reviewed the Authority's draft going concern assessment.

No non-trivial issues have been identified in respect of any of the above, other than those set out later in this report.

Whilst there has been good progress on the areas where we consider there to be significant audit risk, and a number of the larger sample areas, the sections of the audit not referenced above have not been started and cannot be started until a first draft of the financial statements has been received.

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Audit areas complete subject to the review of the disclosures in the financial statements:

- Investments
- Cash
- Borrowings
- Long Term Creditors
- Journals

Audit areas which are in progress are as follows:

- Property, Plant and Equipment
- Debtors
- Creditors
- NCOS CIES Income
- NCOS CIES Expenditure (excluding payroll)
- Payroll
- Taxation and Non-Specific Grant Income
- Other Disclosures
- Going Concern
- Related Party Transactions
- Minute Review

Audit areas where testing has not been started are as follows:

- Pensions and Post Employment Benefits
- Usable Reserves
- Unusable Reserves
- Cash Flow Statement
- Subsequent Events
- Laws and Regulations
- Commitments and Contingencies
- Financial Instruments
- Narrative Report

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Audit Section	Status	Outstanding Areas
Property, Plant and Equipment	In progress	The significant risk parts of this testing, linked to the valuation of assets, are largely complete. We are yet to review the disclosures in the financial statements, and some sample testing, including physical verification has not yet been started.
Investments	In progress	The investment balances have been agreed to external confirmations. We are yet to review the disclosures in the financial statements.
Debtors	In progress	The precept testing with the District councils has been delayed due to the late provision of information from the Districts. We are yet to review the disclosures in the financial statements.
Cash Balances	In progress	The cash balances have been agreed to external confirmations. We are yet to review the disclosures in the financial statements.
Borrowings	In progress	The borrowings balances have been agreed to external confirmations. We are yet to review the disclosures in the financial statements.
Creditors	In progress	Our sample testing over creditors is complete, although the sample sizes may need to be revisited on receipt of the financial statements. We are yet to review the disclosures in the financial statements.
Long Term Payables	In progress	Our review of long term payables is complete, subject to the list of long term payables we were provided being complete. We are yet to review the disclosures in the financial statements.
Pensions and Post Employment Benefits	Not started	Our testing in this area is dependent on receiving assurances from the auditor of Cambridgeshire pension fund, which have not been received as at the date of writing. Our testing will be completed following the receipt of these assurances, which is expected to be in October 2020. We are also yet to review the disclosures in the financial statements.
Usable Reserves	Not started	
Unusable Reserves	Not started	

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Audit Section	Status	Outstanding Areas
CIES NCOS Income	In progress	Our audit testing on income is complete subject to the successful resolution of outstanding queries with management. We are yet to review the disclosures in the financial statements.
CIES NCOS Expenditure (excluding payroll)	In progress	Our audit testing on expenditure is complete subject to the successful resolution of outstanding queries with management. We are yet to review the disclosures in the financial statements.
Payroll	In progress	Our sample test is in progress with a number of queries outstanding with management. The remaining testing in this section has not been started.
Taxation and Non-Specific Grant Income	In progress	Our audit testing on grant income is complete subject to the successful resolution of outstanding queries with management. We are yet to review the disclosures in the financial statements. Testing in respect of council tax income has not been started.
Financial Statement Preparation	In progress	We are awaiting a first draft of the financial statements before the majority of the testing in this section can be commenced. Testing has been stated on a few of the disclosure notes which have been provided.
Cash Flow Statement	Not started	We are yet to receive a first draft cash flow statement which is ready for audit.
Subsequent Events	Not started	To be completed at end of audit.
Management Override of Controls	In progress	Our sample testing on journals is complete, subject to their being no additional journals added to the ledger since the testing was performed. Our testing in respect of accounting estimates is dependent on the completion of other sections listed above.
Going Concern	In progress	We have reviewed the Authority's preliminary going concern assessment. This will need to be revisited prior to sign off and may need to be updated to reflect any evolving guidance.

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Audit Section	Status	Outstanding Areas
Laws and Regulations	Not started	
Commitments and Contingencies	Not started	
Related Party Transactions	In Progress	We have not yet received all related party declarations from members.
Financial Instruments Disclosures	Not started	
Narrative Report	Not started	
Minute Review	In Progress	All minutes up to December 2019 have been reviewed. We will need to review minutes of meetings from January 2020 to the date of signing the audit.

THE NUMBERS

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Final materiality

Final materiality was determined based on gross expenditure.

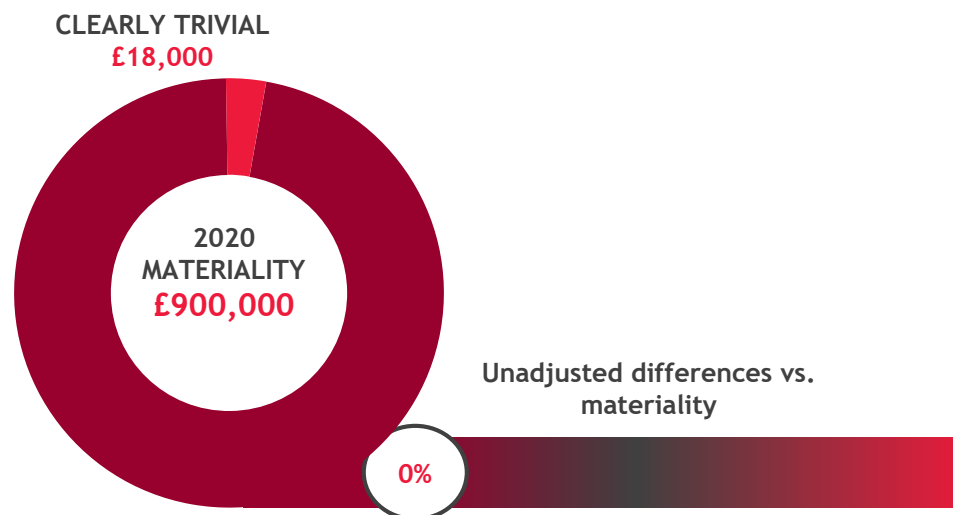
Our materiality levels have not required reassessment since our audit planning report issued on 7 May 2020, but have been updated to reflect the gross expenditure reported in the draft trial balance presented for audit.

Material misstatements

Our audit to date has not identified any material misstatements.

Unadjusted audit differences

Our audit to date has not identified any unadjusted audit differences.



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As identified in our audit planning report dated 7 May 2020 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 directing of the efforts of the engagement team.

Significant Audit Risk	Progress	Errors Identified?
Management override of controls	Our audit testing to date has not identified any issues in this area. Please see page 11 for further details on this risk.	No
Expenditure cut-off	Our audit testing to date has not identified any issues in this area. Please see page 12 for further details on this risk.	No
Valuation of non-current assets	The valuer has raised a material uncertainty statement in their valuation report, which is likely to lead to an emphasis of matter paragraph being added to our audit opinion. Our audit testing to date has not identified any other issues in this area. Please see pages 13 and 14 for further details on this risk.	No
Valuation of pension liability	Our testing in this area is dependent on receiving assurances from the auditor of Cambridgeshire pension fund, which have not been received as at the date of writing. Our testing will be completed following the receipt of these assurances, which is expected to be in October 2020.	Not applicable
Production of financial statements compliant with the Code	As at the date of writing, we have not received a first draft of the financial statements. Our testing in this area will be performed following the receipt of the financial statements. The Authority's target date for submitting the draft financial statements was initially 31 May 2020, but has been revised to 31 August 2020 following the coronavirus pandemic.	Not applicable

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	
Letter of Representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- A review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team and our data analytics tool to assist with the journal extraction and analysis;
- A review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- A review of unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our detailed testing of a sample of journals is complete and has not identified any significant issues.

We have not found any indication of management bias in accounting estimates to date. Our views on significant management estimates are set out in this report at this stage.

We have not identified any significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls to date.

REVENUE AND EXPENDITURE RECOGNITION

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For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

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

Work performed

We checked that expenditure is recognised in the correct accounting period by substantively testing an increased sample of expenditure items around year-end.

Results

We have tested all significant expenditure transactions identified from both the general ledger and the bank statements from 1 March 2020 to 31 May 2020. No issues have been identified from this testing.

Further testing will be performed up to the date of signing the audit.

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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

Letter of Representation point

Risk description

Authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) 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.

Work performed

We carried out the following planned audit procedures:

- A review of the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appeared unusual; and
- Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct.

Results

The Fire Authority engaged an external valuer to value all of its property assets as at 31 March 2020.

From our review of the instructions provided to the external valuer and the external valuer's reports we were satisfied that we could rely on the management expert.

We confirmed that the basis of valuation for assets valued was appropriate based on the nature and use of the assets.

We confirmed that the source data provided to the external valuer was materially correct and that the assumptions used were reasonable. Please see also page 14.

VALUATION OF LAND AND BUILDINGS

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Significant accounting estimate: £33.619m

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 (EUV). 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 13 above.

The Fire Authority engaged an external valuer to value all of its land and buildings as at 31 March 2020. The valuer confirmed that there was not 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 £450,000. A net revaluation gain has been recognised in respect of this.

The valuer has included the following statement within their report:

“Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty -and a higher degree of caution -should be attached to our valuation than would normally be the case.

Given the unknown future impact that COVID-19 might have on the real estate market and in light of the other comments within this section we would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to affect a disposal.”

Our review of the implications of this statement remains ongoing at the time of writing, however this is likely to result in an emphasis of matter paragraph in our auditors report.

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

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on the requirements of the Code.

We compared the valuations to expected movements using available market information and concluded that most of the movements are within expectations, with reasonable explanations provided where this was not the case.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the 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.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan in May 2020.



CONTROL ENVIRONMENT: SIGNIFICANT DEFICIENCIES

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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 Policy and Resources 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 to date has not identified any significant deficiencies in internal controls.



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.	We identified one journal entry posted through the "SquareSum Database Administrator" account in 2019/20. This was a manual journal entry relating to payroll and pensions transactions, which had been posted by a member of the finance team.	[xx]
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.	As at the date of writing, the Fire Authority has not obtained all the declaration forms for 2019/20.	[xx]



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COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Policy and Resoruces 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 required	Date (to be) communicated	To whom
Audit Plan	7 May 2020	By e-mail to members of Overview and Scrutiny Committee
Audit Progress Report	23 July 2020	Policy and Resources Committee
Audit Completion Report	22 October 2020	Policy and Resources Committee

AUDIT TIMELINE

An overview of the key dates

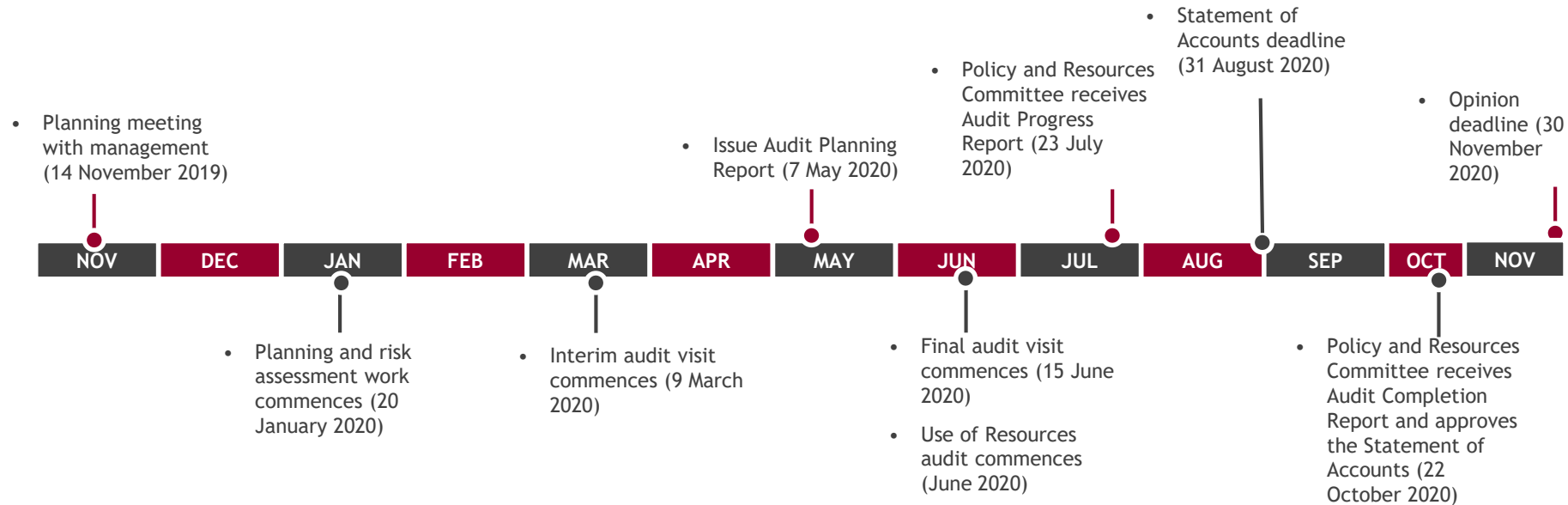
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AUDIT QUALITY

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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 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 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

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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 Trust and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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