Report to the Fire Authority Committee

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

Audit Completion Report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

WELCOME

Contents

We have pleasure in presenting our Audit Completion 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 of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Fire Authority Committee. At the completion stage of the audit it is essential that we engage with the Fire Authority Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the 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.

This report contains matters which should properly be considered by the Authority as a whole. We expect that the Fire Authority Committee will refer such matters to the Fire Authority, together with any recommendations, as it considers appropriate.

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.

Rachel Brittain

12 October 2020

Rachel Brittain
Engagement lead

t: +44 (0)20 7893 2362

m: +44 (0)7971 716 487

e: rachel.brittain@bdo.co.uk

Matthew Weller
Audit Manager

t: +44(0)1473 320804

e: matthew.weller@bdo.co.uk

Azola Dudula
Audit senior

e: Azola.dudula@bdo.co.uk

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.

OVERVIEW

Executive summary

Contents

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 2020.

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 is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2020 in line with the agreed timetable.

Outstanding matters are listed on page 42 in the appendices.

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

We anticipate issuing an unmodified audit opinion on the Authority's financial statements, subject to the completion of outstanding procedures.

Our opinion will include an emphasis of matter in respect of the valuation of land and buildings due to a material uncertainty included in the valuation report by the Authority's valuer.

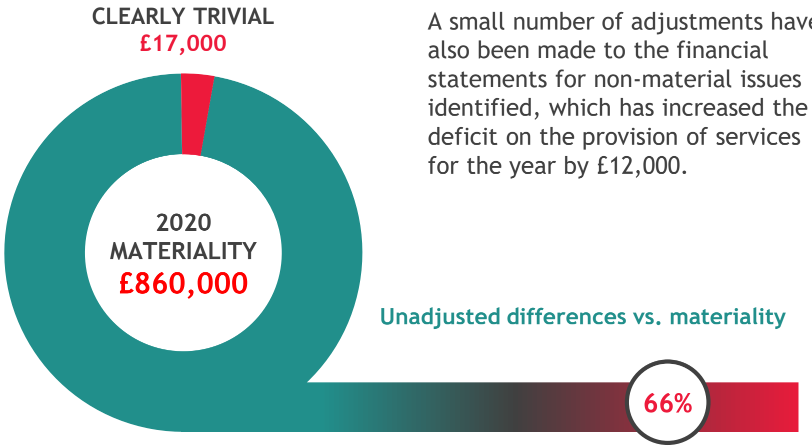
We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Contents

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 financial statements presented for audit.



Material misstatements

Our audit identified one material misstatement in relation to the misclassification of transactions and balances as detailed on page 24.

A material adjustment was also made to the accounts to reflect the impact of the revision to the McCloud judgement. The impact on the pension fund liability is a decrease of £1.3 million and decreased the deficit on the provision of services by £1.3 million.

A small number of adjustments have also been made to the financial statements for non-material issues identified, which has increased the deficit on the provision of services for the year by £12,000.

Unadjusted audit differences

There are three unadjusted audit differences identified by our audit work which would decrease the deficit on the provision of services for the year of £8.887 million by £409,000, and would increase net liabilities of £251.003 million by £160,000.

OTHER MATTERS
Executive summary

Financial reporting

- We have not identified any non-compliance with 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.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Authority is 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.
- Letter of Representation.

Independence

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

CORONAVIRUS

The effects on year-end reporting and auditing

Contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, officers are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from officers, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern officers are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the Authority's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the officers consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- Going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities (including fire authorities) are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the officers' assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of officers' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

Contents

Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities (including fire authorities) will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees (which includes the Fire Authority Committee) on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS 3

The effects on year-end reporting and auditing

Contents

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our ‘review and consider’ of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Authority’s financial statements and may be referred to by the auditor in their opinion/report.

Contents

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.

Contents

AUDIT RISKS OVERVIEW

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 direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	Yes	Yes
Expenditure cut-off	Normal	Yes	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes, adjusted	No	Yes
Valuation of pension liability	Significant	Yes	Yes	Yes, narrative	Yes	Yes
Production of financial statements compliant with the Code	Significant	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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	
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:

- Reviewed and verified 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;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

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 manual journals posted in periods 13 and 14

- Journals with blank preparer, approver or ID fields

- Journals where the debit side of the transaction was debtors 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.

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

- Depreciation

- Accruals and accrued income

- Valuation of land and buildings

- Pension liability

- Going concern assumptions

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

A control deficiency was identified regarding the posting of journals entries by a generic user ID. A recommendation has been raised on page 34.

EXPENDITURE CUT-OFF

For public sector bodies there is a risk of fraud related to expenditure recognition.

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

For net-spending bodies in the public sector there is 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.

VALUATION OF NON-CURRENT ASSETS

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

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.

Misstatements were identified for a small number of assets where the split of the valuation movement between the revaluation reserve and the CIES had been applied incorrectly. An adjustment will be made for this in the final financial statements. Please see page 28 for details of this adjustment.

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 15.

VALUATION OF LAND AND BUILDINGS

Continued

Contents

Significant accounting estimates: £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 14 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."

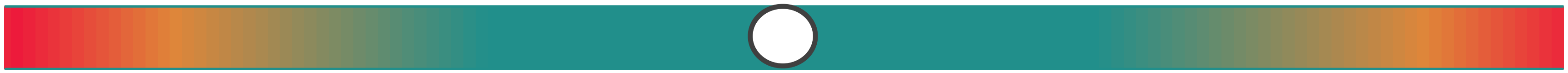
An adjustment has been proposed to add the details of this statement to the narrative disclosures within the PPE note. An emphasis of matter paragraph will be included in our auditors report as a result of this statement.

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

< lower | Impact of assumptions on the estimate/judgement | higher >



VALUATION OF PENSION LIABILITY

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.

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 share of the scheme liability.

In addition, there is a scheduled triennial valuation of the pension fund in 2019/20, which represents another area of significant judgement.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data had been communicated to the actuary.

Results

We agreed the disclosures to the information provided by the actuary. Some of the disclosures had not been accurately recorded in the financial statements and will be adjusted. These consist of:

- In the breakdown of scheme assets disclosed for the Local Government pension scheme, the note is incorrectly missing: real estate UK property (£2.467 million), real estate overseas property (£400) and derivatives other (£5,500).
- Within the movement in the fair values of scheme liabilities disclosure for the firefighter's pension scheme, there is an amount of £200,000 missing from the disclosure in respect of transfers in from other authorities
- Within the movement in the fair values of scheme liabilities disclosure for the firefighter's pension scheme, the lines: actuarial gains/(losses) - experience, actuarial gains/(losses) from changes in demographic assumptions and actuarial gains/(losses) from changes in financial assumptions are all incorrectly split between the firefighters main scheme (overstated by £3.7 million) and the firefighters injury pensions (understated by £3.7 million).

VALUATION OF PENSION LIABILITY

Contents

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	■

The assurances from the pension fund auditor have not been received at the time of writing. We are anticipating receipt of these assurances in October 2020.

There is a significant movement between the fund liability values provided by the actuary and the year-end values included in the pension fund account as a result of amendments relating to the McCloud judgement. An adjustment in respect of this (as detailed overleaf) will be made to the pension fund liability in the final financial statements.

Our review of assumptions used by the pension fund actuary is ongoing at the time of writing. We will provide a verbal update to the Fire Authority Committee.

VALUATION OF PENSION LIABILITY

Continued

Contents

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, the valuation of both the Local Government pension scheme (LGPS), and firefighter’s pension scheme were increased to remedy this discrimination in 2018/19. Subsequent to this, a determination was made that the increases applied were overstated and a further amendment is required to be made through the 2019/20 financial statements to rectify this issue.

The Fire Authority requested an updated valuation of the liability to take account of the impact of this ruling. In respect of the LGPS, the pension fund asset decreased from £36.180 million to £35.938 million, a decrease of £242,000. The liability has decreased from £46.761 million to £46.679 million, a decrease of £82,000. The net liability has therefore increased from £10.581 million to £10.741 million, an increase of £160,000. The movements on the LGPS are not therefore material, and an unadjusted misstatement has been raised on page 25.

In respect of the firefighter's pension fund, there is a movement in the year-end pension liability of £1.3 million. It was £292.8 million and has reduced to £291.5 million. An adjustment of £1.3 million is material to our audit. Management is expected to adjust the financial statements to include this amended liability for the firefighter’s pension schemes.

VALUATION OF PENSION LIABILITY

Significant accounting estimates: Local Government Pension Scheme

Contents

Significant accounting estimates: £10.581m

Overview

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.

Discussion

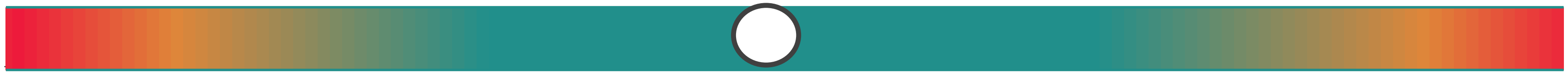
The actuary has used the following assumptions to value the future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
Rate of inflation	2.0%	1.8-2.0%	Top of expected range
Salary increase	2.3%	1.8-2.9%	Middle of expected range (derived from RPI above)
Pension increase	1.8%	1.8-2.0%	Bottom of expected range (derived from RPI above)
Discount rate curve	2.3%	2.3%	In line with expectation
Mortality - LGPS:			
- Male current	22.7 years	21.6-23.3	Reasonable
- Female current	25.5 years	24.6-26.3	Reasonable
- Male retired	22.0 years	20.5-22.2	Reasonable
- Female retired	24.0 years	22.9-24.3	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.

< lower | Impact of assumptions on the estimate/judgement | higher >



VALUATION OF PENSION LIABILITY

Significant accounting estimates: Firefighter's Pension Scheme

Contents

Significant accounting estimates: £10.581m

Overview

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.

Discussion

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	2.0%	1.8-2.0%	Top of expected range
Salary increase	2.8%	1.8-2.9%	Top of expected range (derived from RPI above)
Pension increase	1.9%	1.8-2.0%	Middle of expected range (derived from RPI above)
Discount rate curve	2.3%	2.3%	In line with expectation
Mortality - firefighters:			
- Male current	22.5 years	23.1-23.8	Outside of expected range
- Female current	24.7 years	25.2-25.9	Outside of expected range
- Male retired	21.4 years	21.7-22.4	Outside of expected range
- Female retired	23.5 years	23.7-24.4	Outside of expected range

Conclusion

Our review of the above assumptions remains ongoing at the time of writing. We will provide a verbal update to the Fire Authority committee.

< lower | Impact of assumptions on the estimate/judgement | higher >

PRODUCTION OF FINANCIAL STATEMENTS COMPLIANT WITH THE CODE

Production of financial statements compliant with the Code

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 initial draft of the 2018/19 financial statements did not reflect all the requirements of the Code. A high number of amendments were required to be made to the original approved draft financial statements. However, all required amendments were made in the final version of the financial statements to ensure they complied with the Code.

The Authority prepared their accounts using CIPFA's 'Big Red Button' for the first time last year and has also used the software to produce the current year financial statements.

Given the issues arising from use of the "Big Red Button" in the prior year, we have identified a significant risk in relation to the production of Code compliant draft financial statements.

Work performed

We carried out the following planned audit procedures:

- A review of the controls implemented by the Authority to ensure that the chart of accounts had been mapped correctly in the 'Big Red Button' software;
- A review of the reconciliation between the trial balance and the financial statements including investigation into any non-trivial differences or omissions identified;
- A review of the prior period comparatives against the prior year signed financial statements;
- A review of the financial statements specifically focused on the areas where deficiencies were identified in the prior year; and
- A review of the disclosure checklist prepared by the Authority to confirm that all required disclosures had been correctly presented in the financial statements in accordance with the Code.

Results

Our initial review of the financial statements highlighted that the number and volume of issues identified was lower than has been identified in prior years. In particular we noted that the majority of the points raised specifically as issues in the prior year audit completion report had been addressed. This therefore evidences that an increased level of checks was performed on the financial statements by management.

We have reconciled the Fire Authority's trial balance to the financial statements. No differences were identified. We identified some disclosure errors in the published unaudited accounts as follows:

- Some prior period comparatives did not agree to the prior year signed accounts.
- There were a number of inconsistencies identified between the values included within the main financial statements and values included in the supporting notes, and also between notes.
- Additional disclosures required for coronavirus were not included in the draft financial statements
- Some of the narrative had not been updated from the prior year and was no longer applicable
- Casting issues were identified within the primary statements and within a number of supporting notes.

All of the above issues will be amended in the final financial statements.

GOING CONCERN

Contents

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

Management's assessment of going concern

As at the time of writing, our going concern testing remains ongoing. A verbal update will be provided to the Fire Authority Committee.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

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 did not identify 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

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

Our testing 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

Summary for the current year

Contents

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

There are three unadjusted audit differences identified by our audit work which would decrease the deficit on the provision of services for the year of £8.887 million by £409,000, and would increase net liabilities of £251.003 million by £160,000.

The general fund balance would decrease by £160,000 if these audit differences were adjusted.

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

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments	8,887				
Adjustment 1: Reclassification of valuation movements from revaluation reserve to CIES - impact of prior period unadjusted difference (judgemental)					
DR CIES	155	155			
CR General fund					155
Adjustment 2: Movement in value of pension fund asset between 31/12/2018 and 31/03/2019 - impact of prior period unadjusted difference (judgemental)					
DR General fund				724	
CR Re-measurement of the net defined benefit liability	(724)		724		
Adjustment 3: Impact of the McCloud judgement revision on the Local Government pension scheme (judgemental)					
DR CIES expenditure	160	160			
CR Pension fund liability					160
Total unadjusted audit differences	**(409)**	**315**	**724**	**724**	**315**
Deficit on the provision of services for the year if above issues adjusted	8,478				

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

There were five audit differences identified by our audit work that were adjusted by management. This decreased the draft deficit on the provision of services of £8.887 million by £1.288 million and decreased draft net liabilities of £251.003 million by £1.288 million.

The general fund balance increased by £1.3 million as a result of these adjustments.

Contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments	8,887				
Adjustment 1: Reclassification of balances included within debtors (factual)					
DR Other receivable amounts				960	
CR Prepayments					245
CR Other payables					715
Adjustment 2: Additional depreciation for assets not previously depreciated (factual)					
DR Depreciation expense	12	12			
CR Property, plant and equipment					12
Adjustment 3: Correction for asset incorrectly transferred between assets under construction and land and buildings (factual)					
DR Assets under construction transfers				74	
CR Land and buildings transfers					74
DR Land and buildings disposals				74	
CR Assets under construction disposals					74

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 4: Corrections for calculation errors in PPE note relating to split of valuation movements between revaluation reserve and CIES (judgemental)					
CR Revaluation increases/decrease recognised in the revaluation reserve					39
DR Revaluation increases/decrease recognised in the deficit on provision of services	39	39			
CR Depreciation written out to the revaluation reserve					38
DR Impairment losses/reversals recognised in the revaluation reserve				77	
CR Impairment losses/reversals recognised in the deficit on provision of services	(39)		39		
Adjustment 5: Impact of the McCloud judgement revision on the firefighter's pension scheme (judgemental)					
DR Pension fund liability				1,300	
CR CIES expenditure	(1,300)		1,300		
Total Adjusted audit differences	**(1,288)**	**51**	**1,339**	**2,485**	**1,197**
Adjusted retained deficit on the provision of services for the year	7,599				

REPORTING ON OTHER INFORMATION

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

Matter	Comment
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.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
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.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Contents

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 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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Authority met this deadline. We are planning to submit the relevant section of the assurance statement to the National Audit Office by the required deadline of 4 December 2020.

OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

As identified in our Audit Planning Report, our risk assessment did not identify any use of resources significant risks. We have since updated our risk assessment following our completion of our review of financial controls and review of the draft financial statements and we have not included any significant risks.

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

SIGNIFICANT DEFICIENCIES

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 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.

Our audit to date has not identified any significant deficiencies in internal controls.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Management review of valuation of the net pension liability.	Management engage an actuary to value the net pension liability, which is a significant accounting estimate. Management have not undertaken a review of the outcome of the above engagement to ensure that it is consistent with their expectations.	As part of the accounts preparation process, identify significant accounting estimates and for high level expectations regarding movements in the associated assets and liabilities. Compare expectations to outputs generated by management's expert. Challenge the expert where outputs are inconsistent with management's expectation.	[xx]

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Generic User IDs	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. Posting journals using generic accounts is not considered best practice, and increases the risk of fictitious journals being posted.	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	Some members did not respond to the declaration of interest requests sent by the Finance team. Not responding on declaration of interest requests could result in the omission of related parties in the statement of accounts.	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]

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

An emphasis of matter will be raised in respect of the valuation of land and buildings due to a material uncertainty included in the valuation report by the Authority’s valuer.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Authority’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

Contents

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

Contents

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
Code audit fee: financial statements and use of resources	24,536	24,536	24,536
Non-audit assurance services	-	-	-
Total fees	**24,536**	**24,536**	**24,536**

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Authority. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA). If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Fire Authority Committee.

The 2019/20 planned Code fee is the PSAA-published level. The Scale is largely based on the historical position from 2012/13 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. Discussions on the fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases.

*Discussions are currently ongoing regarding re-basing the fee with effect from 2019/20.

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

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 officers of the 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 where we consider that the Authority had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Contents

	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

Contents

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the 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 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	Fire Authority Committee
Annual Audit Letter	7 January 2021	Overview and Scrutiny Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Fire Authority Committee meeting at which this report is considered:

- Clearance of outstanding requests currently with management
- Completion of audit testing in respect of:
  - Pensions (including assurance letter)
  - Income - two outstanding audit queries
  - Payroll - completion of main sample test
  - Going concern - management's going concern assessment to be reviewed
  - Minute review post June 2020
- Final Manager and Partner review and clearance of review points within our file
- Final review and approval by you of the Statement of Accounts
- Completion procedures:
  - Checks on approved Statement of Accounts
  - Subsequent events review up to the date of signing
  - Management letter of representation, as attached on pages 50 to 52 to be approved and signed

LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports – CMA and Kingman – to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA – deal with failures more quickly and more stringently Published June 2019.

Contents

LATEST REGULATORY DEVELOPMENTS 4

Brydon

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;
- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

Contents

FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

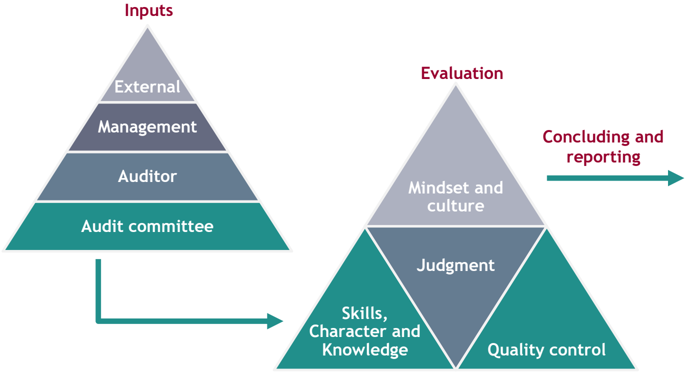
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

Letter of representation

Contents

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sir / Madam

Financial statements of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2020

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 2020 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)	2.0%	2.0%
Rate of increase in salaries	2.3%	2.8%
Rate of increase in pensions	1.8%	1.9%
Rate of discounting scheme liabilities	2.3%	2.3%

Contents

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]

Councillor Reynolds

Chair of the Policy and Resources Committee

[date]

AUDIT QUALITY

Contents

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 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:

Rachel Brittain

t: +44 (0)20 7893 2362
m: +44 (0)7971 716 487
e: rachel.brittain@bdo.co.uk

Matthew Weller

t: +44(0)1473 320804
e: matthew.weller@bdo.co.uk

www.bdo.co.uk