

Cambridgeshire & Peterborough Combined Authority

Audit results report

Year ended 31 March 2018

For Audit & Governance Committee
20 July 2018



Building a better
working world



4 July 2018

Dear Audit & Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Cambridgeshire & Peterborough Combined Authority (the Authority) for 2017/18. We will issue our final report following the Audit & Governance Committee meeting on 20 July 2018.

We have substantially completed our audit of the Authority for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the statement of accounts in the form at Section 4 of this report, before the statutory deadline of 31 July 2018. Whilst we have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources, due to the inherent challenges of establishing an entity of the Authority's nature we do include some specific commentary in Section 6.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 20 July 2018.

Yours faithfully

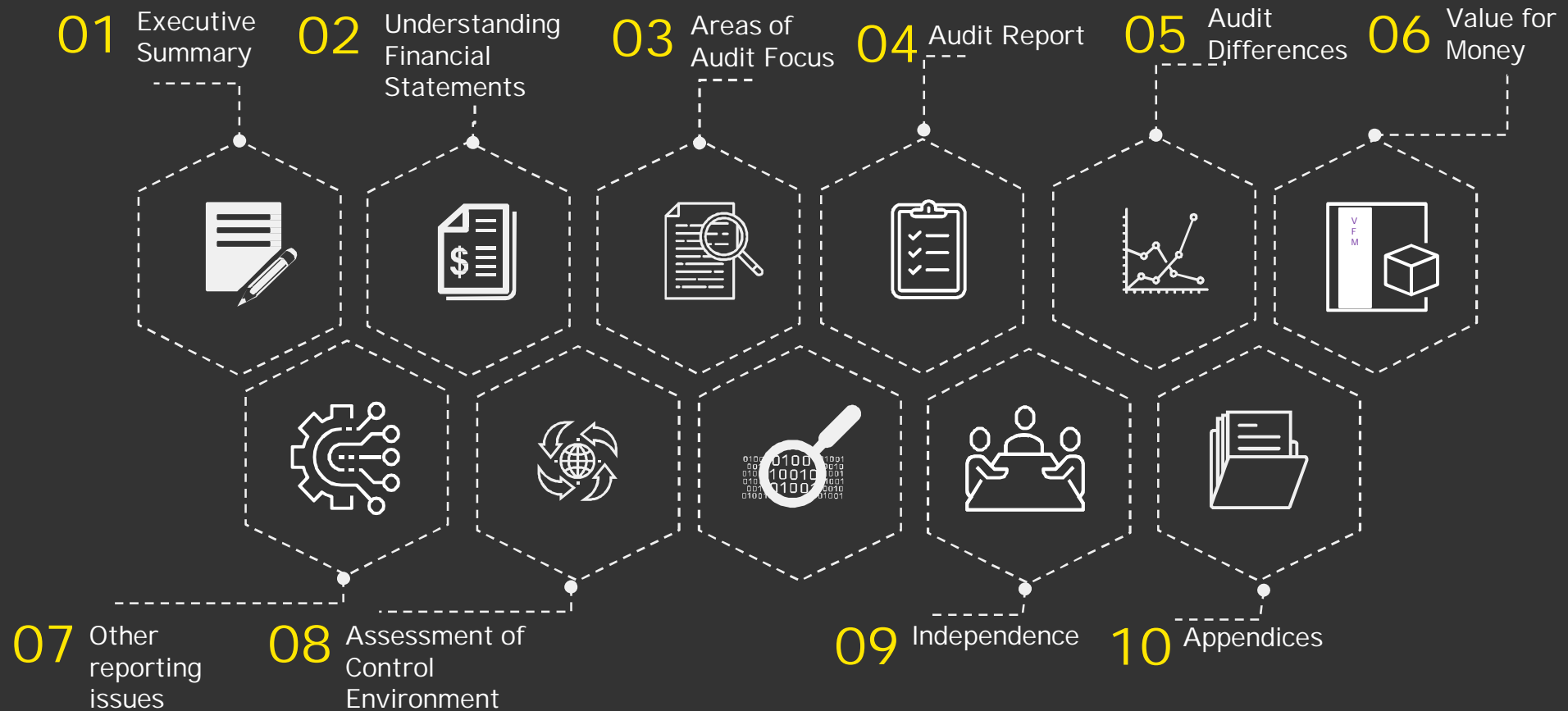
Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Cambridgeshire & Peterborough Combined Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Scope update

In our Audit Plan presented to the 26 March 2018 Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the statement of accounts. We carried out our audit in accordance with this plan.

- **Changes in materiality:** In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £995,000. We recalculated a small change in materiality upon receipt of the unaudited accounts. The materiality used during the audit was £821,000. The basis of our assessment has remained consistent with the prior year at 2% of gross expenditure. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, and cash flow statement), is £40,000.
- **Significant risks:** Following completion of our interim audit and on receipt of the unaudited statement of accounts we have updated the focus and response to the significant risks we identified in our Audit Plan to the extent that we no longer recognise as significant risks management override of controls or the risk of fraud in revenue and expenditure recognition. Given the nature of the Authority's income streams, expenditure, assets and liabilities this has minimal impact on the extent of our audit testing but changes the way we report our work in these areas. This is set out more fully in Section 3 of the report.

Status of the audit

We have substantially completed our audit of the Authority's statement of accounts for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority's statement of accounts in the form which appears at Section 4. However until work is complete, further amendments may arise:

- completion of testing of journal entries (currently being completed)
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted or adjusted audit differences arising from our audit.

We identified some presentational and disclosure issues which have been adjusted by management, but are not detailed in this report.

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Authority's statement of accounts. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the course of our normal audit work, we have not identified any significant deficiencies in internal control or any other matters relating to internal controls which we believe should be brought to the attention of the Audit & Governance Committee.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority.

We have no matters to report as a result of this work.

We are not required to perform any procedures on the Whole of Government Accounts submission, as the Authority is below the threshold for audit.

Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 9 for our update on Independence.



Executive Summary

Value for money

The Authority held its first official meeting on 20 March 2017. Since then it has elected its Mayor in May 2017, appointed a Chief Executive at the end of June 2017 and appointed its most recent interim Section 151 officer in January 2018. It has also assigned portfolio holders to its various strands including Transport and Infrastructure, Housing, and Adult Education. In addition as part of the devolution agreement, transport authority powers were transferred to the Authority from Cambridgeshire County Council and Peterborough City Council. The Authority has a large, complex, high profile and important agenda.

All public bodies are required to demonstrate that they have proper arrangements in place to secure the effective use of resources. For the purposes of the value for money conclusion, while the Authority is making progress putting in place the building blocks to enable it to operate effectively, efficiently and economically we identified a risk that by the 31 March 2018 not all the expected proper arrangements would be in place.

The risk we identified affects all three of the value for money conclusion sub-criteria set out by the NAO:

- Taking informed decisions.
- Deploying resources in a sustainable manner.
- Working with partners and other third parties.

We are satisfied that in respect of the auditor's value for money conclusion responsibilities the Authority has proper arrangements in place to secure the effective use of resources. However the Authority needs to continue formalising its arrangements to support the effective use of its resources, as recognised within the Annual Governance Statement. We have included in Section 6 the detailed work we carried out in response to this risk.

The background of the slide features a close-up, shallow depth-of-field photograph of Euro currency. In the foreground, a 1 Euro coin is in sharp focus, showing its intricate design and the word 'EURO'. Behind it, another coin is slightly out of focus. The background is filled with the blue and green patterns of Euro banknotes, with a large '0' visible on the left side. A dark grey horizontal bar is positioned across the lower third of the image, containing the text '02 Understanding Financial Statements'.

02

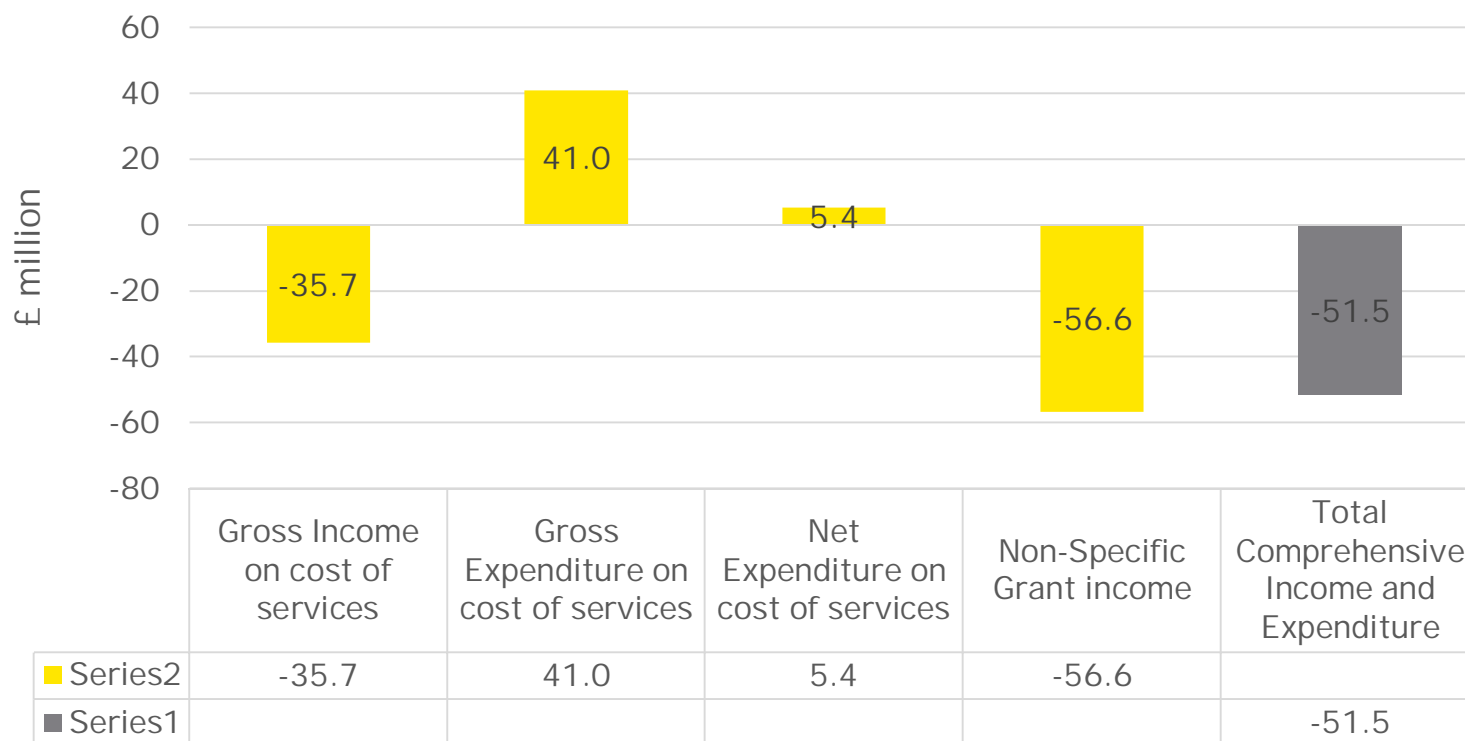
Understanding Financial Statements



Understanding the financial statements

Key components of net expenditure

The Authority's net cost of services for the year ended 31 March 2018 was £5.4 million, an increase of nearly £5 million from the prior year in line with the timing of the Authority's set-up. Similarly, net comprehensive income for the year ended 31 March 2018 was £51.5 million, an increase of £11.5 million from the prior year reflecting the first full year of operations.



The following provides an overview of the material items:

- Gross income of £35.7 million is comprised mainly of Transport Capital Grant of £32 million.
- Gross expenditure of £41 million relates largely to staff costs of £1 million, expenditure on Transport & Infrastructure of £31m, and Housing projects of £3 million.
- Non-Specific Grant income of £56.6 million, is comprised of Housing Capital Grant of £37.5 million and Gain Share Grant of £19 million.



03 Areas of Audit Focus





Areas of Audit Focus

Misstatements due to fraud or error – management override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

- Changes to accounting policies
- Significant estimates
- Manual Journals

What did we do?

- We reviewed changes to accounting policies for indications of management bias;
- We reviewed significant accounting estimates for evidence of management bias; and
- We are currently completing our testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.

What are our conclusions?

From our work to date, we have not identified any material weaknesses in controls or evidence of material management override.

From our work to date, we have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



Areas of Audit Focus



Other matters

Accounting for the Local Enterprise Partnership (LEP) – At the time of our Audit Plan, the Authority was expecting to become the accountable body for the LEP before 31 March, necessitating a need to account for and disclose the associated asset and liabilities and other relevant items in its 2017/18 accounts. Subsequently the Authority received confirmation that the transfer would be on 1 April 2018. The Authority's accounts include a provision of £776,912 to reflect the estimated net liabilities of the LEP falling due to the Authority.

Faster Close: The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the FY18 financial year. From this year the timetable for the preparation and approval of accounts was brought forward with draft accounts to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018.

We carried out early work where possible at our interim audit in January/February. We also planned to begin the final accounts audit earlier – on 14 May 2018. We have also used our EY Client Portal to streamline our communications with the finance team and provide them with access to the status of audit requests.

The Authority met the shortened deadline for production of its accounts, however we received the accounts the week after we had planned to start the audit. To a large extent the accounts and notes were supported by good quality working papers, except for in a few specific areas, where improvements could be made. We are confident that the audit deadline of 31 July 2018 will be met.

Issues requiring additional audit focus: the Authority has treated the majority (£34.3 million) of its expenditure on 'New Homes & Communities' and 'Transport & Infrastructure' as REFCUS expenditure. Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure incurred during the year that may be classified as capital for funding purposes. As this expenditure does not form an asset to be carried on the Combined Authority's balance sheet it is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. The grant income received in respect of this expenditure is credited to the same lines in the CIES.

As this was the first year the Authority had applied this funding, and because it is material, we sought further technical review of the accounting treatment. We concluded that the treatment and the disclosure in Note 12 to the accounts is appropriate.

IFRS 15 implementation: From 1 April 2018 IFRS 15 applies in relation to accounting for revenue from contracts. The Authority has yet to undertake an assessment of its impact but given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the financial statements of the Authority.



04 Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Opinion

We have audited the financial statements of Cambridgeshire & Peterborough Combined Authority for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 22, and
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridgeshire & Peterborough Combined Authority as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 2 to 55, other than the financial statements and our auditor's report thereon. The Interim Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Cambridgeshire & Peterborough Combined Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Interim Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 14, the Interim Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Interim Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

the Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Cambridgeshire & Peterborough Combined Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Cambridgeshire & Peterborough Combined Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its



Audit Report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Cambridgeshire & Peterborough Combined Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Cambridgeshire & Peterborough Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Cambridgeshire & Peterborough Combined Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
x July 2018



05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There are no adjusted differences, at the time of writing.

We identified small presentational and disclosure issues which have been adjusted by management, and are not detailed in this report as they are not significant enough to be brought to the attention of the Audit & Governance Committee.



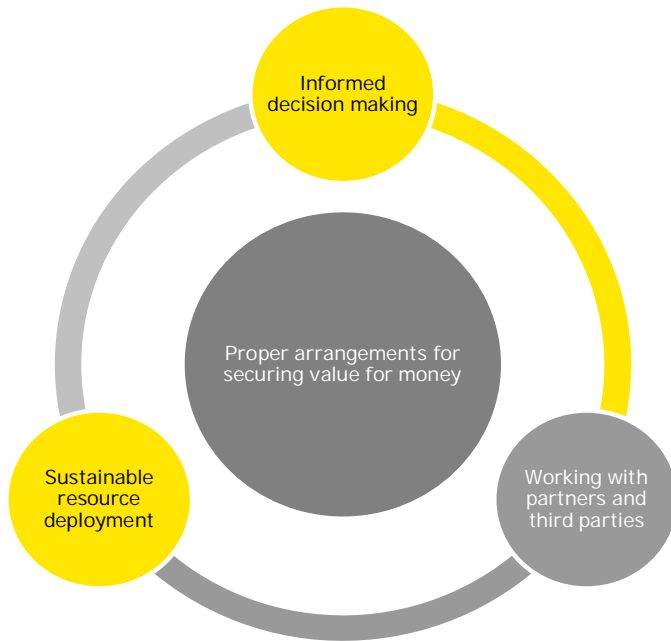
06

Value for Money Risks





Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2017/18 this is based on the overall evaluation 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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified a significant risk to our VFM conclusion that by the 31 March 2018 not all the expected proper arrangements would be in place. The table below presents our findings in response to the risk in our Audit Planning Report.

We expect to have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. However, as recognised by the Authority in its Annual Governance Statement, there are aspects of these arrangements which remain a work in progress or were only formalised at the year end.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
All public bodies are required to demonstrate that they have proper arrangements in place to secure the effective use of resources. For the purposes of the value for money conclusion, while the Authority is making progress putting in place the building blocks to enable it to operate effectively, efficiently and economically there is a risk that by the 31 March 2018 not all the expected proper arrangements will be in place.	<p>The risk we identified affects all three of the value for money conclusion sub-criteria set out by the NAO:</p> <ul style="list-style-type: none"> • Taking informed decisions. • Deploying resources in a sustainable manner. • Working with partners and other third parties. 	We are satisfied that the Authority has proper arrangements in place to secure the effective use of resources, however there are still some further improvements to make to arrangements, which the Authority has detailed in its Annual Governance Statement. We provide further details on the next few pages.



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Taking informed decisions	<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p> <ul style="list-style-type: none">• The constitution is in place which is available on the Authority's website, updated March 2018.• The constitution includes transparency rules, key decision rules and the forward plan, financial management procedures, delegation scheme and Codes of Conduct.• The devolution deal is on the Authority's website.• Meetings advertised on website and open to the public, public speaking rights published on website, Mayoral decision notices are published.• Freedom of Information and publication scheme was agreed in December and January.• Following the Mayor's election in May 2017, the Mayor published a 100-day plan outlining the actions to progress the devolution deal commitments.• The 2030 programme is responsible for developing core deliverables. <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions</p> <ul style="list-style-type: none">• Agreement of budget for 2017/18, development of financial procedures, policies and strategies approved by the audit and governance committee during the year. For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed – went to May 2018 Board. Updates on the financial position taken to every Board.• Treasury Management Strategy in place for the year and during the year it has been a high priority focus: the 2018/19 strategy and a paper 'Evolving the Treasury Management Strategy' taken to March 2018 Audit & Governance Committee.• Evaluation and Monitoring Framework has been developed along with the assurance framework to set out how Schemes' outcomes are to be monitored and evaluated against benchmarks for each Work stream area. Projects with budget allocation requirements are subject to Board approval.• Business cases are considered at Board including e.g. business case for University of Peterborough presented to June 2017 and March 2018 Board.	Yes



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Taking informed decisions (cont.)	<p>Reliable and timely financial reporting that supports the delivery of strategic priorities</p> <ul style="list-style-type: none">• For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed (issued to the May 2018 Board). Updates on the financial position are taken to every Board.• Development of financial procedures, policies and strategies approved by the Audit & Governance Committee through the year.• The Internal Audit governance review highlighted how an appropriate performance management framework is required, however we have seen other evidence of performance management actions and reporting being taken through the year and evidenced at Board meetings. <p>Managing risks effectively and maintaining a sound system of internal control</p> <ul style="list-style-type: none">• The Internal Audit governance review highlighted that a Risk Management Strategy was not in place. Training has been provided to the Audit & Governance Committee on their role in assessing Strategy and risks. We have seen other evidence of risk management actions being taken through the year and evidenced at Board meetings.• Most aspects of internal control in place: the constitution includes financial management procedures, delegation scheme and Codes of Conduct.• Declaration of interest forms are published on the website.• Member complaints procedure has been developed.• Some arrangements were not put in place until the end of the year - the whistleblowing policy and third party confidential reporting for the CA and LEP, and the anti-fraud and corruption strategy, were considered at Audit & Governance Committee in March 2018.	Yes



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Deploying resources in a sustainable manner	<p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <ul style="list-style-type: none">• For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed (issued to the May 2018 Board). Updates on the financial position taken to every Board• The annual budget process involves consultation with stakeholders including constituent councils, local businesses and rate payers to collect views on the Authority's strategic priorities, and allocation of funds to projects.• Projects with budget allocation requirements are subject to Board approval. <p>Managing and utilising assets effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none">• The constitution has been updated to take account of all Board decisions since May 2017 to March 2018.• There is a procurement policy in the constitution.• All Board reports have a section for legal and financial impact and must be cleared by the CFO and the monitoring officer. <p>Planning, organising and developing the workforce effectively to deliver strategic priorities</p> <ul style="list-style-type: none">• The constitution sets out the responsibilities of the Head of Paid Service and the Chief Finance Officer.• Combined Authority or subject-specific training takes place twice monthly at Leaders Strategy meeting.• An internal compliance working group meets regularly to discuss the work programme.• A staff code of conduct is in place• Regular staff team meetings for training and briefings, weekly newsletter from chief executive to update staff of CA/LEP matters and priorities.• The permanent officer structure is still being established; following the recent combining of the CA and LEP, the new staffing structure will be published shortly.	Yes



Value for Money: sub-criteria

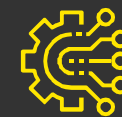
What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Working with partners and other third parties	<p>Working with third parties effectively to deliver strategic priorities</p> <ul style="list-style-type: none">• This is still under development – the prospectus and 4 year plan went to the May 2018 Board and will form the basis for planning and delivering the strategies and priority programmes.• The Authority meets regularly with established forums, e.g. Cambridgeshire & Peterborough Public Services Board and member councils, and engages Chief Officer and stakeholder groups in development of strategies.• Specific forums also established e.g. Leaders and Chief Officers, Portfolio Holders workshops, Neighbouring Authorities, and wider Stakeholder groups.• Constitution recently reviewed to take account of the establishment of the new LEP business board – reported to annual meeting in May 2018. <p>Commissioning services effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none">• The Authority has worked with partners to set out responsibilities – e.g. Transport decision making and delivery arrangements, following transfer of powers to the CA, considered at December 2017 Board.• The Mayor has allocated portfolio responsibilities to Authority members which sets out responsibility for partnership arrangements.• Some partnership arrangements still being developed – e.g. Cambridge City Housing Programme considered at March 2018 Board. <p>Procuring supplies and services effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none">• To deliver the priority programmes and actions the Authority uses a mixed economy of delivery partners and the Strategic client function manages and monitors delivery in accordance with the Assurance Framework.• There remain aspects still under development – Internal Audit review has shown that not all Service Level Agreements are signed.	Yes



07

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 26 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee on 20 July 2018.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. The increase from the prior year reflects the fact that this is the first full year of the Authority's operations.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	40,000	35,000	35,000	15,000

* The estimated additional fee of £5,000 relates to additional work to address the VFM risk, and additional work on the statement of accounts including seeking a technical view on REFCUS treatment and new capital notes. This is subject to agreement with the s151 officer, to whom we will provide a detailed breakdown, and approval by PSAA.





10 Appendices

Appendix A

Required communications with the Audit & Governance Committee



There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report 26 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report 26 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report 20 July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Cambridgeshire & Peterborough Combined Authority's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>None to report</p> <p>Audit Results Report 20 July 2018</p>
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>By letter of rep request in</p> <p>Audit Results Report 20 July 2018</p>
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>By letter of rep request in</p> <p>Audit Results Report 20 July 2018</p>



Appendix A

		Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	<p>None to report</p> <p>Audit Results Report 20 July 2018</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report 26 March 2018</p> <p>Audit Results Report 20 July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report 20 July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance by letter of representation. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	None to report Audit Results Report 20 July 2018

Appendix A

		Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	By letter of rep request in Audit Results Report 20 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	None to report Audit Results Report 20 July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report 20 July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report 26 March 2018 Audit Results Report 20 July 2018

Management representation letter

Draft Management Rep Letter

Suresh Patel
Executive Director
Ernst & Young LLP
1 More London Place
London
SE1 1AF



Dear Suresh

This letter of representations is provided in connection with your audit of the financial statements of Cambridgeshire & Peterborough Combined Authority ("the Authority") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Authority financial position of Cambridgeshire & Peterborough Combined Authority as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with [CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].
2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18]. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18], that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority and Audit and Overview and Scrutiny committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 June 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties

Management representation letter

Draft Management Rep Letter

and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than the transfer of the LEP business to the Combined Authority on 1 April 2018, described in Note 20 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31 March 2017, we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the financial statements for the year ended 31 March 2017 which are shown as comparative amounts in the financial statements for the year ended 31 March 2018. Any differences in the comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes

Yours faithfully,

.....
Interim Chief Finance Officer

Date

.....
Chair of the Audit and Governance Committee

Date

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