



Cambridgeshire & Peterborough Combined Authority

Outline Audit Plan

**For discussion with the Audit & Governance Committee
30 November 2018**

Year ended 31 March 2019



Cambridgeshire & Peterborough Combined Authority

21 November 2018

Dear Members of the Audit & Governance Committee,

Outline Audit Plan for discussion

We are pleased to attach an Outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide officers of the Authority with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks. We are currently undertaking our audit planning procedures and once completed we will issue a Final Audit Plan which we will present to the next Committee.

This report is intended solely for the information and use of the Officers of the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you.

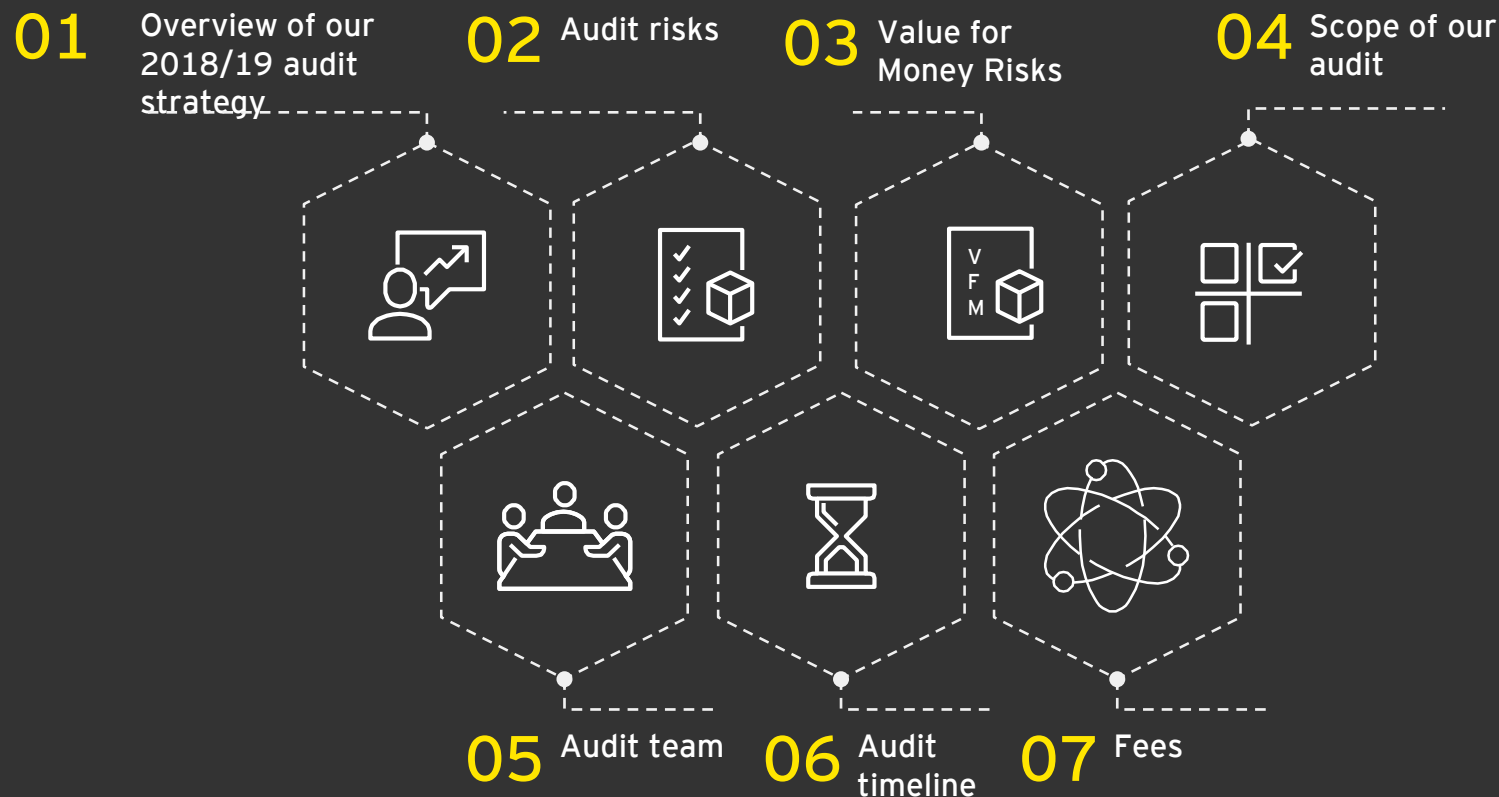
Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

United Kingdom

Contents



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 April 2018)" 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 (C&PCA) 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 C&PCA 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 C&PCA 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

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 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 would otherwise appear to be operating effectively.
Inappropriate recognition of income and/or expenditure	Fraud risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Inappropriate capitalisation of revenue expenditure	Fraud risk	New risk	The Authority has received transport related capital funding for transport infrastructure is evaluating a number of options for future large scale infrastructure projects such as Under accounting standards and the Local Authority Accounting Code there

Overview of our 2018/19 audit strategy

In addition to the risks outlined on the previous page we have identified three areas of audit focus.

Area of focus	Change from PY	Details
New accounting standards	New area of focus	For 2018/19 the Authority needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). In addition, the new standard relating to leases (IFRS 16) applies for 2019/20. The Authority needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.
Severance payment made to departing Chief Executive	New area of focus	The Chief Executive left the employment of the Authority at the end of September by mutual agreement and with a severance payment. The Authority needs to ensure that it has acted lawfully and reasonably.
Governance and financial arrangements of the Business Board	New area of focus	The Authority has established the Business Board to take on the role of the LEP and has now put in place a governance structure and an assurance framework. The Authority needs to ensure that these arrangements are appropriate.

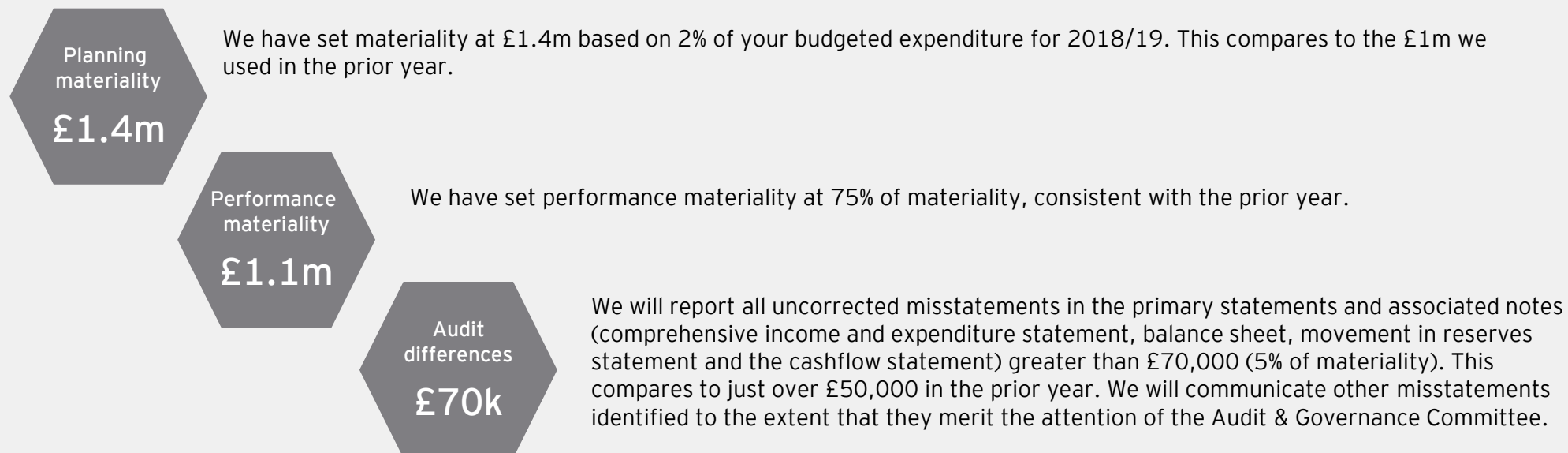
Value for money conclusion

For 2017/18 we concluded that the Authority had the relevant proper arrangements in place to secure effective use of its resources. However, we reported that in light of the relatively short time since the Authority was established, there were aspects of the Authority's arrangements that had only been put into place at the end of the financial year. For 2018/19 we will revisit those arrangements to seek assurance from the Authority that they are not only in place but also demonstrating the outcomes that they have been designed to deliver. We recognise this as a significant risk for the value for money conclusion.

In addition, we will consider two of the areas of focus outlined in the table above (the Severance payment and the governance arrangements of the Business Board) as part of our assessment of the Authority's proper arrangements to secure value for money.

Overview of our 2018/19 audit strategy

Materiality



The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Audit team

For 2018/19 Suresh Patel remains your Engagement Lead, as he has done since you were established. We have made a change to your Audit Manager due to some internal moves, with Melanie Richardson replacing Kay McClennon. Melanie has the same length of experience as Kay and currently manages the audits of local authorities in Cambridgeshire and Suffolk.

Overview of our 2018/19 audit strategy

Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of C&PCA give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.



02

Audit risks

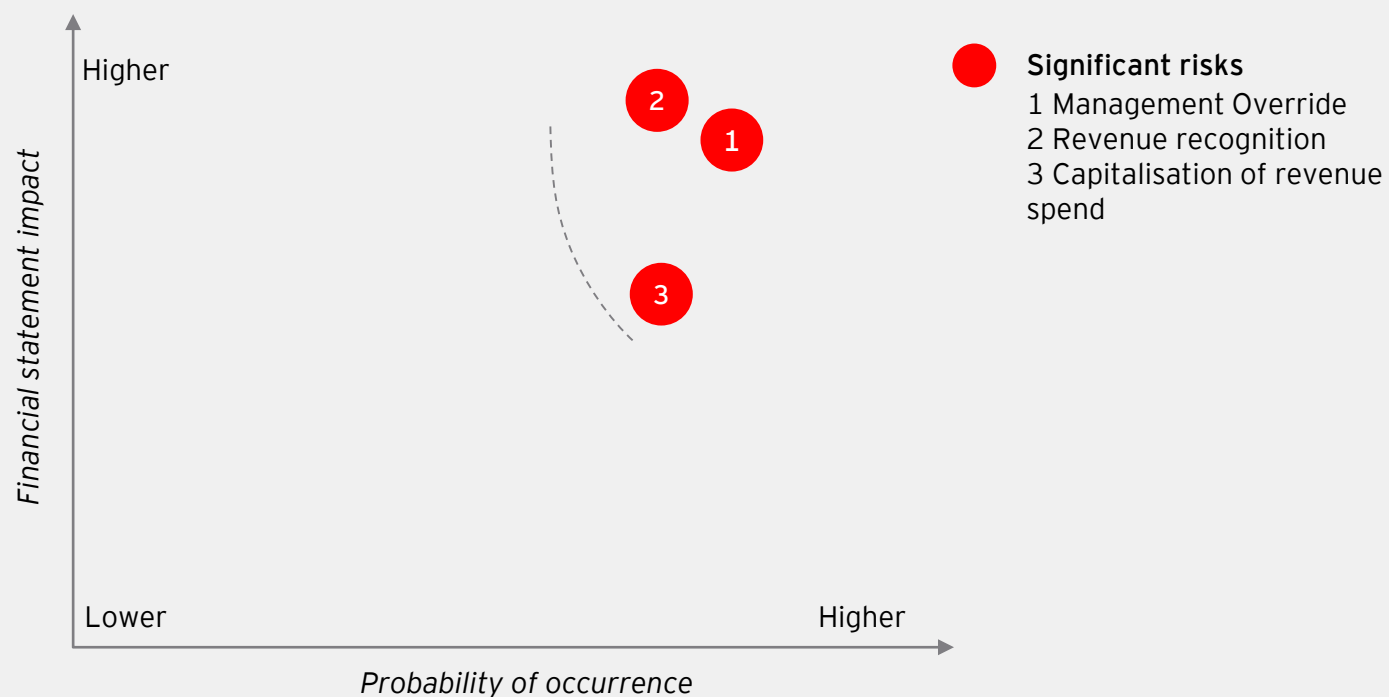


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016-17 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit for 2017-18.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Our response to significant risks

Management Override: Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

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.

For C&PCA, we have assessed that this risk could manifest in:

- The critical judgements made by management in the application of accounting policies.
- Management's assumptions made about the future and other areas of major uncertainty.

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Review critical judgements made by management in applying accounting policies.
- ▶ Assess management's assumptions made about the future regarding major sources of uncertainty.

Audit risks

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2017 financial statements:
Income: £40.5m
Expenditure Account: £0.5m

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

What will we do?

We will:

- Review and test revenue and expenditure recognition policies.
- Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Develop a testing strategy to test material revenue and expenditure streams.
- Review and test revenue cut-off at the period end date.

Incorrect capitalisation of revenue expenditure

What is the risk?

The Authority has received capital funding for transport initiatives. However, transport related projects are currently at the feasibility stage with no associated asset. As a result, this expenditure is likely to be accounted for as revenue.

There is a risk that the Authority will capitalise revenue expenditure inappropriately.

What will we do?

Our approach will focus on:

- ▶ Testing a sample of capital expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately capitalised.
- ▶ Verify that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code, and reflected appropriately in the Authority's Movement in Reserves Statement.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks or high inherent risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?	What will we do? We will...
<p><u>New accounting standards</u></p> <p>The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2019/20.</p> <ul style="list-style-type: none"> ▶ IFRS 9 - Financial instruments ▶ IFRS 15 - Revenue from contracts ▶ IFRS 16 - Leases [2019/20] <p>There is an inherent risk to implementing new accounting standards and carrying out a sufficient assessment and evaluation.</p>	<ul style="list-style-type: none"> • We will engage early with the Authority on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Authority's proposed accounting and disclosures. • If we need to undertake additional audit procedures on the Authority's assessments we will discuss with the Chief Financial Officer the impact on our audit fee.
<p><u>Severance payment to departing Chief Executive</u></p> <p>The Chief Executive left the employment of the Authority at the end of September by mutual agreement and a severance payment.</p> <p>Severance payments to senior officers attract a high profile and will need to be reported in the statement of accounts. The Authority needs to ensure it has acted lawfully and reasonably.</p>	<ul style="list-style-type: none"> • Request and review relevant information from the Authority's Monitoring Officer including legal advice and the rationale for the calculation and composition of the severance payment. • Review the proposed disclosure in the statement of accounts for 2018/19.
<p><u>Governance and financial arrangements of the Business Board</u></p> <p>The Business Board (TBB) was established on 1st April 2018, taking over from the former Greater Cambridge Greater Peterborough LEP. TBB is now responsible for all former LEP projects and programmes.</p> <p>In October it published its Assurance Framework aimed at demonstrating how TBB will use public money responsibly and transparently. Given the profile of the TBB and the level of funds within the TTB's remit, the Authority needs to ensure governance and financial arrangements are appropriate.</p>	<ul style="list-style-type: none"> • Through discussion and document review establish an understanding of the governance and financial management arrangements of TBB. • Understand the Authority's proposed disclosure of the TBB and its associated transactions in the 2018/19 statement of accounts.



03

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 2018/19 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.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this will include consideration of the steps taken by the Authority to consider the impact of UK's exit from the EU on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that local authorities will be carrying out scenario planning and that EU Exit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of one significant risk to our value for money conclusion which we outline on the next page.

We will continue to revisit this assessment as our audit progresses and update the Audit & Governance Committee of any changes.

Value for Money Risks

What is the significant value for money risk?

In 2017/18 we concluded that the Authority had proper arrangements in place to deliver value for money in its use of resources. However we reported that some of the arrangements were only formalised at the year-end. In addition, for 2018/19 the Authority needs to ensure that its arrangements include the responsibilities previously held by the LEP.

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, we have determined that by the 31 March 2019 there is a risk that not all the expected proper arrangements will be operating effectively throughout the year.

What arrangements does the risk affect?

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

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

What will we do?

We will undertake sufficient work to enable us to form our value for money conclusion. We will seek confirmation by the Authority of the arrangements it has in place to secure economy, efficiency and effectiveness in its use of resources. Our approach will focus on:

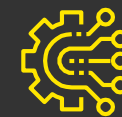
- Understanding the Authority's arrangements through discussion with key officers, reviewing key documents and minutes of relevant meetings;
- Specifically in relation to the Business Board we will gain an understanding of the relevant arrangements; and
- Reviewing any relevant internal audit work.

We will report our detailed findings in the Audit Results Report.



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team



Audit team

Audit team structure:

Suresh Patel
Lead Audit Partner

Melanie Richardson
Audit Manager

Bach Pham
Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team changes

Key changes to our team.

Melanie Richardson replaces Kay McClennon as Audit Manager and Bach Pham replaces Amalia Valdez Herrera as Senior.

- Both Melanie and Bach have significant public sector audit experience, with a portfolio of other local authorities.
- Melanie is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Bach is a Chartered Accountant (ACCA).



06

Audit timeline



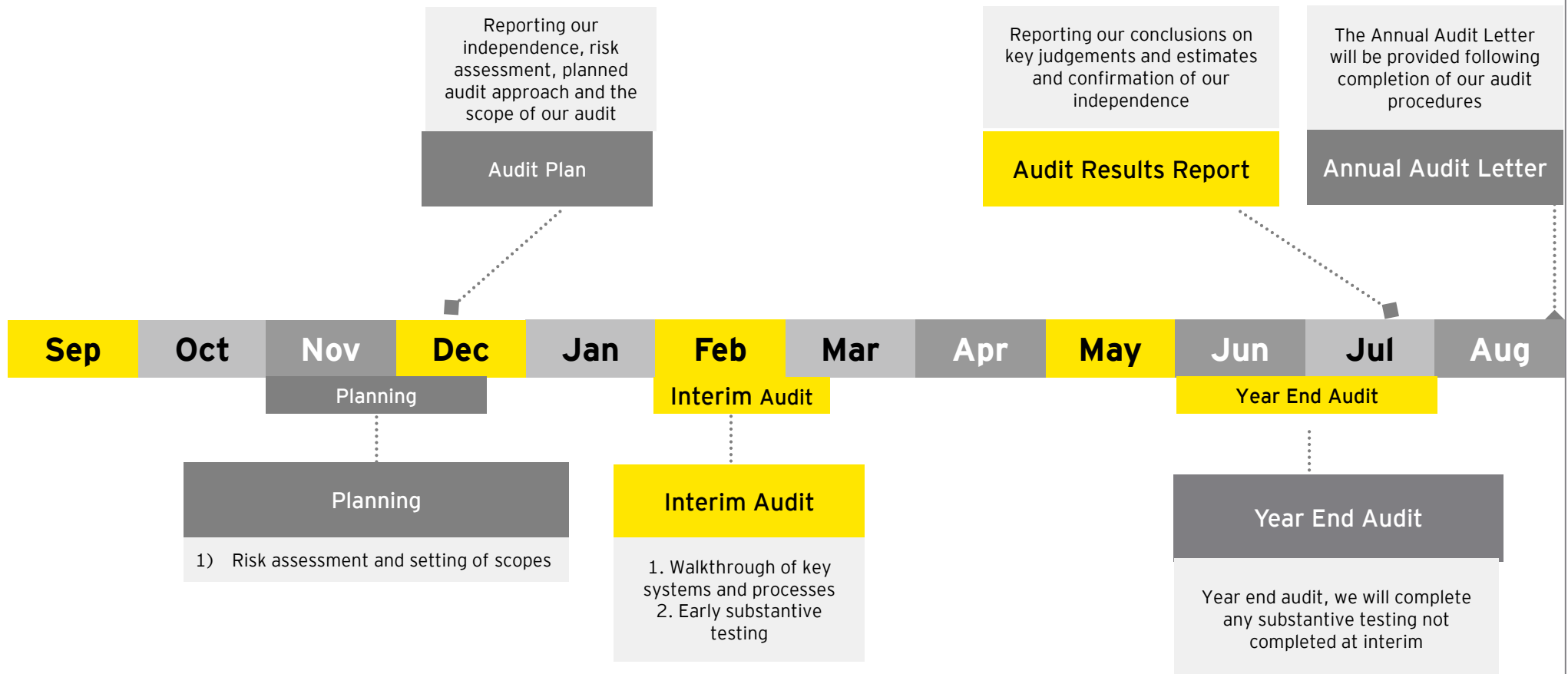


Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19. From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07

Fees



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Planned code work	26,950	26,950	35,000
Additional code work:			
- Capital accounting issues	Note 1		1,700
- VFM risks	1,500*	-	2,000
- CEO severance	1,000*	-	-
- The Business Board governance & financial arrangements review	Note 2	-	-
Total audit	TBC	26,950	38,700
Non-audit services	-	N/A	-

All fees exclude VAT

Note 1 - Dependent on the extent of capitalisation issues

Note 2 - Dependent on agreement with the CFO of the scope of the requirement

*** To be confirmed, agreed with the CFO and approved by PSAA.**

The agreed fee presented is based on the following assumptions:

- ▶ The level of risk in relation to the financial statements and VFM arrangements remains the same;
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

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