Cambridgeshire & Peterborough Combined Authority Audit Results Report

Year ended 31 March 2022

23 January 2024

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Building a better working world

Audit and Governance Committee
Cambridgeshire & Peterborough Combined Authority
2nd Floor
Pathfinder House
St Mary's Street
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23 January 2024

Dear Audit and Governance Committee Members

2021/22 Audit Results Report

We are pleased to attach our Audit Results Report summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Combined Authority's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on the Authority's Value for Money arrangements.

This report is intended solely for the information and use of the Audit and Governance Committee, other members of the Authority and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on the 26 January 2024.

Yours faithfully

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (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 and Governance Committee and management of Cambridgeshire and Peterborough Combined Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Cambridgeshire and 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 and Governance Committee and management of Cambridgeshire and 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 Initial Audit Plan, dated 18 January 2023, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: In our Initial Audit Plan, we communicated that our audit procedures would be performed using a materiality of £1.412 million. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £1.400 million. This results in updated performance materiality, at 50% of overall materiality, of £0.700 million, and an updated threshold for reporting misstatements of £0.070 million. For the Group audit, we have determined materiality to be £1.470 million, with performance materiality of £0.735 million and the threshold for reporting misstatements £0.73 million.
- Changes in Group Scope: In our Initial Audit Plan, we communicated that all components, with the exception of the Combined Authority single entity and Peterborough R&D Property Company Ltd, would be a review scope. Given the increased activity at some of these components, we have amended our group scope to also include Peterborough HE Property Company Ltd, Cambridgeshire and Peterborough Business Growth Company Ltd and One Cam Ltd as specific scope components, given they have material balances within their single entity accounts. We will perform additional procedures in respect of these balances and have engaged with component auditors where relevant.

Status of the audit

Our audit work in respect of the financial statement opinion is well progressed. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

Closing procedures:

- Subsequent events review and update to going concern procedures;
- Agreement of the final set of financial statements;
- Receipt of signed management representation letter; and
- Final Manager and Engagement Partner reviews.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**
  How the Authority plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
  How the Authority ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**
  How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

Our Value for Money (VFM) risk assessment remains in progress, given the ongoing work at the Combined Authority. As communicated in our Initial Audit Plan, we have identified a significant weakness in the Authority's arrangements, which we reported in a letter to the Authority's Chair of Audit & Governance Committee on the 1 June 2022. We believe this weakness is pervasive as it could lead to a significant impact on the quality or effectiveness of services or on its reputation and could expose the Authority to financial risk or loss.

We have completed our risk assessment upon review of the conclusion of work undertaken by the Authority. We have identified one additional weakness in arrangements during the 2021/22 financial year. Internal audit have noted "a lack of operational and financial performance reporting from the subsidiary companies to the CPCA, and a lack of oversight from the CPCA regarding the operations of its subsidiaries". We deem this to be indicative of a significant weakness in arrangements in this area.

We plan to issue our VFM commentary by the end of February 2024 as part of concluding the audit and issuing the Auditor's Annual Report. See Section 5 for more details on Value for Money procedures.

Executive Summary

Audit differences

Uncorrected differences

At the date of this report, we have identified the following audit differences which are yet to be adjusted by Management within revised financial statements.

1. **Comprehensive Income & Expenditure Statement – Expenditure –** We have identified differences totalling £0.004 million within our sample testing of expenditure. An extrapolation of this error across the full expenditure population indicates a projected misstatement of £0.155 million. Given this amount is not material, and is a projected, rather than factual, misstatement, management have not adjusted for this difference.

We request that a rationale as to why this difference is not corrected, be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation.

Corrected differences

At the date of our previous report, we had identified the following audit differences which are to be adjusted for by Management within the revised financial statements.

1. **Balance Sheet - Net Pension Liability** – The Authority requested a revised IAS19 Actuarial Report following the completion of the Pension Fund Triennial Valuation for 1 April 2022 (reported in March 2023). This resulted in a change in the Authority's Pension Liability at the 31 March 2022 balance sheet date, as a result of an update to assumptions underpinning the triennial valuation and their consequential impact on the Pension Liability at the 31 March 2022. Based on the revised report, the Net Pension Fund Liability was understated by £1.026 million.
2. **Balance Sheet – Cash & Short-Term Investments** – The Authority have classified £98.000 million as 'Short Term Cash Equivalents' within Cash and Cash Equivalents, on the basis that these mature within 3 months of the Balance Sheet date of 31 March 2022. However, IAS 7 states that this should be considered from the date of acquisition, rather than the balance sheet date. As a result, these balances should be held within the Balance Sheet as a Short-Term Investment. We have also revisited the classification of balances within the 20/21 Balance Sheet, and have confirmed that £33.000 million was incorrectly classified in the same way. Both of these adjustments will be reflected in the final Statement of Accounts.
3. **Comprehensive Income & Expenditure Statement – Income and Expenditure –** The Authority have incorrectly reflected recharges incurred on behalf of the Cambridgeshire and Peterborough Business Growth Company Limited on a gross basis, when these should have been netted off. This means that both Income & Expenditure are overstated by £0.672 million. This has no net impact on the expenditure position or the General Fund. Since the date of our original report, we have identified a further £0.070 million of recharges which also should have been netted off. The total overstatement of income and expenditure is therefore £0.742 million.

Since this date, we have also identified the following audit adjustments which are to be adjusted for by Management within the revised financial statements.

4. **Balance Sheet – Creditors –** The Authority had not accrued for additional monthly expenditure in respect of busway services. The total amount that had not been accrued was £0.499 million. This increases Short Term Creditors and reduces Usable Reserves by £0.499 million.
5. **Balance Sheet – Creditors –** The Authority had applied incorrect cut-off considerations for two REFCUS transactions, for £0.200 million and £0.287 million. These transactions net to a total impact of £0.087 million. Short Term Creditors and REFCUS is therefore understated by £0.087 million.

Executive Summary

Audit differences

Corrected differences (continued)

6. **Balance Sheet – Capital Grants Received in Advance –** The Authority have identified that expenditure on the King's Dyke Crossing Project had been funded from an incorrect capital grant. This had been funded by Capital Gain share however expenditure of this nature should have been funded from in year capital grants. As a result, Capital Grants Received in Advance is overstated, and Capital Grants Unapplied is understated, by £6.480 million.
7. **Balance Sheet – Investments –** The Authority have incorrectly considered an additional share subscription in Peterborough HE Property Company Limited as relating to 21/22, when this agreement became effective on 1 April 2022. Further differences in the value of the investments has been identified as a result of revisions to the subsidiary accounts. As a result, Short Term Creditors are overstated by £2.000 million, and Long Term Investments are overstated by £1.060 million. Net Cost of Services is also overstated by £0.226 million, and Financing & Investment Expenditure is overstated by £0.714 million.
8. **Group Accounts – Comprehensive Income and Expenditure Statement –** The Authority have incorrectly classified One Cam Ltd results within the Business and Skills service heading of the Group Accounts Comprehensive Income and Expenditure Statement. This should be classified, in line with previous years, under the Strategy and Delivery service heading. This increases net income of the Strategy and Delivery service heading, and reduces net income of the Business and Skills service heading, by £1.570 million. This has no net impact on Net Cost of Services.

We also identified a number of audit disclosure differences in the financial statements, which have been adjustment by Management.
The most significant of these are as follows:

- Adjustments to Note 6 Officers' Remuneration, to reflect findings in respect of Exit Packages, as fully explained on the subsequent page as part of our risk in respect of Accounting in Respect of Settlement Agreements.
- REFCUS expenditure of £2.302 million was misclassified within Note 12, and therefore total REFCUS expenditure within this note should be increased by £2.302 million.
- Adjustments to the Group Accounts in respect of the netting off of intercompany income and expenditure transactions.
- Adjustments to the Group Accounts required upon receipt of the revised, audited accounts of the subsidiary bodies.

Management intend to adjust for all of these misstatements.

We do not deem any of the remaining disclosure differences to be so significant as to require reporting to you.

Executive Summary

Areas of audit focus

In our Initial Audit Plan we identified a number of key areas of focus for our audit of the financial report of Cambridgeshire and Peterborough Combined Authority. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Management Override: Misstatements due to fraud or error

- *We have completed our work in this area and have identified one control weakness which is reported in Section 6.*

Management Override: Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)

- *We have completed our work in this area and have no matters to report.*

Significant Risk: Accounting in Respect of Settlement Agreements

- *We have completed our work in this area and have identified the following differences to report:*

The Authority had not included a further 5 Exit Package agreements, which had been fully agreed and paid within the financial year, as the Authority had incorrectly only recognised packages finalised post year-end in the original disclosure. This consisted of 2 packages between £0 - £19,000, 1 package between £20,000 - £39,999, 1 package between £40,000 – £59,999 and 1 package between £60,000 - £79,999. We also identified that the Council had used different bandings to those prescribed by the Code, as bandings should be presented in rising bands of £20,000. This has been adjusted in the revised Statement of Accounts, and was an error in the disclosure only.

Inherent Risk: Pension Liability Valuation & other Pension Disclosures

- *We have completed our work in this area and have identified a difference to report:*

The Council received a revised IAS19 Actuarial report as a result of the 2022 Triennial Valuation. This had the result of increasing the Authority's net Pension Liability by £1.026 million.

Inherent Risk: Group Consolidation

- *We have completed our work in this area and have identified the following differences to report:*

The Authority have incorrectly classified One Cam Ltd results within the Business and Skills service heading of the Group Accounts Comprehensive Income and Expenditure Statement. This should be classified, in line with previous years, under the Strategy and Delivery service heading. This increases net income of the Strategy and Delivery service heading, and reduces net income of the Business and Skills service heading, by £1.570 million. This has no net impact on Net Cost of Services.

We have also identified adjustments to the Group Accounts in respect of the netting off of intercompany income and expenditure transactions and adjustments to the Group Accounts required upon receipt of the revised, audited accounts of the subsidiary bodies. Management have corrected all misstatements.

Executive Summary

Areas of audit focus (Continued)

Inherent Risk: Recoverability of Long-Term Investment with subsidiary entities

- *We have completed our work in this area and have identified the following differences to report:*

The Authority have incorrectly considered an additional share subscription in Peterborough HE Property Company Limited as relating to 21/22, when this agreement became effective on 1 April 2022. Further differences in the value of the investments has been identified as a result of revisions to the subsidiary accounts. As a result, Short Term Creditors are overstated by £2.000 million, and Long Term Investments are overstated by £1.060 million. Net Cost of Services is also overstated by £0.226 million, and Financing & Investment Expenditure is overstated by £0.714 million.

Inherent Risk: Mayoral Allowance and Expenses

- *We have completed our work in this area and have no matters to report.*

Significant Risk (Group Accounts Only): Property, Plant and Equipment

- *We have completed our work in this area and have no matters to report.*

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

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

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 other matters to report as a result of this work.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Authority falls below the threshold (Threshold - £2 billion) for full procedures, so we will be able to submit an assurance statement verifying this position. We do not expect therefore to have any issues to report.

Independence

Please refer to Section 7 for our update on Independence.

Executive Summary

Control observations

During the audit of the financial statements, we did not identify any significant deficiencies in internal control. We have taken a wholly substantive approach to the audit.

However, we would like to draw your attention to the following issues identified through our audit:

- The Authority did not complete the CIPFA Disclosure Checklist at the time of accounts production and we believe that this would be a valuable closedown exercise to ensure that all the requirements are addressed within the draft financial statements.
- The Authority does not have any formal procedure in place for the authorisation of manual journals before they are posted to the General Ledger. This represents a level of weakness in the Council's overall control environment and increases the potential risk of Management Override.

As a result, we have raised recommendations in Section 6 of this report, alongside other matters identified through our Value for Money procedures.

02 Areas of Audit Focus

Significant risk

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.

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 did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Documented our understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Reviewed the accounting estimates for evidence of management bias.
- Evaluated the business rationale for significant unusual transactions

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

What are our conclusions?

Our audit procedures identified that the Authority does not have any formal procedure in place for the authorisation of journals before they are posted to the General Ledger. Whilst we have raised this as a control weakness, we have not identified any instances where this has lead to management override.

We did not identify any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.

We have no other matters to bring to your attention.

Significant risk

Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Reviewed capital additions in the year and confirmed these are not material;
- Sample tested REFCUS expenditure to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately treated as REFCUS; and
- Used our data analytics tool to identify and test journal entries that move expenditure from revenue codes into capital codes.

What are our conclusions?

Our sample testing of REFCUS expenditure found that they had been correctly classified as capital and included at the correct value.

Our sample testing did not identify any revenue items that were incorrectly classified as REFCUS.

Our data analytics procedures did not identify any inappropriate transactions in respect of the capitalisation of revenue expenditure through our journal entry testing work.

Significant risk

Accounting in respect of Settlement Agreements

What is the risk?

The Authority has agreed early in the 2022/23 financial year, a number of settlement agreements with Senior Officers as a result of the significant risk that we have identified as part of our Value for Money procedures (see Section 3).

The accounting treatment for these agreements needs to be in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and we need to assess the agreements, their impact on the 2021/22 financial statements and any associated disclosures.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Performed our testing of provisions in respect of Settlement Agreements to a lower testing threshold (£5,000);
- Reviewed the calculation of the provision on settlement agreements and compared this to any final payments made in respect of these provisions; and
- Reviewed other available information to ensure there are no other unrecorded liabilities.

What are our conclusions?

We have completed our testing procedures on Accounting in respect of Settlement Agreements. We identified two misstatements within this disclosure, which management will correct.

The Authority had not recognised a further 5 Exit Package agreements, which had been fully agreed and paid within the financial year, as the Authority had incorrectly only recognised packages finalised post year-end in the original disclosure. This consisted of 2 packages between £0 - £19,000, 1 package between £20,000 - £39,999, 1 package between £40,000 – £59,999 and 1 package between £60,000 - £79,999. We also identified that the Council had used different bandings to those prescribed by the Code, as bandings should be presented in rising bands of £20,000.

We have no other matters to report.

Areas of Audit Focus

Inherent risk

Pension Liability Valuation & other pension disclosures

What is the risk?

The Authority makes extensive disclosures within its financial statements regarding its membership of Cambridgeshire Pension Fund Scheme administered by Cambridgeshire County Council. At 31 March 2022 the liability totalled £3.8 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Cambridgeshire Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridgeshire and Peterborough Combined Authority;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19, considering Fund assets and the Authority's liability.

What are our conclusions?

We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have undertaken the work required without identifying any issues.

We have agreed the Authority's IAS 19 disclosures to the Actuaries' report to ensure these are fairly stated in the accounts.

The Cambridgeshire Pension Fund auditor highlighted an immaterial movement in the valuation of Investment Assets of the Pension Fund, in their assurance letter to us. This was already reflected in the draft accounts of Cambridgeshire & Peterborough Authority.

Subsequently, a national issue emerged in relation to the potential impact of the latest Pension Fund Triennial Valuation on the Pension Liability at the 31 March 2022. Management obtained a further updated IAS19 Report, which took into account the assumptions used within the Triennial Valuation process. We reviewed the underlying assumptions used within the Triennial Valuation report for reasonableness, and determined that the change in membership numbers was the driving factor. The assumptions used within the Triennial valuation approach had the impact of increasing the Authority's net Pension Liability by £1.026 million. Management have made this adjustment within the revised financial statements.

Inherent risk

Group Consolidation

What is the risk?

The Authority prepared group accounts for the first time in 2020/21. This included undertaking an assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities.

Given the complexity of the group structure, and an increase in activity at one of the subsidiaries, an inherent risk has been raised, to ensure that the consolidation process is performed accurately.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Reviewed the Authority's assessment of its Group boundary;
- Scoped the audit requirements for each of the companies based on their significance to the group accounts;
- Liaised with the external auditors and issued Group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- Evaluated any risks at component level on the Group accounts; and
- Audited the consolidation process and Group accounts.

What are our conclusions?

We have completed our procedures on this area. We have revisited the group scope at year-end. Given the increased activity at some of these components, we have amended our group scope to also include Peterborough HE Property Company Ltd, Cambridgeshire and Peterborough Business Growth Company Ltd and One Cam Ltd as specific scope components, given they have material balances within their single entity accounts. We have performed additional procedures in respect of these balances and have engaged with component auditors where relevant. As a result of these procedures, we have identified the following adjustments.

The Authority have incorrectly classified One Cam Ltd results within the Business and Skills service heading of the Group Accounts Comprehensive Income and Expenditure Statement. This should be classified, in line with previous years, under the Strategy and Delivery service heading. This increases net income of the Strategy and Delivery service heading, and reduces net income of the Business and Skills service heading, by £1.570 million. This has no net impact on Net Cost of Services.

We have also identified adjustments to the Group Accounts in respect of the netting off of intercompany income and expenditure transactions and adjustments to the Group Accounts required upon receipt of the revised, audited accounts of the subsidiary bodies.

Management have corrected all misstatements and we have no further matters to report.

Inherent risk

Recoverability of Long-Term Investment with subsidiary entities

What is the risk?

As at 31 March 2022 the Authority holds a Long-term Investment of £56.4 million in the Balance Sheet, which includes £45.7 million in relation to equity investments in subsidiary companies.

The current volatility in the housing market, in which a number of the subsidiaries operate, could have an impact on the Authority's ability to realise the value of these investments. Given the material size of the loan we have considered the recoverability of the loan as an inherent risk.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Reviewed the Authority's consideration about the recoverability of the Long-Term Investment;
- Tested the assumptions and sensitivities used in any calculation for impairment of the Investment; and
- Reviewed for adequacy and appropriateness any associated disclosures.

What are our conclusions?

We have concluded our work in this area. Based on our procedures, we have identified that the Authority have incorrectly considered an additional share subscription in Peterborough HE Property Company Limited as relating to 21/22, when this agreement became effective on 1 April 2022. Further differences in the value of the investments has been identified as a result of revisions to the subsidiary accounts. As a result, Short Term Creditors are overstated by £2.000 million, and Long Term Investments are overstated by £1.060 million. Net Cost of Services is also overstated by £0.226 million, and Financing & Investment Expenditure is overstated by £0.714 million.

We have no other matters to report.

Inherent risk

Mayoral Allowances and Expenses

What is the risk?

Mayoral expenses are disclosed as £567 within the 2021/22 financial statements. Linked to our VFM significant weakness (Section 03) and our lower materiality level for Remuneration related disclosures is a need to ensure the completeness and valuation of this disclosure.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Reviewed the outcome of any Internal Audit reviews into Mayoral Expenses; and
- Reviewed the composition of the disclosed expenditure and test the completeness and valuation of that account item.

What are our conclusions?

We have completed our procedures in respect of Mayoral Allowances and Expenses. As a result of our procedures, we have concluded that the disclosure of Mayoral Allowances and Expenses is in line with the requirements of the Code of Practice. We therefore have no matters to report.

Inherent risk

Property, Plant & Equipment (Group Accounts only)

What is the risk?

The Group Balance Sheet contains a material Property, Plant & Equipment Balance (£6.61 million), as a result of increased activity at one of the subsidiary companies.

We need to gain sufficient appropriate assurance over the completeness and valuation of this balance, through group instructions issued to the component auditor (Azets).

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Issued Group Instructions to the Component Auditor; and
- Reviewed the Component Auditor Reporting pack and authorised subsidiary entity financial statements.

What are our conclusions?

We have completed our testing procedures on Property, Plant and Equipment within the Group Accounts, and have not identified any issues with the valuation of Property, Plant and Equipment.

03 Audit Report

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Our proposed opinion on the financial statements

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

Opinion

We have audited the financial statements of Cambridgeshire and Peterborough Combined Authority ('the Authority' and its subsidiaries (the 'Group') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 33
- the related notes to the Group Accounts 1 to 4

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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:
- give a true and fair view of the financial position of Cambridgeshire and Peterborough Combined Authority and the Group as at 31 March 2022 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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. We are independent of the Group 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 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.

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Our proposed opinion on the financial statements

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Statement of Accounts 2021/22.

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.

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 course of 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 themselves. 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.

Audit Report – continued

DRAFT

Our proposed opinion on the financial statements

The below wording is subject to review by our Professional Practice.

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 Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and
- Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception.

Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in December 2021, we have identified the following significant weaknesses in the Group and the Authority/Council's arrangements for the year ended 31 March 2022.

Significant weaknesses in arrangements

We consider that there are significant weaknesses in the Authority's governance arrangements for the specific reasons set out below. As a result of these weaknesses, we are concerned that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services.

DRAFT

Our proposed opinion on the financial statements

The below wording is subject to review by our Professional Practice.

Our concerns are as follows:
- Investigations into key individuals in the Mayor's office following a whistleblower notification;
- Increased number of employment related claims against the Authority;
- Vacancies in the Authority's senior management team;
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistleblower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office.

As part of our initial audit procedures we held discussions with management and attended the Extraordinary Meeting of the Authority Board (both public and private session elements). Our further procedures included attendance at the Hearing Panel and a subsequent review of the Authority's Code of Conduct investigation.

The Authority is responsible for discharging the devolution deal, which was the award of a single pot of investment. This single pot for the Authority initially comprised of a devolved, multi-year transport settlement and an additional long-term investment fund grant, worth up to £600 million over 30 years. Other funding streams have since been secured, linking through to the overall strategic objectives make the Authority area a leading place in the world to live, learn and work.

There have been a number of employment related claims against the Authority, which have had a financial impact on the Authority, as well as causing instability within senior leadership of the Authority

Without appropriate leadership capacity with the requisite skills, knowledge and experience, there is significant doubt as to the Authority's ability to discharge its statutory obligations as set out in The Cambridgeshire and Peterborough Combined Authority Order 2017, Local Government Act 1999 and other relevant pertinent legislation.

To address these weaknesses the Authority would need to address the significant employee related matters emanating from the whistleblowing notification. The Authority also needs to be mindful of the impact that implementing these safeguarding actions has on the Senior Management employees taking those actions.

The Authority would also need to urgently ensure that it has sufficient appropriate leadership capacity to be able to deliver its objectives and statutory responsibilities.

Since the 2021/22 financial year, and our reporting of the significant weakness to the Chair of Audit & Governance Committee, steps have been undertaken to address the weakness for future financial years, including establishing a new Senior Management team, and the conclusion of the Code of Conduct investigation.

This issue is evidence of weaknesses in proper arrangements for governance.

DRAFT

Our proposed opinion on the financial statements

The below wording is subject to review by our Professional Practice.

We have also identified a significant weakness in respect of the oversight from the Authority over the operations of its subsidiaries. The Annual Internal Audit Report 2021/22 has identified that business plans have not been subject to regular review, and business plan actions are not specific or measurable.

The Authority has significant projects with subsidiary bodies and holds material investments with these bodies. There is therefore a risk that these bodies do not provide value for money, if not subject to suitable oversight from the Authority.

The Authority will therefore need to ensure that there is sufficient oversight of subsidiary bodies including appropriate reporting from these bodies to the Authority.

This issue is evidence of weaknesses in proper arrangements for improving economy, efficiency and effectiveness.

We will report the outcome of our work on the Group and the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any further matters which we are required to report by exception.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 13, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Group 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Group and 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 Group and the Authority either intends to cease operations, or has 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.

DRAFT

Our proposed opinion on the financial statements

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- The Cambridgeshire and Peterborough Combined Authority Order 2017
- Local Government Act 1972,
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Cambridgeshire and Peterborough Combined Authority is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit, the Audit and Governance Committee as those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, policies and procedures, and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

DRAFT

Our proposed opinion on the financial statements

We assessed the susceptibility of the Group and the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were accounted for appropriately.

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 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether the Cambridgeshire and Peterborough Combined Authority had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Cambridgeshire and Peterborough Combined Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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 and 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 (as amended) to satisfy ourselves that the Authority has made 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.

DRAFT

Our proposed opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Cambridgeshire and Peterborough Combined Authority. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) 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 and Peterborough Combined Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) 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.

04 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 unadjusted differences

At the date of this report, we have identified the following audit differences which are yet to be adjusted by Management within revised financial statements.

1. **Comprehensive Income & Expenditure Statement – Expenditure –** We have identified differences totalling £0.004 million within our sample testing of expenditure. An extrapolation of this error across the full expenditure population indicates a projected misstatement of £0.155 million. Given this amount is not material, and is a projected, rather than factual, misstatement, management have not adjusted for this difference.

We request that a rationale as to why this difference is not corrected, be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation.

Audit Differences

Summary of adjusted differences

We highlight misstatements greater than £70,000 which have been corrected by management that were identified during the course of our audit.

1. **Balance Sheet - Net Pension Liability** – The Authority requested a revised IAS19 Actuarial Report following the completion of the Pension Fund Triennial Valuation for 1 April 2022 (reported in March 2023). This resulted in a change in the Authority's Pension Liability at the 31 March 2022 balance sheet date, as a result of an update to assumptions underpinning the triennial valuation and their consequential impact on the Pension Liability at the 31 March 2022. This was predominantly driven by changes in membership data, over which we currently await assurance through the work of the auditor of Cambridgeshire Pension Fund. Based on the revised report, the Net Pension Fund Liability was understated by £1.026 million.
2. **Balance Sheet – Cash & Short-Term Investments** – The Authority have classified £98.000 million as 'Short Term Cash Equivalents' within Cash and Cash Equivalents, on the basis that these mature within 3 months of the Balance Sheet date of 31 March 2022. However, IAS 7 states that this should be considered from the date of acquisition, rather than the balance sheet date. As a result, these balances should be held within the Balance Sheet as a Short-Term Investment. We have also revisited the classification of balances within the 20/21 Balance Sheet, and have confirmed that £33.000 million was incorrectly classified in the same way. Both of these adjustments will be reflected in the final Statement of Accounts.
3. **Comprehensive Income & Expenditure Statement – Income and Expenditure –** The Authority have incorrectly reflected recharges incurred on behalf of the Cambridgeshire and Peterborough Business Growth Company Limited on a gross basis, when these should have been netted off. This means that both Income & Expenditure are overstated by £0.742 million. This has no net impact on the expenditure position or the General Fund.
4. **Balance Sheet – Creditors –** The Authority had not accrued for additional monthly expenditure in respect of busway services. The total amount that had not been accrued was £0.499 million. This increases Short Term Creditors and reduces Usable Reserves by £0.499 million.
5. **Balance Sheet – Creditors –** The Authority had applied incorrect cut-off considerations for two REFCUS transactions, for £0.200 million and £0.287 million. These transactions net to a total impact of £0.087 million. Short Term Creditors and REFCUS is therefore understated by £0.087 million.
6. **Balance Sheet – Capital Grants Received in Advance –** The Authority have identified that expenditure on the King's Dyke Crossing Project had been funded from an incorrect capital grant. This had been funded by Capital Gain share however expenditure of this nature should have been funded from in year capital grants. As a result, Capital Grants Received in Advance is overstated, and Capital Grants Unapplied is understated, by £6.480 million.
7. **Balance Sheet – Investments –** The Authority have incorrectly considered an additional share subscription in Peterborough HE Property Company Limited as relating to 21/22, when this agreement became effective on 1 April 2022. Further differences in the value of the investments has been identified as a result of revisions to the subsidiary accounts. As a result, Short Term Creditors are overstated by £2.000 million, and Long Term Investments are overstated by £1.060 million. Net Cost of Services is also overstated by £0.226 million, and Financing & Investment Expenditure is overstated by £0.714 million.
8. **Group Accounts – Comprehensive Income and Expenditure Statement –** The Authority have incorrectly classified One Cam Ltd results within the Business and Skills service heading of the Group Accounts Comprehensive Income and Expenditure Statement. This should be classified, in line with previous years, under the Strategy and Delivery service heading. This increases net income of the Strategy and Delivery service heading, and reduces net income of the Business and Skills service heading, by £1.570 million. This has no net impact on Net Cost of Services.

Audit Differences

Summary of adjusted differences

Disclosure Differences

We also identified a number of audit disclosure differences in the financial statements, which have been adjustment by Management.

The most significant of these are as follows:

- Adjustments to Note 6 Officers' Remuneration, to reflect findings in respect of Exit Packages, as fully explained on the subsequent page as part of our risk in respect of Accounting in Respect of Settlement Agreements.
- REFCUS expenditure of £2.302 million was misclassified within Note 12, and therefore total REFCUS expenditure within this note should be increased by £2.302 million.
- Adjustments to the Group Accounts in respect of the netting off of intercompany income and expenditure transactions.
- Adjustments to the Group Accounts required upon receipt of the revised, audited accounts of the subsidiary bodies.

Management intend to adjust for all of these misstatements.

We do not deem any of the remaining disclosure differences to be so significant as to require reporting to you.

05 Value for Money

Value for money

The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

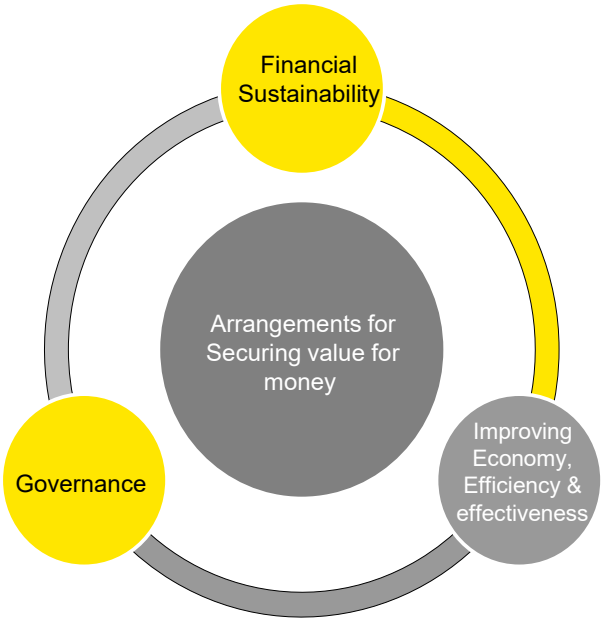
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We identified a significant weakness in the Authority's arrangements, which we reported in a letter to the Authority's Chair of Audit & Governance Committee on the 1 June 2022. This was also communicated in our Initial Audit Plan dated 18 January 2023.

We have now completed our overall VFM risk planning, and identified one further significant weakness in the Authority's arrangements. Internal audit have noted "a lack of operational and financial performance reporting from the subsidiary companies to the CPCA, and a lack of oversight from the CPCA regarding the operations of its subsidiaries". We deem this to be indicative of a significant weakness in arrangements in this area.

The following pages set out the identified risks and responses from the Authority to date.



Identified risks of significant weakness

Our audit work for the financial year ended 31 March 2022 has identified a significant weakness in Cambridgeshire & Peterborough Combined Authority's (the Authority) governance arrangements. We consider this weakness is pervasive as it could lead to a significant impact on the quality or effectiveness of services or on its reputation and could expose the Authority to financial risk or loss.

Governance – How the Authority ensures that it makes informed decisions and properly manages its risks

Judgement on the nature of the significant weakness identified

We consider that there are significant weaknesses in the Authority's governance arrangements for the specific reasons set out below. As a result of these weaknesses, we are concerned that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services

Our concerns are as follows:

- Investigations into key individuals in the Mayor's office following a whistleblower notification;
- Increased number of employment related claims against the Authority;
- Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022;
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistleblower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office.

The evidence reviewed on which our view is based

As part of our audit procedures performed to date, we have held discussions with management, attended the Extraordinary Meeting of the Authority Board (both public and private session elements) and reviewed relevant documentation.

The possible future impact on the Authority

The Authority is responsible for discharging the devolution deal, which was the award of a single pot of investment. This single pot for the Authority initially comprised of a devolved, multi-year transport settlement and an additional long-term investment fund grant, worth up to £600 million over 30 years.
Other funding streams have since been secured, linking through to the overall strategic objectives make the Authority area a leading place in the world to live, learn and work.

Identified risks of significant weakness

Risk as communicated in our Initial Audit Plan, dated 18 January 2023

The Authority Board has considered and agreed a settlement package for the current Chief Executive, who is expected to leave her post on the 31 May 2022. There is the potential for further employment related risks against the Authority, which pose a significant financial risk, given the specific project-based funding nature of the Authority's business, and its ability to service any revenue based financial obligations outside of these projects.

These risks equally have the potential to significantly impact the Authority's senior leadership capacity, which is already undermined by previous resignations and unfilled vacancies at Management Team Level. The Authority could find itself without incumbents to statutory officer posts as from the 1 July 2022, without immediate and urgent action, and even with such action, one would have to question the nature of such appointments at short notice.

Without appropriate leadership capacity with the requisite skills, knowledge and experience, there is significant doubt as to the Authority's ability to discharge its statutory obligations as set out in The Cambridgeshire and Peterborough Combined Authority Order 2017, Local Government Act 1999 and other relevant pertinent legislation.

The action required by the Authority to address the significant governance weakness

Addressing the significant employee related matters emanating from the whistleblowing notification and ensuring that all Authority employees are appropriately safeguarded is of paramount importance. The Authority also needs to be mindful of the impact that implementing these safeguarding actions has on the Senior Management employees taking those actions.

However, the Authority needs to urgently ensure that it has sufficient appropriate leadership capacity to be able to deliver its objectives and statutory responsibilities. In order to do so, we believe more formal intervention is required, and expeditious discussions with the Authority's sponsoring department to this end are time critical.

These actions would support the Authority in achieving value for money through appropriate governance arrangements and safeguard the future delivery of services.

Other audit reporting considerations

Without fettering our future discretion, we will, alongside our work on VFM arrangements, continue to review how the Authority responds to our concerns and the significant weaknesses set out in this letter. Depending on the action taken by the Authority to address our concerns, we may consider the need for us to discharge our other statutory responsibilities in relation to:

1. Section 24 and Schedule 7 of the 2014 Act which provide that a local auditor should consider whether, in the public interest, they should report on any matter that comes to their notice during the course of the audit, so that it may be formally considered by the body concerned or brought to the public's attention.

2. Written recommendations – the auditor should consider whether to use the powers Schedule 7 of the Act provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly.

Identified risks of significant weakness

Improving economy, efficiency and effectiveness - How the body uses information about its costs and performance to improve the way it manages and delivers services

Judgement on the nature of the significant weakness identified

We have also identified a significant weakness in respect of the oversight from the Authority over the operations of its subsidiaries.

The evidence reviewed on which our view is based

The Annual Internal Audit Report 2021/22 has identified that business plans have not been subject to regular review, and business plan actions are not specific or measurable. There is therefore insufficient oversight from the Authority over the operations of subsidiaries.

The possible future impact on the Authority

The Authority has significant projects with subsidiary bodies and holds material investments with these bodies. There is therefore a risk that these bodies do not provide value for money, if not subject to suitable oversight from the Authority.

The action required by the Authority to address the significant governance weakness

The Authority will therefore need to ensure that there is sufficient oversight of subsidiary bodies including appropriate reporting from these bodies to the Authority.

These actions would support the Authority in achieving value for money through appropriate arrangements around improving economy, efficiency and effectiveness and safeguard the future delivery of services.

Authority response to the significant weaknesses identified

Since the letter to the Authority's Chair of Audit & Governance Committee issued on the 1 June 2022, the Authority has taken steps to address the recommendations raised. Whilst this remains an iterative process, and the Authority understands that there are further improvements to be made, the response to these recommendations, and our related audit procedures, are set out below.

- Following receipt of the letter an Improvement programme was agreed by the Board in October 2022. On receipt of the Best Value Notice in January 2023 the Improvement programme was refreshed to address these concerns. The Improvement Plan and progress made to date has been subject to Internal Audit reporting, with Reasonable Assurance provided by RSM in their report dated 9 November 2023 that the controls the Authority uses to manage and monitor the Improvement Plan are suitably designed, consistently applied and effective.

- Vacancies within the Senior Management Team have largely remained filled by experienced individuals with the knowledge to address the issues the Authority has faced. We note that there is still an element of instability within the Senior Management Team, as not all individuals are employed permanently, and there has been turnover during this period, however the Authority has worked to ensure sufficient skills and expertise is in place to fill these roles.

- The Authority has concluded on a Member's Code of Conduct investigation, relating to events during the 20/21 financial year and onwards, on the 27 September 2023. On the 14 November 2023, a Hearing Panel, as a sub-committee of the Audit & Governance committee, was held. Representatives from the EY Audit Team & Forensics Team were in attendance for this meeting.

- A Decision Notice from this meeting was published on 22 November 2023, which set out the findings from the Hearing Panel. EY were provided with the full investigation reports on the 7 December 2023.

- EY Forensics have reviewed the investigation reports, and as a result we are comfortable that an appropriate independent investigation has been undertaken with appropriate findings.

06 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 Narrative Report with the audited financial statements. Financial information in the Narrative Report and published with the financial statements was consistent with the audited financial statements, subject to completion of our final audit procedures.

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. 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.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As the Authority falls below the £2 billion threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule. We are able to submit the require Assurance Statement to the NAO confirming this. We therefore have no matters to report to you.

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 have not received any formal questions or objections to the Authority's financial statements, following the required Inspection Period.

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 and have not had course to use this duty.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

Expected modifications to the audit report

Our Audit Report will be modified to include information on the significant weaknesses identified in respect of Value for Money. A copy of our proposed Audit Report wording is included in Section 03 of this report, with further details of our Value for Money procedures included in Section 05 of this report.

Consideration of laws and regulations

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations. As the whistleblowing allegations included suspected non-compliance with laws and regulations, additional procedures have been required to reach a suitable conclusion on the matter.

Alongside the work to support our final Value for Money conclusion, EY Forensics have performed procedures to determine whether there is evidence of any non-compliance with relevant laws and regulations. Following EY Forensics review of the independent Code of Conduct investigation, we have not identified any evidence of non-compliance with laws and regulations.

We have, however, raised recommendations in respect of our Value for Money reporting where we have identified significant weaknesses in the arrangements of the Authority. These are set out in Section 05 of this report.

Other reporting issues

Other matters

Significant matters arising from the audit that were discussed with management

We would like to draw your attention to the following issues identified through our audit:

- The Authority did not complete the CIPFA Disclosure Checklist at the time of accounts production and we believe that this would be a valuable closedown exercise to ensure that all the requirements are addressed within the draft financial statements.

- The Authority does not have any formal procedure in place for the authorisation of manual journals before they are posted to the General Ledger. This represents a level of weakness in the Council's overall control environment and increases the potential risk of Management Override.

As a result, we have raised the following recommendations:

1. We recommend that the Authority prepares a full CIPFA Disclosure Checklist, as part of its closedown procedures, in advance of publishing future draft Statement of Accounts, to demonstrate that the Statement of Accounts are compliant with the CIPFA Code of Practice.

2. We recommend that the Authority initiates a control to authorise journals before they are posted to the General Ledger.

07 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Authority, and its members and senior management and its affiliates, including all services provided by us and our network to the Authority, its members 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 1st April 2021 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
The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Audit and Governance Committee. 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. We confirm that we have not undertaken any non-audit work.

Other communications

EY Transparency Report 2023
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023: EY UK 2023 Transparency Report | EY UK

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£'s	£'s	£'s
Total Fee – Code work	37,855	26,950	26,950
Determined Scale Fee Variation - Note 1	TBC		30,362
Revised Proposed Scale Fee	**TBC**	26,950	**57,312**
Additional work:			
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 2)	49,408	-	-
Additional Procedures required in response to the additional risks identified in in 2021/22 and set out in this Audit Results Report, in respect of: • Accounting in respect of Settlement Agreements, Group Consolidation, Recoverability of Long-Term Investment with subsidiary entities, Mayoral Allowance and Expenses, Property, Plant & Equipment (Group Only)	Note 3	-	-
Additional Procedures required due to lower materiality levels in 2021/22	Note 3	-	-
Additional Procedures required to address the Value for Money risk of significant weakness	Note 3	-	-
Total fees	**TBC**	26,950	**57,312**

All fees exclude VAT

Note 1 - PSAA Ltd determined the Fee Variation for 2020/21 in October 2022.

Note 2 - For 2020/21 we proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in previous Audit Results Reports. For 2021/22 the scale fee has again been re-assessed to take into account the same recurring risk factors and is subject to determination by PSAA Ltd.

Note 3 - As set out in this report, we have had to perform additional audit procedures to respond to the associated audit risks and audit adjustments identified. As we are concluding our work in relation to these areas, we cannot quantify the fee impact at this time. We will provide an update on the additional fee implications at the conclusion of the audit and report this within the Auditor's Annual Report.

08 Appendices

Appendix A

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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 and Governance 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.	Initial Audit Plan - 18 January 2023 - Audit and Governance Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Initial Audit Plan - 18 January 2023 - Audit and Governance Committee
Significant findings from the audit	▸ 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	Initial Audit Plan - 18 January 2023 - Audit and Governance Committee

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC 2024
Subsequent events	▸ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ 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 entity, any identified or suspected fraud involving: 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 the Audit and Governance Committee responsibility.	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC 2024
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ 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 entity	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC January 2024
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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	Initial Audit Plan - 18 January 2023 - Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC January 2024

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Independence (continued)	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee
Consideration of laws and regulations	▸ 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 and Governance 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 and Governance Committee may be aware of	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC 2024
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Initial Audit Plan - 18 January 2023 - Audit and Governance Committee Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC 2024
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC January 2024

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – 6 November 2023 – Audit and Governance Committee Audit Results Report – 26 January 2024 – Audit and Governance Committee Auditor's Annual Report – TBC January 2024
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – 6 November 2023 – Audit and Governance Committee Auditor's Annual Report – TBC 2024

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Final Manager and Partner review	EY to conclude the final review procedures in relation to the latest information received from Management	EY
Receipt of management representation letter	Management to prepare and provide us with their representation letter for the 2021/22 audit	Management
Subsequent events procedures	Extension of some audit procedures like review of minutes and testing for unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited. A draft of the current opinion (with outstanding areas highlighted) is included in Section 3.

Appendix C – Request for a Management Representation Letter

Request for a Management Representation Letter

[To be prepared on the entity's letterhead]
[Date]

Janet Dawson
Partner

Ernst & Young
1 More London Place
SE1 2AF
London

This letter of representations is provided in connection with your audit of the consolidated and authority financial statements of Cambridgeshire and Peterborough Combined Authority ("the Group and [Council/Authority]") for the year ended 31 March 2022. 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 consolidated and Authority financial statements give a true and fair view of the Group and Authority financial position of *Cambridgeshire and Peterborough Combined Authority* as of 31 March 2022 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Authority, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We understand that the purpose of your audit of our consolidated and Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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, for the Group and for the Authority, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

2. We acknowledge, as members of management of the Group and Authority, our responsibility for the fair presentation of the consolidated and /Authority financial statements. We believe the consolidated and Authority 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 Group and the Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets

(November 2022) and are free of material misstatements, including omissions. We have approved the consolidated and Authority financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.

4. As members of management of the Group and Authority, we believe that the Group and Authority have 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 202122 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) for the Group and the that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and [Council/Authority] financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

6. We confirm the Group and /Authority does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible for determining that the Group and Authority's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Authority] financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Authority (regardless of the source or form and including, without limitation, 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 consolidated or 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

Appendix C – Request for a Management Representation Letter

Request for a Management Representation Letter

may be fundamental to the operations of the Group or 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 all material transactions, events and conditions are reflected in the consolidated and Authority financial statements[, including those related to the COVID-19 pandemic and including those related to the conflict can related sanction in Ukraine, Russia and Belarus.
3. We have made available to you all minutes of the meetings of the Group, Board and Audit and Governance (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: *[list date]*
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority's related parties 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 year 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 consolidated and Authority financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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6. We have disclosed to you, and the Group and Authority has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and /Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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 consolidated and Authority 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.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the consolidated and Authority financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note *34* to the consolidated and Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and Authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note 1.5to the consolidated and Authority financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Authority financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Authority, subsidiary undertakings

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Appendix C – Request for a Management Representation Letter

Request for a Management Representation Letter

and associated undertakings.

H. 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.

Reserves

1. We have properly recorded or disclosed in the consolidated and Authority financial statements the useable and unusable reserves.

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Authority financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Estimates

- Pension Liability Valuation
- Provisions
- Property, Plant and Equipment Valuation (within the Group)

1. We confirm that the significant judgments made in making the *above accounting estimates* have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the above accounting estimates.

3. We confirm that the significant assumptions used in making the above accounting estimates appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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5. We confirm that appropriate specialized skills or expertise has been applied in making the above accounting estimates.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

_____

(Chief Financial Officer/Finance Director)

_____

(Chairman of the Audit Committee)

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Appendix D

Implementation of IFRS 16 Leases

In previous reports to the Audit and Governance Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Authority until 1 April 2024. However, officers should be acting now to assess the Authority's leasing positions and secure the required information to ensure the Authority will be fully compliant with the 2024/25 Code. The following table summarises some key areas officers should be progressing.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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ED None

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