Cambridgeshire & Peterborough Combined Authority

Initial Audit Plan

Year ended 31 March 2022

18 January 2023

EY
Building a better working world

Audit & Governance Committee
Cambridgeshire & Peterborough Combined Authority
2nd Floor,
Pathfinder House,
St Mary's Street,
Huntingdon
PE29 3TN

18 January 2023

Dear Audit & Governance Committee Members

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Cambridgeshire & Peterborough Combined Authority, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 27 January 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

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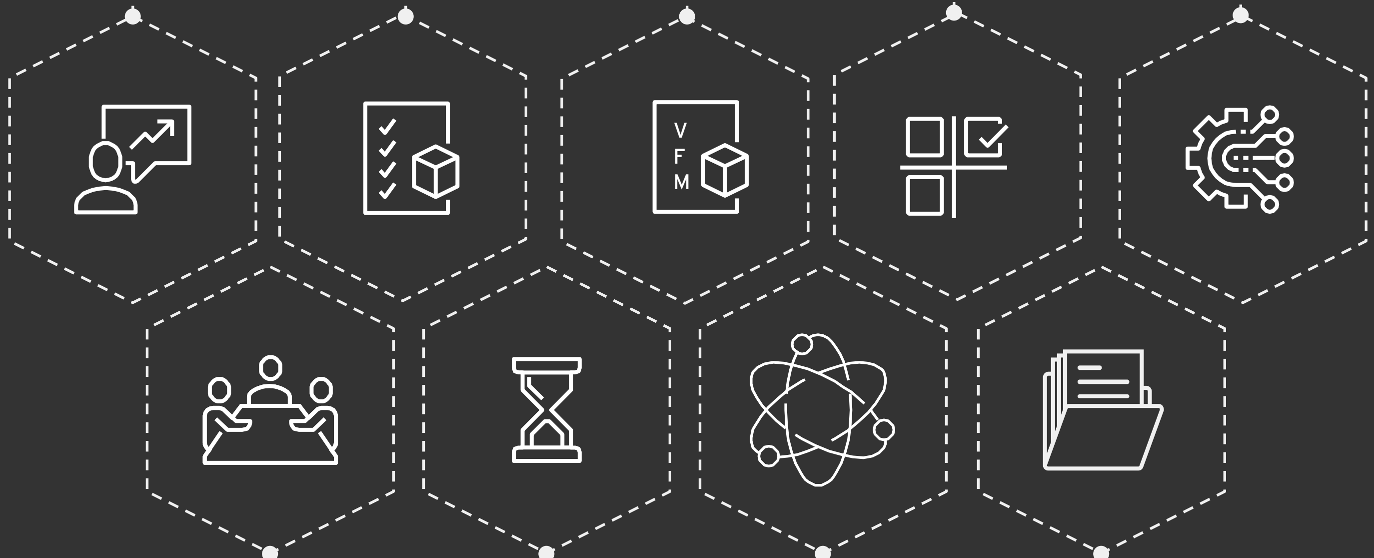
Contents



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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy – Single Entity (Authority)

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

Audit risks and areas of focus – Single Entity

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.
Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud risk	No change in risk or focus	The Authority has a revenue budget it needs to operate within. Manipulating expenditure is a key way to achieve this objective. We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.
Accounting in respect of Settlement Agreements	Significant Risk	New risk in 2020/21	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.

Overview of our 2021/22 audit strategy – Single Entity (Authority)

Audit risks and areas of focus - Single Entity			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Group Consolidation	Inherent Risk	No change in risk or focus	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.
Pension Valuation and Other Disclosures	Inherent Risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2022 this totalled £3.8 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Recoverability of Long-Term Investment with subsidiary entities	Inherent Risk	New risk in 2021/22	As at 31 March 2022 the Authority holds a Long-term Investment of £56.4 million in the Balance Sheet in relation to the loans issued to subsidiary companies. The loans are repayable over a number of differing period ends. 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 recover the loan in full. Given the material size of the loan we have considered the recoverability of the loan as an inherent risk.
Mayoral Allowance and Expenses	Inherent Risk	New Risk in 2021/22	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.

Overview of our 2021/22 audit strategy - Group

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

Audit risks and areas of focus - GROUP

Risk / area of focus	Risk identified	Change from PY	Details
Property, Plant & Equipment	Inherent Risk	New Risk in 2020/21	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).

Overview of our 2021/22 audit strategy

Materiality – Single Entity (Authority)

Planning materiality

£1.412m

Materiality has been set at £1.412 million, for both the audit of the Authority and the group, which represents 1% of the gross expenditure on provision of services. Group Planning Materiality has been set at £1.448 million.

Performance materiality

£0.706m

Performance materiality has been set at £0.706 million, which represents 50% of materiality.

Audit differences

£0.071m

We will report all uncorrected misstatements relating to the primary statements (Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Cash Flow and Statement) greater than £71,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Governance Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including Member & Mayoral allowances: we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts. We have set materiality at £5,000 for this category; and
- Related party transactions: we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Materiality – Group

We have also set an overall materiality and performance materiality level for the Group Accounts, which have been calculated as follows:

- Group Planning Materiality has been set at £1.448 million, based on the same basis as above for the Single Entity – Authority.
- Group Performance Materiality is £0.724 million as a result, following the same basis as above for the Single Entity – Authority.

Overview of our 2021/22 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Cambridgeshire & Peterborough Combined Authority give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards. When planning the audit we take into account several key inputs:

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Cambridgeshire & Peterborough Combined Authority's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Audit scope

Designation of the audit as close monitoring

The Cambridgeshire & Peterborough Combined Authority audit has been designated as close monitoring by EY in 2021/22 due to the following risk factors:

- The identification and reporting of a significant weaknesses in arrangements relating to Value for Money, and their potential to be pervasive in nature to the underlying control environment at the Authority (See VFM Section 03). This has attracted significant scrutiny from the Authority's sponsoring department.

Audit Response

- Allocate an Equity Partner as Engagement Lead, with support from a Senior Manager and Manager;
- Allocate an Equity Partner as an Engagement Quality Reviewer;
- Identification of specific risk areas and the areas where we need to engage relevant EY specialists to support the engagement team; and
- Reduce our planning materiality and tolerable error level for the audit to 1% of gross revenue expenditure and 50% of planning materiality respectively.

Communication with Those Charged with Governance

- We will communicate to those charged with governance any significant changes to our audit strategy since our communication about risk factors that led to or contributed to the close monitoring designation, and the reasons for those changes; and
- We will also communicate any new risk factors we identify and consider significant that warrant the attention of those charged with governance.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Authority has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Authority's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Authority's arrangements against three reporting criteria:
  - 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.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.
- We have already issued a letter to the Authority's Chair of the Audit & Governance Committee setting out a significant weakness in the Authority's arrangements for Value for Money. Section 03 contains further details.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for 2021/22.

We supported the Authority in ensuring that appropriate wording was published by the date set out above, setting out the rationale for the audit not having commenced. In Section 07 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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 will we do?

In order to address this risk we will carry out a range of procedures including:

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
  - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
  - Assessing accounting estimates for evidence of management bias, and
  - Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required, as set out on the following page.

Our response to significant risks

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

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

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 will we do?

In order to address this risk we will carry out a range of procedures including:

- Obtaining an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewing the descriptions to identify whether there are any potential items that could be revenue in nature; and
- Sample test Property, Plant and Equipment additions, and REFCUS additions, if material, to ensure that the expenditure incurred and capitalised is clearly capital in nature or appropriate to be treated as REFCUS.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.

Our response to significant risks

Accounting in respect of Settlement Agreements

Financial statement impact

There is a risk that the Authority do not correctly record all of its liabilities at the Balance Sheet date or that they may be incorrectly classified in line with the requirements of IAS 37.

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 will we do?

In order to address this risk we will carry out a range of procedures including:

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

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Pension Liability Valuation & other pension disclosures 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.	In order to address this risk we will carry out a range of procedures including: ▸ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridgeshire & Peterborough Combined Authority; ▸ Assess 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 ▸ Review and test 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.
Group Consolidation 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.	In order to address this risk we will carry out a range of procedures including: ▸ Review the Authority's assessment of its group boundary; ▸ Consider the need to liaise with the component auditors to understand any risks that they are recognising; ▸ Evaluate any risks at component level on the group accounts; ▸ Issue instructions to the component auditors we intend to place reliance on; and ▸ Audit the consolidation process and group accounts.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Recoverability of Long-Term Investment with subsidiary entities As at 31 March 2022 the Authority holds a Long-term Investment of £56.4 million in the Balance Sheet in relation to the loans issued to subsidiary companies. The loans are repayable over a number of differing period ends. 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 recover the loan in full. Given the material size of the loan we have considered the recoverability of the loan as an inherent risk.	In order to address this risk we will carry out a range of procedures including: ▸ Review the Authority's consideration about the recoverability of the Long-Term Investment; ▸ Test the assumptions and sensitivities used in any calculation for impairment of the Investment; and ▸ Review for adequacy and appropriateness any associated disclosures.
Mayoral Allowance and Expenses 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.	In order to address this risk we will carry out a range of procedures including: ▸ Review the outcome of any Internal Audit reviews into Mayoral Expenses; ▸ Review the composition of the disclosed expenditure and test the completeness and valuation of that account item.

Our response to significant risks – Group Accounts

Property, Plant & Equipment

(Group Accounts only)

Financial statement impact

The fair value of Property, Plant and Equipment (PPE) represent a material balances in the Group Accounts and are subject to valuation changes, impairment reviews.

Management at each of the Subsidiary Entities are required to make judgemental inputs and apply estimation techniques to calculate the year-end balances within the Subsidiary Entities, which are then recorded in the Group Balance Sheet.

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 will we do?

In order to address this risk we will carry out a range of procedures including:

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

03 Value for Money Risks

Value for Money

Authority's responsibilities for value for money

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.

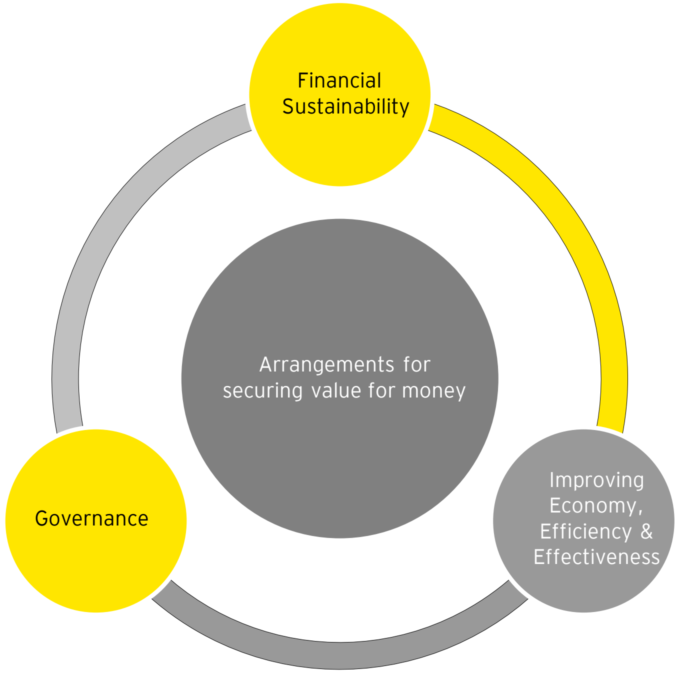
As part of the material published with the financial statements, the Authority is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice 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 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.
- 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.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statement;
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit & Governance committee.

Reporting on VFM

Where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM risk planning.

However, 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. The content of the letter is set out on the following pages.

We will complete our overall VFM risk planning as part of our procedures and review the Authority's response to our letter. The identification of significant weakness in arrangements will lead us to report by exception within our audit report, at the conclusion of our audit.

Value for Money

Identified risks of significant weakness

We have commenced our audit work for the financial year ended 31 March 2022 and have identified a significant weakness in Cambridgeshire & Peterborough Combined Authority's (the Authority) governance arrangements. 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.

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.

Value for Money

Identified risks of significant weakness

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.

<u>The action required by the Authority to address the significant governance weakness</u>

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.

<u>Other audit reporting considerations</u>

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.

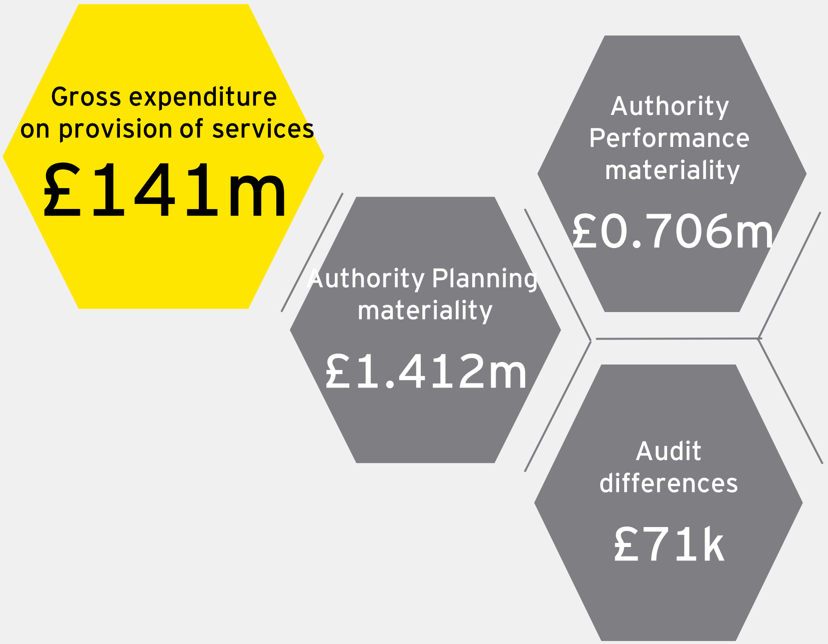
04 Audit materiality

Audit materiality

Materiality – Single Entity Authority

Materiality

For planning purposes, materiality for 2021/22 has been set at £1.412 million. This represents 1% of the Authority's gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Authority's accounts. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.706 million which represents 50% of planning materiality, This reflects the relatively higher level of risk associated with the audit in 2021/22 as a result of the identified VFM Significant weakness and the impact on the Authority's control environment as set out on page 10 of this plan.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Governance committee, or are important from a qualitative perspective.

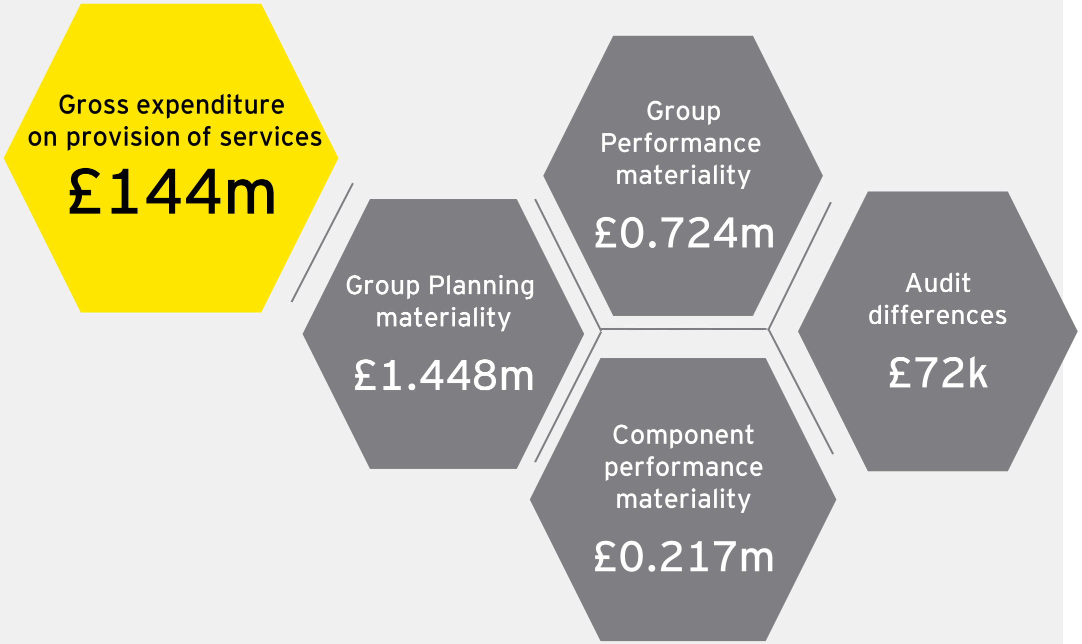
Specific materiality – We have set a materiality threshold of £5,000 for related party transactions and £1,000 for Mayoral and Members' allowances and expenses. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would not influence the economic decisions of users of the financial statements in relation to these disclosures.

Audit materiality

Materiality – Group

Materiality

For planning purposes, materiality for 2021/22 has been set at £1.448 million. This represents 1% of the Group's gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Group's accounts. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.724 million which represents 50% of planning materiality. This reflects the relatively higher level of risk associated with the audit in 2021/22 as a result of the identified VFM Significant weakness and the impact on the Authority's control environment as set out on page 10 of this plan.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group – this being 15% of Group Planning Materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Governance committee, or are important from a qualitative perspective.

Materiality

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

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including Member allowances: we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

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

As outlined in Section 03, 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 and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements. There is one entity that meets this criteria (Peterborough R&D Property Company Ltd)
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures. There are 7 such components which meet this criteria.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those entity's. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix A.

1	A	Full scope audit - Cambridgeshire & Peterborough Combined Authority
1	B	Specific scope audits - Peterborough R&D Property Company Ltd
7	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: Entities where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: Entities where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: Entities where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: Entities where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those component entity's that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scope of our audit

Group scoping coverage

At the time of writing this report we are awaiting further information to be able to conclude on our group scoping.

However, based on our discussions with management and the provided scope assessment by the Authority, and knowledge from the 2020/21 audit we anticipate:

- Performing specific scope procedures, via the component auditor, under Group Instructions, for the significant balance that is consolidated (Property, Plant & Equipment).
- Performing our own analytical procedures in respect of specific balances each of the 7 component entities.

We will update the Committee if there are any changes to our scoping coverage throughout the audit.

Details of specified procedures

We are performing specified procedures over the Property, Plant & Equipment balance reported within the Group Accounts.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below where we should need to rely on the work of a component auditor.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

At present, we are intending to rely on the work of the component auditor (Azets) for the specified procedures over the Property, Plant & Equipment balance, as above.

06 Audit team

Audit team

Audit team structure:

Janet Dawson
Audit Partner

Mark Hodgson
Audit Partner

Dan Cooke
Senior Audit Manager

Jacob McHugh
Audit Manager

Claire Sulam
Senior

PwC (consulting actuary) and EY Actuaries

Working together with the Authority

The Audit Team reflects the safeguards that we have put in place, following the designation for the audit as 'close monitoring'. Details are set out on page 10 of this plan.

We are working together with officers to identify continuing improvements in communication and processes for the 2021/22 audit.

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

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Actuaries Hymans Robertson – Actuary to Cambridgeshire Pension Fund

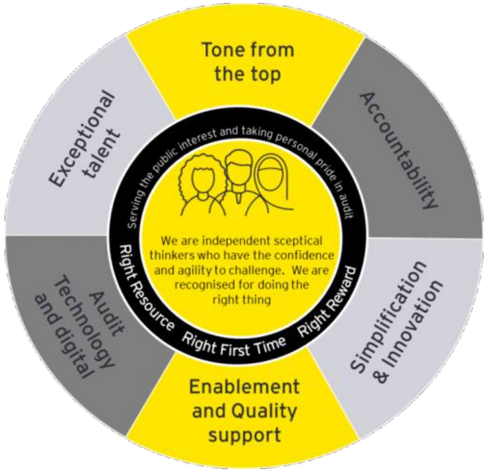
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

<u>2021 Audit Culture Survey result</u>
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Audit & Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Our audit timeline has been deferred from our planned timeline. The Authority did not publish its draft financial statements by the 31 July 2022. The Authority published its draft financial statements on the 30 November 2022 – 4 months after the due date. This was also after our planned date for commencing the audit at the end of October 2022. Given our commitments to other Authority's and our working approach to all of audited bodies, as the Authority were not able to service the audit at the planned time, the audit was deferred in line with those working arrangements communicated to the Chief Finance Officer.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	**January – March 2023**	Audit & Governance Committee	Initial Audit Plan
Walkthrough of key systems and processes	**April – August 2023**		
Year end audit	**April - August 2023**		
Year end audit Audit Completion procedures	**September 2023**	Audit & Governance Committee	Audit Results Report Audit opinion and completion certificates
Audit conclusion	**October – December 2023**		Auditor's Annual Report

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson and Mark Hodgson, your audit engagement partners and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we have an investment in the Authority; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. We do not plan to perform any non-audit work. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other communications

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2022

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 2022: https://www.ey.com/en_uk/about-us/transparency-report-2022.

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final Fee 2020/21
	£'s	£'s
Total Fee – Code work	26,950	26,950
Determined Scale Fee Variation - Note 1	-	30,362
Baseline increase in Scale Fee from 2019/20 – Note 2	49,408 (Note 1)	N/A
Additional Work from 2021/22 – Note 3	(Note 2)	N/A
Total audit	TBC	57,312

All fees exclude VAT

Note 1 – PSAA Ltd determined the final 2020/21 Audit Fee in October 2022.

Note 2 - The 2021/22 Code work includes an additional fee of £49,408 and will be uplifted for 2021/22 price increases. This relates to uplifts to the base scale fee, as communicated during our 2019/20 and 2020/21 audits.

Note 3 - For 2021/22, the scale fee will be impacted by a range of factors which will result in additional work, specifically in relation to the identification of the significant weakness in Value for Money arrangements and the resultant impact on the audit risk level, designation as close monitoring and reductions in Planning Materiality and Performance Materiality as a result of that designation and safeguards to the audit. See Section 2 and 3 of this report for further areas that are likely to lead to additional fees.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

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

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

Appendix B

Required communications with the Audit & Governance Committee

We have detailed the communications that we must provide to the Audit & Governance Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit & 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
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, January 2023 meeting of the Audit & 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	Audit Results Report, September 2023 meeting of the Audit & Governance Committee; and Auditor's Annual Report, November 2023

Required communications with the Audit & Governance Committee (continued)

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 ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report - September 2023 - Audit & 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 - September 2023 - Audit & Governance Committee
Subsequent events	▸ Enquiries of the Audit & Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report - September 2023 - Audit & Governance Committee
Fraud	▸ Enquiries of the Audit & 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 Audit & Governance Committee responsibility	Audit Results Report - September 2023 - Audit & Governance Committee

Appendix B

Required communications with the Audit & Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 - September 2023 - Audit & Governance Committee
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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Initial Audit Plan - January 2023 - Audit & Governance Committee; and Audit Results Report - September 2023 - Audit & Governance Committee
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - September 2023 - Audit & 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 & 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 & Governance Committee may be aware of	Audit Results Report - September 2023 - Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report - September 2023 - Audit & Governance Committee
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 - January 2023 - Audit & Governance Committee; and Audit Results Report - September 2023 - Audit & Governance Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September 2023 - Audit & Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September 2023 - Audit & Governance Committee
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - September 2023 - Audit & Governance Committee Auditor's Annual Report - November 2023
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Initial Audit Plan - January 2023 - Audit & Governance Committee; and Audit Results Report - September 2023 - Audit & Governance Committee
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Initial Audit Plan - January 2023 - Audit & Governance Committee; Audit Results Report - September 2023 - Audit & Governance Committee Auditor's Annual Report – November 2023

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit & Governance Committee. The audit does not relieve management or the Audit & Governance Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Authority's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit & Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▶ Examining and reporting on the consistency of consolidation schedules or returns with the Authority's audited financial statements for the relevant reporting period (WGA Return).
Other procedures	▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

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