CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

AUDIT & GOVERNANCE COMMITTEE

Monday, 26 June 2017

10:00a.m. – 12:00noon

Forli Room, Peterborough City Council, Town Hall, Bridge Street, Peterborough, PE1 1HQ

AGENDA

No	Agenda Item	Leader / Chief Officer	Papers	Page
	Part 1- Business Items			
1.1	Introductions, Apologies and Declarations of Interests (to include initial skills analysis)		Oral	
1.2	Appointment of Vice-Chair	Chair	Oral	
1.3	Terms of Reference	John Harrison	yes	3-6
	Part 2 – Audit and Governance Committee induction			
2.1	Internal Audit Plan – Overview and Future Plans	Steve Crabtree	yes	7-30
2.2	Work Programme	John Harrison	yes	31-33
	Part 3 – Items for Approval			
3.1	Statement of Accounts	John Harrison	yes	34-91
3.2	External Audit Plan 2016/17	Suresh Patel, Ernst & Young	yes	92-110

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

No	Agenda Item	Leader / Chief Officer	Papers	Page
	Part 4 – Date of next meeting **Date: Thursday 21 September at 10.00 am** **Venue- TBC**			

The Audit and Governance Committee currently comprises the following members:

Independent Person and Chair:
John Pye

Councillors:
Councillor Barry Chapman, Huntingdonshire District Council
Councillor Andrew Fraser, South Cambridgeshire District Council
Councillor Harrison, Cambridgeshire County Council
Councillor Chris Morris, East Cambridgeshire District Council
Councillor Chris Seaton, Fenland District Council
Councillor David Seaton, Peterborough City Council
Councillor Richard Robertson, Cambridge City Council

The Combined Authority is committed to open government and members of the public are welcome to attend Audit and Governance Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens.

For more information about this meeting, please contact Anne Gardiner at anne.gardiner@peterborough.gov.uk

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 1.3
26 June 2017	**PUBLIC REPORT**

TITLE: TERMS OF REFERENCE

1 PURPOSE

1.1 To note the terms of reference of the Audit and Governance Committee, as set out in the Constitution of the Cambridgeshire and Peterborough Combined Authority.

DECISION REQUIRED
FROM: John Harrison, Interim Chief Finance Officer
Lead Officer: John Harrison, Interim Chief Finance Officer
Author: Jon Alsop, Accountant
RECOMMENDATIONS For members to note the terms of reference of the Audit and Governance Committee.

2 BACKGROUND

2.1 The Terms of Reference of the Cambridgeshire and Peterborough Combined Authority (CPCA) Audit and Governance Committee are included within Chapter 9 of the CPCA Constitution.

2.2 The CPCA Constitution was approved by the Combined Authority Board on 26th April 2017.

3 MAIN ISSUES

Terms of Reference

3.1 The Audit and Governance Committee shall:

Accounts

3.2 Approve the annual statement of accounts;

Governance

3.3 Review corporate governance arrangements against the Code of Corporate Governance and the good governance framework;

3.4 Review the Annual Governance Statement prior to approval to ensure it properly reflects the risk environment and supporting assurances;

3.5 Annually review the assurance framework to ensure it adequately addresses risks and priorities including governance arrangements of significant partnerships;

3.6 Monitor the Authority's risk and performance management arrangements including reviewing the risk register, progress with mitigating actions and assurances;

3.7 Monitor the anti-fraud and whistle blowing policies and the complaint process;

Internal Audit

3.8 Provide assurances over the effectiveness of internal audit functions and assuring the internal control environments of key partners;

3.9 Review internal audit requirements undertaken by the Combined Authority;

3.10 Approve the internal audit plan;

3.11 Consider reports and assurances from the Chief Finance Officer in relation to:

(a) Internal Audit performance;
(b) Annual Assurance Opinion on the adequacy and effectiveness of the framework of governance, risk management and control;
(c) Risk management and assurance mapping arrangement;
(d) Progress to implement recommendations including concerns or where managers have accepted risks that the Authority may find unacceptable.

External Audit

3.12 Review the annual accounts;

3.13 Consider the annual external audit of the Combined Authority's accounts, including the Annual Audit Letter and assessing the implications and monitoring managers' response to concerns;

Financial Reporting

3.14 Consider whether accounting policies were appropriately followed and any need to report concerns to the Combined Authority Board;

3.15 Consider any issues arising from External Auditor's audit of the accounts;

3.16 Ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice;

3.17 Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and standards of conduct and make recommendations to the Chief Finance Officer and Monitoring Officer where necessary;

Code of Conduct

3.18 Ensure the Combined Authority has effective policies and processes in place to ensure high standards of conduct by its Members and Co-opted Members;

3.19 Assisting the Members and Co-opted Members to observe the Code of Conduct;

3.20 Advising the Combined Authority on the adoption or revision of the Code of Conduct and monitor its operation;

3.21 Advising on training and overseeing the effectiveness of any training for Members and Co-opted Members on matters relating to the Code of Conduct;

General

3.22 Report and make recommendations to the Combined Authority in relation to the above.

4 FINANCIAL IMPLICATIONS

4.1 None

5 LEGAL IMPLICATION

5.1 None

6 EQUALITIES IMPLICATION

6.1 None specific

7 **APPENDICES**

7.1 None

Source Documents	**Location**
Cambridgeshire and Peterborough Combined Authority Constitution	cmis.cambridgeshire.gov.uk/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/698/Committee/42/Default.aspx

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 2.1
	PUBLIC REPORT

INTERNAL AUDIT: OVERVIEW AND FUTURE PLANS

1. PURPOSE

1.1. Internal Audit look to provide assurance to the Audit and Governance Committee that activities undertaken across the Combined Authority are appropriately managed, monitored and delivered in accordance with set governance, controls and risk management frameworks. This report sets out how Internal Audit will look to support the Committee.

1.2. One element of this support is through the Annual Audit Plan. The Public Sector Internal Audit Standards states that a risk based plan of Internal Audit activity should be prepared to support an annual opinion on the effectiveness of the Authority's systems of governance; risk management and internal control. The Public Sector Internal Audit Standards emphasises the need for a strong working relationship between Internal Audit and the Audit Committee which should include arrangements for Audit Committee to "review and assess the annual internal audit work plan".

DECISION REQUIRED
FROM: John Harrison, Interim Chief Finance Officer
Lead Officer: John Harrison, Interim Chief Finance Officer
Author: Steve Crabtree, Chief Internal Auditor, Peterborough City Council
RECOMMENDATIONS For members to note the development of the internal audit plan for 2017/18.

2. BACKGROUND

2.1. As a new Committee, this report is looking to provide an overview of the Internal Audit function and to form views of potential audit activities for the future.

3. MAIN ISSUES

3.1. Overview of Internal Audit

3.1.1. In order to provide a brief understanding of Internal Audit, attached at Appendix 1 is an extract from Peterborough City Council's Audit Committee Handbook which has been used for a number of years to allow engagement and understanding as to the dynamics and workings of an Audit Committee as membership changes. The various sections have been excluded from the initial document, as they are unique to Peterborough, however the general context remains the same.

3.2. Internal Audit Coverage

3.2.1. The main purpose of this report is to advise Audit and Governance Committee of the development of the 2017 / 2018 Internal Audit Plan for the Combined Authority to facilitate Member input to the planning process by reporting on the approach, key characteristics and proposed audits. The Internal Audit Standards include the development of the annual plan which should:

- Outline the audit areas to focus in the year
- Their respective priorities and estimated resource requirements; and
- Differentiate between audit and other work

3.2.2. The scale of ongoing change throughout the year means that from an Internal Audit perspective there is a need for a flexible approach to audit planning and assurance work. There will be a need for assurance over key aspects of transition as well as assurance over cover strategies, systems and processes and the Combined Authority systems of governance, risk management and control.

3.2.3. Planning for the emergent audit plan will be informed by:

- Transition plans and risk registers;
- Combined Authority priorities;
- Budgets and financial plans;
- Reports to the Board and its Committees.

Where systems used by the Combined Authority are those of Constituent Authorities (e.g. Peterborough City Council's finance system), they will be covered by the Constituent Authority's own internal audit review with assurance given from them to the Combined Authority. Hence there will be no need to duplicate work.

3.2.4. The approach for 2017 / 2018 will include phases of support and assurance to reflect the needs of the authority with the outline emergent plan of activity as follows:

- Assurance over governance arrangements adopted
- Review of emergent policies and procedures
- Assurance / certification of any grant claims

3.2.5. Future year plans will focus more on the key themes, their associated projects and the delivery of the outcomes.

3.2.6. A draft plan is set out in Appendix 2 based on current known factors.

3.2.7. To support the Committee throughout the year, the audit plan will be regularly reported through to the Committee. The proposals are to:

- Assignments: A written report will be issued by the Chief Internal Auditor following the conclusion of internal audit assignments. The report will include audit findings and recommendations and management responses to them.

- Progress reports: Throughout the year, the Chief Internal Auditor will report to Audit Committee on progress with delivery against the plan including any necessary changes; findings and assurances from specific audits including any significant control issues identified; and progress made to implement recommendations from previous audit reports.

- Annual Audit Opinion: The Chief Internal Auditor will submit an annual report to Audit Committee which contains their annual assurance opinion and the out turn report against the annual plan. This report summarises audit assignments carried out in the year and assurances provided; reports achievement against the annual plan; and gives an assurance opinion on the adequacy and effectiveness of the internal control system which informs the Authority's Annual Governance Statement.

3.2.8. While Internal Audit's annual plan provides essential independent assurance over governance, risk management and internal control arrangements other sources of assurance include:

- Member assurance from committee review, scrutiny and approval of key decisions, policies, governance arrangements;
- Management assurance through day to day management review and self-assessment of governance arrangements and financial controls;
- Assurances obtained by financial, legal, Human Resources, procurement and other officers across the Combined Authority; and
- Reports of External Audit and Inspectors.

4. FINANCIAL IMPLICATIONS

4.1. The internal audit element of the approved total audit budget for 2017/18 is £5,000.

5. LEGAL IMPLICATION

5.1. The Combined Authority in conjunction with the s151 Officer are expected to put in place appropriate plans and arrangements to manage and oversee their affairs.

6. EQUALITIES IMPLICATION

6.1. None.

7. APPENDICES

Appendix 1: Extract from Audit Committee Handbook (Peterborough)

Appendix 2: Draft Emergent Audit Plan

Source Documents	**Location**
Included as part of the Appendices	Attached

CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

AUDIT COMMITTEE HANDBOOK

June 2016

Edition 6.0

CONTENTS

AUDIT COMMITTEE BRIEFING PAPERS (CIPFA)		Released
1	The Audit Plan	Jan 2010
2	Annual Governance Statement	May 2010
3	Countering Fraud	Oct 2010
4	Strategic Risk Management	Jan 2011
5	Understanding Final Accounts	May 2011
6	Partnerships	Oct 2011
7	Assurance Planning	Feb 2012
8	Commissioning and Procurement	June 2012
9	Value for Money	Feb 2012
10	Public Sector Internal Standards	March 2013
11	Local Audit and Accountability Bill	July 2013
12	Audit Committee Guidance	Nov 2013
13	Audit Plans	March 2014
14	External Audit Quality and Assurance	July 2014
15	Risk of Fraud and Corruption	Dec 2014
16	Audit Committee Chairing	March 2015
17	Reviewing Financial Statements	June 2015
18	Improving Effectiveness	Nov 2015
19	Governance Framework and Appointing Local Auditors	March 2016

EDITION	PRODUCED / REVISED	TO AUDIT COMMITTEE (Members)	LEAD
1	January 2008	June 2008	Steve Crabtree
2	December 2009	June 2009	Steve Crabtree
3	May 2011	June 2011	Steve Crabtree
4	May 2012	June 2012	Steve Crabtree
5	May 2014	June 2014	Steve Crabtree
6	June 2016		Steve Crabtree

PRINCIPLES

1. WHY DOES AN AUDIT COMMITTEE EXIST IN PETERBOROUGH?

1.1 Although legislation does not require Peterborough City Council (PCC) to have an Audit Committee, PCC is required:

- "***to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk***" (Accounts & Audit Regulations, 2011, Section 4).

- "***to make arrangements for the proper administration of its financial affairs***". (Local Government Act 1972, Section 151).

The Corporate Director (Resources) is key to discharging these requirements.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance in October 2005 which provided a practical guide to authorities in the development of committees to suit their needs whilst adhering to fundamental principles particularly concerning governance and the review of the effectiveness of its internal control arrangements.

1.3 The Audit Committee is an essential element of good governance. Good governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

1.4 An effective Audit Committee can assist in raising the profile and importance of internal control, risk management and financial reporting arrangements within PCC. It can also act as a forum for the discussion of issues raised by Internal and External Audit.

2. WHAT DOES THE AUDIT COMMITTEE DO?

2.1 Until guidance was issued by CIPFA in October 2005, and adopted by PCC in May 2006, PCC did not have a dedicated Audit Committee. Any audit related items were channelled through the Cabinet and Scrutiny functions.

2.2 The main focus of the previous work related to internal financial control matters, such as the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The importance of that financial scrutiny has certainly not diminished, but there is now an expectation of a wider focus by the Audit Committee. Following the update of the Constitution and agreement at

Council, the Audit Committee expanded to include issues around Member standards. **This Handbook at present only makes reference to this as part of the Terms of Reference** (**Appendix A**).

2.3 The Audit Committee's primary role is to review and conclude upon the adequacy and effective operation of PCC's overall internal control system. In performing that role the Committee's work will predominantly focus upon the framework of risks, controls and related assurances that underpin the delivery of PCC's objectives (the Assurance Framework). As a result the Committee has a pivotal role to play in reviewing the disclosure statements that flow from PCC's assurance processes. **Appendix B** details the Assurance Framework adopted. In particular it covers the Annual Governance Statement (AGS), included in the Statement of Accounts, and relevant declarations by key officers of the authority.

2.4 It is the Council's responsibility to establish and maintain processes for governance as part of its Constitution. The Audit Committee independently monitors, reviews and reports on the processes of governance and, where appropriate, facilitates and supports, through its independence, the attainment of effective processes.

3. WHAT ARE THE BENEFITS OF AN AUDIT COMMITTEE?

3.1 Audit Committees bring to PCC the following benefits:-

- Reduces the risks of illegal or improper acts;
- Reinforces the importance and independence of Internal and External Audit; and
- Increases confidence in the objectivity and fairness of financial reporting.

3.2 Stricter internal control and the establishment of an Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will: -

- Give additional assurance through independent and objective review; and
- Raise awareness of the need for internal control and the implementation of audit recommendations.

4. WHERE SHOULD THE AUDIT COMMITTEE BEGIN ITS WORK?

4.1 The Committee needs to gain a clear understanding of the broad framework of governance in PCC, particularly with regard to what other committees are doing. The starting point for this is to ensure that the overall process for governance is established and operating. To this the Committee should use the Assurance Framework as its central tool for planning its work. To rely on this, the Committee needs to spend time ensuring that the Assurance Framework provides a complete coverage of PCC, at strategic level, and that the listing out of controls and assurances within it are reasonable.

4.2 The Committee can then concentrate on the high risk areas, either where the inherent risk is high and the level of dependency upon the operation of controls is critical, or where the residual risk is high and the situation needs monitoring.

4.3 The Committee should then use both management and auditors to give it assurance that the way of managing risks is effective. This will mean gaining assurance, in a number of formats, that the controls are effective and the risk acceptable, or else that action plans are in place and being implemented.

5. WHAT AREAS OF WORK ARE TO BE CONSIDERED?

5.1 Potential areas of interest for an Audit Committee:-

<u>Internal Control and Corporate Governance</u>

- Reviewing PCC's system of internal control;
- Evaluating the control environment;
- Assessing PCC's risk management strategy and procedures;
- Evaluating the decision-making processes; and
- Reviewing assurances given in the Annual Governance Statement.

<u>Internal Audit</u>

- Reviewing the Internal Audit strategy and plan;
- Receiving the Internal Audit progress reports;
- Assessing effectiveness of Internal Audit;
- Holding discussions with Internal Audit; and
- Reviewing the Internal Audit annual report.

<u>External Audit</u>

- Reviewing the External Audit strategy and plan;
- Assessing effectiveness and independence of External Audit;
- Holding discussions with External Audit; and
- Reviewing the External Audit management letters

Contract Regulations and Financial Regulations

- Reviewing changes made to the regulations;
- Examining the circumstances associated with each occasion when contract regulations are waived; and
- Reviewing the Scheme of Delegation.

Corporate Fraud

- Evaluating the Team's compliance with best practice and CIPFA guidance;
- Reviewing the Councils conduct in the receipt and handling of whistleblowing disclosures;
- Reviewing other anti fraud and governance policies and procedures; and
- Receiving corporate fraud progress reports.

Final Accounts

- Scrutinising the statement of accounts;
- Reviewing policies / procedures followed, including Treasury Management; and
- Evaluating their compliance with best practice and International Financial Reporting Standards

5.2 Included in **Appendix C** is a list of questions to consider when undertaking reviews.

6. WHAT IS INTERNAL CONTROL?

6.1 An internal control system is defined as being:

> *"**the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records**".*

6.2 Included in **Appendix D** is a list of internal control type examples for reference.

Responsibility for Internal Controls

- The responsibility for the system of internal control (not just internal financial control) rests with the Chief Executive (as the accountable officer). The Audit Committee must be able to assure CMT / Full Council that the systems of internal control are operating effectively.

Control Environment

- The control environment is part of the culture of PCC which sets the meaning of control. It affects the control awareness of all individual employees. The main driving force is the importance that CMT seen to attach to control and probity (integrity and honesty).

Risk Management

- In order to determine the level of controls required it is necessary to assess the nature and extent of the relative risks to achievement of PCC's aims and objectives. The nature of the specific risks to authority should be considered and the level of risk determined with respect to materiality; vulnerability; and sensitivity.

- These risks are required to be managed efficiently, effectively and economically.

Control Activities

- Control activities are the procedures that help to ensure that management objectives are achieved and policies carried out. They ensure that risks which may inhibit the achievement of objectives are appropriately limited to an acceptable level, taking into account the cost of implementing such controls.

Monitoring Internal Control

- Internal control systems need to be monitored so that management may be sure that they continue to be effective. For a monitoring system to be effective there needs to be a number of stages of monitoring. For example, assessment by line management through to reviews by Internal Audit.

- Poor internal control may lead to the loss of assets, increased waste, losses and errors, with the consequential impact on the cost of affairs of PCC.

- If monitoring internal control is to be effective then CMT must foster an environment where internal control is the responsibility of all staff. It must be seen as an integral part of the quality programme. It is essential for ensuring the financial health of PCC.

- CMT takes internal control seriously and supports strongly the need for its systems to be adequately designed, documented and operated by staff. This will help Internal Audit to minimise / target its work to areas of greatest / highest priority and still give reasonable assurance to management that control objectives are being achieved.

Annual Governance Statement

- The Corporate Director (Resources) is required to provide an Annual Governance Statement (AGS) in its annual accounts, in the role of Accountable Officer. This covers all controls including financial, operational, compliance and the management of risk. Furthermore, the overall governance position for the council is reported on. The Accountable Officer is required to acknowledge responsibility for maintaining a sound system of internal control that supports the achievement of PCC's policies, aims and objectives and for reviewing the effectiveness of the system of internal control. The Corporate Director (Resources) will state how the review of the effectiveness of the system of internal control has been carried out and refer to the sources of assurance used.

- The AGS is an integral part of the annual reporting process, to be presented alongside the accounts. It should be prepared along with the accounts and passed to the external auditors for review. The AGS should therefore be the end result of a process of risk management that is embedded in the planning, operational, monitoring and review activities of PCC, these activities being the critical elements of the statement. Production of the AGS should not be conducted as an "add-on" end of year activity. The AGS should explain the nature of control, and any material changes in control, exercised through the whole of the accounting period.

7. WHO ARE THE MEMBERS OF THE AUDIT COMMITTEE?

7.1 The Audit Committee must be invested with sufficient authority to act with independence and be provided with sufficient resources to undertake its duties. At the same time the Committee needs to be small enough to ensure that all members can participate actively in discussions.

7.2 The members of the Audit Committee currently comprises of 7 councillors. The Corporate Director (Resources), Director (Governance), Service Director (Financial Services) and the Chief Internal Auditor would normally be present, together with representatives from Internal Audit, External Audit, and Finance. Others may be invited or required to attend, as required.

7.3 Audit Committee distinctiveness is that it should operate independently of any decision making processes and to apply an objective approach in the conduct of its business.

7.4 Given the importance and complexity of the Committee's work, as a minimum one member of the Committee should ideally have recent relevant financial experience, and the other members must ensure that they receive induction and training in their role, including some basic financial literacy and an understanding of internal control. Increasingly, there is value in more than one member of the Committee having a financial background.

7.5 The selection of the Chair is an important appointment for the Authority.

8. WHAT AUTHORITY DOES THE COMMITTEE HAVE?

8.1 The Audit Committee is invested with sufficient authority to act with independence. It is constituted as a committee of the Council and the Terms of Reference should be set out in the minutes of the Full Council. The Committees' Terms of Reference are included at **Appendix A** and is advisory only.

8.2 Audit Committee meetings and their minutes should be formal.

8.3 The Audit Committee has explicit authority to receive full access to information and the ability to investigate any matters within its terms of reference, including the right to independent professional advice. The Corporate Director (Resources) should ensure that the Committee receives the resources that it needs to do so.

8.4 Membership of the Committee should be disclosed in the annual report.

9. HOW FREQUENTLY SHOULD THE AUDIT COMMITTEE MEET?

9.1 The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced. It is expected that the Audit Committees will meet 5 to 6 times per year.

10. WHO SHOULD ATTEND THE COMMITTEE MEETINGS?

10.1 It is important that the Corporate Director (Resources), Director (Governance), Service Director (Financial Services) and the Chief Internal Auditor and the External Audit representative should regularly attend Audit Committee meetings (the Audit Committee may also ask other members of staff to attend so as to provide them with information to inform their considerations). Their participation in discussions is beneficial in informing the discussion among the full members of the Committee, in particular to brief the Committee on the detail behind papers, which will have been prepared for it.

10.2 The Audit Committee may sometimes find it beneficial to discuss issues at the end of a meeting after those who are not members have withdrawn.

11. HOW DO THE AUDITORS SUPPORT THE AUDIT COMMITTEE'S WORK?

11.1 It is not the role of the Audit Committee to manage the internal and external audit functions; rather it should use the auditors to assist it in meeting its needs, along with other sources of advice and assurance.

11.2 In particular, the Committee should actively review the plans of the auditors, understanding the distinct and separate roles that each plays. Whilst the role of external auditors is set out firmly in their Code of Audit Practice, there is more scope for the Committee to be proactive in influencing the internal audit strategy and requesting work from internal audit that focuses on the assurance needs of the Audit Committee, and thereby the needs of the CMT and Cabinet.

11.3 <u>Internal Audit</u>

11.3.1 Internal Audit is an important resource that assists the Audit Committee to meet its internal control responsibilities. Therefore, the Audit Committee must evaluate the extent to which the Internal Audit service complies with the mandatory audit standards and agreed performance measures.

11.3.2 Internal Auditors should attend every meeting and the cycle of approving and monitoring the progress of internal audit plans and reports, culminating in the Chief Internal Auditor's Annual Opinion on the systems of internal control, are a key feature of the work of the Committee across the year.

11.3.3 An important principle is that Internal Audit is an independent and objective appraisal service within an organisation. As such, its role embraces two key areas:

- The provision of an independent and objective opinion to the Section 151 Officer, CMT, and the Audit Committee on the degree to which risk management, control and governance support the achievement of PCC's agreed objectives; and

- The provision of an independent and objective consultancy service specifically to help line management improve PCC's risk management, control and governance arrangements.

11.3.4 Each year's annual plan should set out details of the assignments to be carried out, providing sufficient detail for the Audit Committee and other recipients to understand the purpose and scope of the defined assignments and their level of priority. The relationship between the plan and the Assurance Framework is critical. The Committee should be clear on the risks and controls that internal audit will be addressing and where else the Committee needs to turn to be assured on the risks and controls that are not contained within the internal audit plan. The Assurance Framework should be the mechanism that enables this task to be done.

11.3.5 The Chief Internal Auditor should have a right of access to the Chair of the Audit Committee, and it should be clear that management should not be allowed to restrict or censure this access. It is good practice for the Chairman to meet informally with the Chief Internal Auditor, potentially in advance of each Audit Committee meeting.

11.3.6 The Chief Internal Auditor's formal annual report to the Audit Committee should present the opinion of the overall adequacy and effectiveness of PCC's risk management, control and governance processes. In addition there is a requirement to report against best practice guidelines (Public Sector Internal Audit Standards, 2013). This opinion will also encompass the Assurance Framework (**Appendix B**).

11.4 External Audit

11.4.1 External Auditors are usually invited to attend every meeting - although they are included in the circulation list for all agenda papers, and the cycle of approving and monitoring the progress of external audit plans and reports, culminating in the opinion on the annual report and accounts, is central to the core work of the Committee.

11.4.2 The objectives of the External Auditors fall under two broad headings, to review and report on:-

- The Council's financial statements, and on its Annual Governance Statement; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

11.4.3 External Auditors, currently Ernst and Young, should develop an audit strategy. The strategy should assess the significant operational or financial risks that are relevant to the external auditors responsibilities under the Code of Audit Practice. The Audit Committee should challenge whether the external auditors have considered all relevant risks and whether they have developed an appropriate response to those risks.

11.4.4 External Audit should prepare an annual audit plan. The annual plan should set out details of the work to be carried out, providing sufficient detail for the Audit

Committee and other recipients to understand the purpose and scope of the defined work and their level of priority. The Audit Committee should review the annual plan and the associated fees, although in so doing it needs to recognise the statutory duties of the External Auditor.

11.4.5 The annual audit plan should be kept under review to identify any amendment needed to reflect changing priorities and emerging audit needs. The Audit Committee should consider material changes to the annual audit plan.

11.4.6 The appointed auditor should have a right of access to the Chair of the Audit Committee.

11.4.7 External Audit will issue a number of reports over the year, some of which are required under the Code of Audit Practice and International Standards on Auditing, whilst others will depend upon the contents of the audit plan.

The main mandatory reports will be:

- Report to those charged with governance that sets out the main matters arising from the audit of the financial statements and use of resources work.

- Statutory report and opinion on the accounts and conclusion on whether the Council has put in place proper arrangements to secure, economy, efficiency and effectiveness in the use of resources.

- Annual audit letter In addition to these reports, the External Auditor may issue a Public Interest Report or referral to the Secretary of State, if significant issues or breaches occur.

11.4.8 These reports will also be circulated to CMT and Cabinet.

12. OTHER AREAS THAT SUPPORT THE AUDIT COMMITTEE'S WORK?

12.1 The Committee should satisfy itself that adequate arrangements are in place to counter fraud and they will want to consider the results of counter fraud work, in so far as they have a bearing on the wider role of the Committee.

12.2 PCC is committed to protecting the public funds with which it has been entrusted. Minimising losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purpose for which they are intended, the provision of services to residents of the city. For certain areas there are specific investigating rules and protocols to be followed, although the principles contained within this document are equally applicable.

12.3 The public is entitled to expect the Council to conduct its affairs with integrity, honesty and openness, and demand the highest standards of conduct from those working for it and with it.

12.4 Recent publications from CIPFA “Fighting Fraud and Corruption Locally” set out the national agenda and provides useful sources of information (**Appendices E, F**).

13. WHAT OTHER ASSURANCES SHOULD BE SOUGHT?

13.1 Potential questions are covered in **Appendix G**.

13.2 The majority of assurances to the Committee should come from management, and not just from auditors, although they provide a critical element of independent assurance. In this context robust systems of risk management and application of an Assurance Framework should be at the core of any Committee’s review process. The current Risk Management Strategy is set out in **Appendix H**.

13.3 To this end the Audit Committee will need to liaise closely with any management and other Committees involved in dealing and managing risk, to minimise any duplication or overlap. The Audit Committee’s role is not to manage risks, but rather to ensure that the overall system is in place and effective.

13.4 Some assurances will be external to PCC. The Committee members should be using the Corporate Director (Resources) and the Director (Governance) to make them aware of relevant reports and recommendations. Others will be internal to PCC and the Committee may wish to understand the nature of their work and the relative appropriateness of their source of assurance.

14. WHAT ADMINISTRATIVE SUPPORT SHOULD THE COMMITTEE EXPECT?

14.1 As with any committee, effective work is best achieved if there is good administrative support that allows the members of the Committee to concentrate on their role in preparing for, and contributing to, the meeting. What is also important is that all members of the Committee should participate actively, and that the Chairman of the Committee is not too dominant.

14.2 The timing of meetings needs to coincide with key tasks or important events, thereby ensuring that the Audit Committee is able to exercise its power to influence events. **Appendix I** provides an example of the agenda items and the suggested frequency that they should be raised.

14.3 For reporting to be effective the Audit Committee needs to decide what level of detail it wants to see. **Appendix J** provides details of measures that can be used to improve the effectiveness of the Audit Committee and a self-assessment checklist is shown in **Appendix K**.

ROLES & RESPONSIBILITIES OF KEY OFFICERS

15. KEY OFFICERS

15.1 In order for the Audit Committee to be supported and operate effectively, five key posts are identified within the overall Council structure (contact details in **Appendix L**). These are:

- Chief Executive (i.e. the Head of Paid Service);
- Corporate Director (Resources) (i.e. s.151 Officer);
- Service Director (Financial Services) (Deputy s.151 Officer);
- Director (Governance) (and Monitoring Officer); and
- Chief Internal Auditor.

15.2 <u>Role of the Chief Executive</u>

15.2.1 Section 4 of the Local Government and Housing Act 1989 requires that every Authority designates one of its Officers as the Head of their Paid Service. Functions of the Head of Paid Service:-

Discharge of Functions by the Council	Report to Council on the manner in which the discharge of the Council’s functions is coordinated, the number and grade of Officers required for the discharge of functions and the organisation of Officers.
Corporate Management	Responsible for the corporate management of the Council and for ensuring the co-ordination of services and the provision of appropriate professional advice.
Structure	Determine and publicise a description of the overall departmental structure of the Council showing the management structure and deployment of officers.
Appointment of Staff	Appointment of Officers below Deputy Chief Officer level is the responsibility of the Chief Executive or their nominee, normally the appropriate Director.
Restrictions on Functions	Cannot be the Monitoring Officer, but may hold the post of Section 151 Officer if a qualified accountant.

15.3 Role of the Corporate Director (Resources)

15.3.1 The responsibilities of the Corporate Director (Resources) (as Section 151 Officer), are set out in Section 151 of the Local Government Act 1972, Section 114 of the Local Government Finance Act 1988, the Local Government Act 2000, the Accounts & Audit Regulations 2003 and Regulations made under the above legislation. The Functions of the Section 151 Officer are:-

Administration of Financial Affairs	Responsibility for the proper administration of the financial affairs of the Council.
Contributing to Corporate Management	Contribute to the Corporate Management of the Council, in particular through the provision of professional financial advice.
Providing Advice	Provides advice on financial matters within the budget framework, maladministration, and probity.
Ensuring Lawfulness and Financial Prudence of Decision-making	After consulting with Chief Executive and the Monitoring Officer, will report to the Council, or Cabinet (in relation to an Cabinet function) and the Council's external auditor if he / she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause loss or deficiency, or if the Council is about to enter an item of account unlawfully.

15.4 Role of the Service Director (Financial Services)

15.4.1 Responsibilities mirror that of the Corporate Director in regard that they are the Deputy s.151 Officer.

15.5 Role of the Director (Governance)

15.5.1 The responsibilities of the Monitoring Officer are set out in Section 5 of the Local Government and Housing Act 1989, the Local Government Act 2000 and Regulations made there under. Although there is a specific Standards Committee established within Peterborough, the issues are still relevant to the Audit Committee and those duties are:-

Ensuring lawfulness of decision-making	Report on contraventions (or likely), of any enactment or rule of law after consulting with Chief Executive / Director of Strategic Resources. Report on any maladministration or injustice where the Ombudsman has carried out an investigation and consider and advice on compensation for maladministration. Investigate misconduct in compliance with Regulations and

	directions of Ethical Standards Officers and act on reports made by Ethical Standards Officers and decisions of the case tribunal
Contributing to corporate management	Contribute to the corporate management of the Council, in particular through the provision of advice on legal, constitutional, procedural and probity issues.

15.6 Role of the Chief Internal Auditor

15.6.1 The Chief Internal Auditor assists the s.151 Officer, in the effective discharge of their responsibilities. To this end, the Chief Internal Auditor provides the s.151 Officer with analysis, appraisals, recommendations, advice and information concerning the activities reviewed, particularly PCC's financial affairs.

For all audits identified below – seen as the audit universe - not all areas will be covered in the same year. Appropriate coverage will be established each year so as to be able to provide assurance to the Board.

For **CORE FINANCIAL SYSTEMS**, areas I would expect to get assurance through a rolling programme. Similarly, the description covers all areas of the activity – not all may be looked at in a specific audit.

Where Peterborough City Council or one of the other Constituent Authorities are providing the main systems, these audits could be covered by their audit plans and assurance given to the Combined Authority.

Accounting – General Ledger	Review of the operation of key controls including system user rights, review, control, adequacy and timeliness, budgetary control, systems interfaces, including payroll. VAT.
Creditors	Review of the operation of key controls including segregation, authorisation and reconciliation of supplier statements, BACS controls, and sub-contractors records.
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.
Payroll	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.
Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code. (Link to the Fiscal Strategy)

For **SAFEGUARDING OF ASSETS**

Data Security / Protection	System penetration testing -arrangements to protect ICT systems from attack
Data Hosting	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.

For **CORPORATE GOVERNANCE**

Governance	Verification that governance arrangements have been put in place (and are effective) for: Financial administration; Contracts; Project management and Committee / democratic servicing etc.
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.
Health and Safety	Health & Safety Policies meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation, (RIDDOR).
Code of Corporate Governance	Review arrangements to ensure compliance with applicable statutes and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with stakeholders, clearly defined roles and responsibilities at the head of the organisation. The framework of strategic control including matters reserved for the collective decision of the Board and arrangements for delegated decision making.
Business Contingency / Disaster Recovery	Review of plan to be implemented in the event of incident(s) which impact on Combined Authority being able to operate.

For **COUNTERING FRAUD, BRIBERY AND CORRUPTION**

Fraud Investigations *	Contingency for fraud investigation(s)
Proactive Anti-Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. (Will this be included in future NFI exercises?)

*It may be prudent for these to be picked up in the originating Council (if relates to works undertaken by other Councils etc) to cut down on the use of scarce audit resource within PCC. Alternatively if this is covered by PCC a suitable charge will need to be levied so that PCC can backfill its own audit plan.

For **PROGRAMMES, PROJECTS, SCHEMES** etc.

Specific schemes	Processes & procedures. Compliance with funding agreements / scheme delivery to timescales and outputs Covering the various workstreams Fiscal New Homes and Communities Transport and Infrastructure Employment and Skills Strategic Planning
Contracts	Contract processes and procedures including specification design; PPQ's; tenders and evaluation; awarding; contract monitoring and post contract review.
Grant Claims	Review and certification

For **AUDIT FOLLOW UPS AND CONTINGENCY ALLOCATIONS** etc.

Follow Up	Follow up of recommendations of key audit findings
Audit Plan Contingency	Contingency for any requirement for additional audit assurance and for other unplanned audit assurance and for other additional unplanned audit work identified in year

Steve Crabtree
Chief Internal Auditor
Peterborough City Council
May 2017

AUDIT AND GOVERNANCE COMMITTEE	**AGENDA ITEM No: 2.2**
26 June 2017	**PUBLIC REPORT**

TITLE: WORK PROGRAMME

1 PURPOSE

1.1 To enable the Audit and Governance Committee to set a forward work programme.

DECISION REQUIRED
FROM: John Harrison, Interim Chief Finance Officer
Lead Officer: John Harrison, Interim Chief Finance Officer
Author: Jon Alsop, Accountant
RECOMMENDATIONS That members agree the work programme.

2 BACKGROUND

2.1 This report is to enable the Audit and Governance Committee to set a draft forward work programme.

2.2 The report sets out a suggested draft programme of work for matters to be considered by the Committee during the course of the year ahead. The work programme will need to be flexible enough to react to new and changing priorities.

3 MAIN ISSUES

3.1 The suggested work programme to be reported on at future Audit and Governance Committee meetings is as follows:

3.2 **21st September 2017**

- Final Accounts (to include Treasury Management) – John Harrison
- External Audit (to include Value for Money conclusion) – Suresh Patel (Ernst & Young)
- Risk Register – Kim Sawyer
- Budget Framework – John Harrison
- Corporate Governance – Kim Sawyer
- Assurance Framework - tbc

3.3 **18th December 2017**

- Internal Audit – Steve Crabtree
- Treasury Management Strategy – John Harrison
- Anti-Fraud & Corruption (to include whistle blowing and complaint processes) – tbc

3.4 **31st March 2018**

- Internal Audit = Steve Crabtree
- External Audit – Suresh Patel (Ernst & Young)
- Terms of Reference – Kim Sawyer
- Annual Review of Constitution – Kim Sawyer
- The Committee's Annual Report to the Combined Authority - tbc

4 FINANCIAL IMPLICATIONS

4.1 None

5 LEGAL IMPLICATION

5.1 None

6 EQUALITIES IMPLICATION

6.1 None specific

7 APPENDICES

7.1 None

Source Documents	**Location**
None	

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 3.1
26 June 2017	PUBLIC REPORT

TITLE: DRAFT STATEMENT OF ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2017

1 PURPOSE

1.1 The Combined Authority is required to prepare a Statement of Accounts each financial year, and it must be prepared in accordance with statutory timelines and accounting practices. Since 2010/11 those accounting practices have been based on International Financial Reporting Standards (IFRS) which facilitate the production of accounts in a standardised and consistent format across all industries, public and private sectors, providing greater transparency to all stakeholders.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2016/17 Code of Practice (the Code) and are followed in the preparation of the 2016/17 Statement of Accounts.

1.3 Legislation requires the Authority to consider and approve its Accounts. The Council's Constitution delegates this matter to the Audit and Governance Committee.

1.4 This is in accordance with the Committee's Terms of Reference – 3.12 – 3.14 to review the statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Combined Authority Board.

1.5 The Accounts must be signed and certified by 30 June 2017 by the Authority's Interim Chief Finance Officer (CFO), in accordance with the Accounts and Audit Regulations 2015. The Authority's CFO has responsibility for certifying that the Accounts present fairly, the financial position of the Authority at 31 March 2017.

1.6 The Audit and Governance Committee is required to approve the Accounts no later than 30 September 2017 following, and in the knowledge of, the audit findings.

1.7 The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.

1.8 2017/18 accounts must be produced under a faster timetable with the draft accounts ready for audit by 31 May and published with opinion by 31 July.

DECISION REQUIRED
FROM: John Harrison, Interim Chief Finance Officer
Lead Officer: John Harrison, Interim Chief Finance Officer
Author: Jon Alsop, Accountant
RECOMMENDATIONS For members to review and comment on the draft Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2017.

2 BACKGROUND

2.1 The 2016/17 draft Statement of Accounts is shown at Appendix 1.

2.2 The presentation of the draft Statement of Accounts provides the Audit and Governance Committee the opportunity to review the accounts and ask relevant questions so that they are better informed before being asked to formally approve the audited accounts at the September Audit Committee meeting.

2.3 Whilst under the 2015 Accounts and Audit Regulations the Authority's Audit Committee is no longer required to approve the accounts prior to audit, it is considered good practice for Members to review and comment on the accounts prior to the Chief Financial Officer's (CFO) certification.

3 MAIN ISSUES

3.1 FORMAT OF THE ACCOUNTS

3.1.1 *Narrative Report* - provides a fair, balanced and understandable guide to the Authority's accounts.

3.1.2 *Statement of Responsibilities* – sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the Statement of Accounts.

3.1.3 *Expenditure and Funding Analysis* - This demonstrates how the funding available to the Authority for the period has been used in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's Workstreams.

3.1.4 *Comprehensive Income and Expenditure Statement* – shows the accounting cost in the period of providing services in accordance with generally accepted accounting practices.

3.1.5 *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Authority.

3.1.6 *Balance Sheet* – shows the value of the assets and liabilities recognised by the Authority as at 31 March 2017.

3.1.7 *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties.

3.1.8 *Notes to the Financial Statements* - the various statements are supported by technical Notes and by the Statement of Accounting Policies

3.1.9 *Statement of Accounting Policies* – outlines the accounting policies adopted by the Authority.

3.1.10 *Annual Governance Statement* – identifies the systems that the Authority has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

3.2 BALANCE SHEET AT 31 MARCH 2017

3.2.1 The Statement of Accounts includes a Balance Sheet that sets out the net financial position of the Authority as at 31 March 2017. The Balance Sheet shows the assets and liabilities of the Authority which are matched by the reserves held by the Authority.

3.2.2 As at 31 March 2017, the Net Assets shown on the Balance Sheet was £40.003m

3.2.3 The Authority received its first tranche of funding from Department for Communities and Local Government (DCLG) on 20 March 2017. The £40.5m received was made up of £8m 2016/17 Revenue Gainshare, £12m Capital Gainshare, £10.5m Cambridge Housing Grant and £10m General Housing Grant.

3.2.4 The funds were put on short term deposit in accordance with the approved Treasury Management and Investment Strategy.

3.2.5 The Net Balance Sheet position reflects the DCLG funding that remained unspent as at 31 March 2017.

3.3 RESERVES AND BALANCES

3.3.1 Reserves are split into two categories; unusable and useable reserves. Unusable reserves are those reserves that absorb the timing differences arising from different accounting arrangements e.g. Pensions Fund reserve. Useable reserves are those reserves that can be applied to fund expenditure.

All the Reserves of the Combined Authority held at 31 March 2017 were usable reserves.

3.4 **REVENUE OUTTURN 2016/17**

3.4.1 The draft outturn shows total net expenditure against the revenue budget for the period to 31st March 2017 of £0.416m, and a variance against the expenditure budget for the period of £0.050m. This variance is due to a combination of factors:

3.4.2 Slippage of £0.027m due to the inexact phasing of ‘set up’ budgets across 2016/17 and 2017/18. These slippages relate to activities which will need to be completed in 2017/18 so it is proposed to carry these balances forward into 2017/18 as earmarked reserves.

3.4.3 A number of individual underspends totalling £0.023m, which includes original budget provisions for activities that did not incur any costs during the period.

3.4.4 The Combined Authority has applied to the Department for Communities and Local Government to arrange a S33 VAT Order that would enable the Combined Authority to recover VAT on its purchases. As at 31 March 2017, the necessary Order had not yet been arranged, so the statement of accounts has been drafted on the assumption that the VAT on purchases for the period to 31 March 2017 is not recoverable.

3.4.5 This potential VAT cost totals £81k for the period, and has been shown as a first charge against the £500k Revenue Reserve.

3.5 **NEXT STEPS**

3.5.1 The Accounts and Audit Regulations 2015, include the following for the approval and publication of the accounts:

- the responsible financial officer must certify the presentation of the accounts no later than the 30 June 2017;
- the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members no later than 30 September 2017; and
- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

3.5.2 The Accounts and Audit Regulations 2015 also require all Councils to have a common 30 day public inspection period which includes the first 10 working days in July. The period of public inspection runs concurrently with the period whereby a local government elector may raise questions or objections to the External Auditor.

3.5.3 At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2016/17. This will be considered at the Audit Committee meeting on 21 September 2017.

4 **FINANCIAL IMPLICATIONS**

4.1 See main report

5 **LEGAL IMPLICATION**
5.1 See main report

6 **EQUALITIES IMPLICATION**
6.1 None specific

7 **APPENDICES**
7.1 Draft 2016/17 statement of accounts

Source Documents	**Location**
None	

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Statement of Accounts

For the period 3 March 2017 – 31 March 2017

For further copies of this document or questions about it please contact:

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Cambridgeshire & Peterborough Combined Authority
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Peterborough
PE1 1HG
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Cambridgeshire and Peterborough Combined Authority

Statement of Accounts for the period 3 March 2017 – 31 March 2017

Contents **Page**

Narrative Report

1. **Introduction**

Following the signing of the Order by Communities Secretary, Sajid Javid, the Cambridgeshire and Peterborough Combined Authority (CPCA) came into existence on 3rd March 2017.

Although the Combined Authority was only created on 3 March 2017 and received its first tranche of funding on 20 March 2017, it is still required to produce a statement of accounts for the four week period to 31 March 2017.

This is the Combined Authority's first statement of accounts.

Cambridgeshire and Peterborough has a high performing economy. It is a significant contributor to UK PLC, generating some £7bn per annum in taxes more than the cost of public services in the whole area.

The strategic ambition of the Combined Authority will see this position improve even further. Specifically, the investments that the Combined Authority will make over time in housing, transport, infrastructure and skills/employment will see the economy grow in the next 25 years from £22bn to over £42bn. Over the next ten years, the difference between income (taxes) and expenditure (public service costs) will widen even further, with an additional £2bn per annum being added to the UK economy.

Furthermore, the Combined Authority is committed to delivering public sector reform. Working with all relevant central and local partners - statutory and non-statutory, it will explore innovative and integrated approaches to redesigning public services across Cambridgeshire and Peterborough. It will bring forward a programme of public service reform that will focus on delivering the best outcomes for residents, creating new models of delivery that cuts out bureaucracy, and achieves the most efficient and effective public services.

The Statement of Accounts reflects the activity of the CPCA for the period to 31 March 2017, and it has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The purpose of this report is to provide a user-friendly narrative guide to the Authority's accounts as well as setting out the Authority's financial position.

2. **Background to the Cambridgeshire and Peterborough Combined Authority**

The Combined Authority is made up of eight founding members across Cambridgeshire and Peterborough. Each of the following Constituent Authorities and the Local Enterprise Partnership is represented by their nominated representative or substitute at Combined Authority meetings.

Cambridge City Council
Cambridgeshire County Council
East Cambridgeshire District Council
Fenland District Council
Huntingdonshire District Council
Peterborough City Council
South Cambridgeshire District Council
Greater Cambridge Greater Peterborough Enterprise Partnership (GCGP LEP)

The following bodies were given Observer status for 2016/17 and were given co-opted member status for the 2017/18 municipal year:

The Police and Crime Commissioner for Cambridgeshire
Cambridgeshire and Peterborough Fire Authority representative
Clinical Commissioning Group representative

Councillor James Palmer was elected as the first Mayor for the Authority on Thursday 4 May 2017, took office on 8 May 2017 and signed the statutory declaration of acceptance on 31 May 2017.

Vision

The Cambridgeshire and Peterborough region is a world leader in science and technology, with unparalleled levels of cutting-edge research, growth businesses and highly skilled jobs. The area is already a significant net contributor to the UK economy.

Cambridgeshire and Peterborough local authorities, businesses and universities have developed a bold vision for the future, including:

- delivering significant economic growth, including a doubling of the size of our economy;
- creating an area internationally renowned for its low-carbon, knowledge-based economy, including life sciences, information and communication technology, creative and digital industries, clean tech, high-value engineering and agri-business;
- accelerating the delivery of the mix of new homes and sustainable communities that local people demand;
- transforming public service delivery utilising the strong local partnerships of councils, business and public services that have a successful track record of working together;
- achieving a skills base that matches business needs; and
- providing world-class connectivity and transport systems fit for the 21st century.

Ambitions

Key ambitions for the Combined Authority include:

- doubling the size of the local economy;
- accelerating house building rates to meet local and UK need;

- delivering outstanding and much needed connectivity in terms of transport and digital links;
- providing the UK's most technically skilled workforce;
- transforming public service delivery to be much more seamless and responsive to local need;
- growing international recognition for our knowledge based economy;
- improving the quality of life by tackling areas suffering from deprivation.

Mayor

The CPCA receives funding and powers from Central Government in a number of areas including:

- £170 million to deliver new homes over a five-year period in Peterborough and Cambridgeshire which includes affordable, rented and shared ownership housing
- £20million a year funding over 30 years to boost growth in the region
- responsibility for chairing a review of 16+ skills provision in the area

Of these, £40.5m was received during this accounting period. See note 5, page 21 for further details.

In addition the new Mayor of Cambridgeshire and Peterborough will exercise powers and functions devolved from Central Government including:

- responsibility for a multi-year devolved transport budget;
- responsibility for an identified key route network of local authority roads;
- powers over strategic planning, the responsibility to create a non-statutory spatial framework for Cambridgeshire and Peterborough and to develop with Government a Land Commission

3. The Accounts

This Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2015 and The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code).

The Statement of Accounts brings together the major financial statements for the Authority for the financial year 2016/17. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Cambridgeshire and Peterborough Combined Authority. The key contents of the various sections are as follows:

- Statement of Responsibilities – sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the Statement of Accounts.
- Expenditure and Funding Analysis Statement - This demonstrates how the funding available to the Authority for the year has been used in providing services, in

comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's workstreams.

- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.
- Movement in Reserves Statement – this statement shows the movement in the year on the reserves held by the Authority.
- Balance Sheet – shows the value of the assets and liabilities recognised by the Authority as at 31 March 2017.
- Cash Flow Statement – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties.
- Notes to the Financial Accounts - the various statements are supported by technical notes and by the Statement of Accounting Policies.
- Statement of Accounting Policies – outlines the accounting policies adopted by the Authority.

4. Current and Planned Activities

The Devolution Deal was signed in March 2017 and provides for the following powers and budgets to be passed down from Central Government to become the responsibility of the Mayor and the Combined Authority:

OVERALL POWERS

General power of competence

The Mayor and Cambridgeshire and Peterborough Combined Authority have a 'general power of competence'. This means that the Mayor and the Combined Authority can legally do anything that individuals generally may do, unless the law specifically prohibits it.

IMPACT OF THE CURRENT ECONOMIC CLIMATE

The Combined Authority will establish an Independent Economic Commission to provide a robust and independent assessment of the Cambridgeshire and Peterborough economy and its potential for growth. This will provide the evidence base on which Cambridgeshire and Peterborough partners, and partners at national level, can continue to build a collaborative approach to growth and devolution.

As part of its early work, the panel will carry out and publish a detailed review that will include:

- a full economic baseline study;
- economic forecasting to determine the potential impact of various scenarios over the next ten years and how the Cambridgeshire and Peterborough economy could respond to these;

- an assessment of whether the Cambridgeshire and Peterborough economy is fit for purpose and its future economic potential;
- analysis of how partners' investment in key drivers of growth (e.g. key towns, key sectors, key infrastructure) across Cambridgeshire and Peterborough could maximise long-term returns for all areas;
- an analysis of the impact that the devolution of key economic powers and levers could have on economic output and productivity.

5. Revenue Position

The Comprehensive Income and Expenditure Statement (CIES), page 12, shows the gross revenue expenditure and income together with net expenditure

The Combined Authority has applied to the Department for Communities and Local Government to arrange a S33 VAT Order that would enable the Combined Authority to recover VAT on its purchases. As at 31 March 2017, the necessary Order had not yet been arranged, so the statement of accounts has been drafted on the assumption that the VAT on purchases for the period to 31 March 2017 is not recoverable. This potential VAT cost totals £81k for the period, and has been shown as a first charge against the £500k Revenue Reserve.

The final outturn position shows a surplus of £40.0m. This position is primarily a result of a full year's funding being received for 2016/17 on 20 March 2017 and not having been spent or committed by the end of the accounting period

This surplus has been added to the Authority's Reserves and is incorporated within the transfer to and from reserves in the Movement in Reserves Statement on page 13.

The Authority did not enter into any borrowing arrangements during the period ended 31 March 2017.

Balances

As at 31 March 2017, the balance on the Authority's Reserves was £40.003m.

The actual income and expenditure against budget for the period is summarised in the following table:

CPCA 2016/17 - Outturn Position

	Budget £k	Actual £k	Variance £k
Funding			
Gain Share	20,000	20,000	0
Housing (General)	10,000	10,000	0
Housing (Cambridge)	10,500	10,500	0
Transport Levy	0	0	0
LTP Capital Grant	0	0	0
	40,500	40,500	0
Budget Allocations			
Revenue	466	416	-50
VAT charge	0	81	81
Investment in Transport	0	0	0
Capital			
- Gain Share	0	0	0
- Housing	0	0	0
- Local Transport Plan	0	0	0
	466	497	31
Movement to Reserves			
Earmarked Reserve	0	27	27
Revenue Reserve	500	419	-81
Gain Share Revenue	7,034	7,057	23
Gain Share Capital	12,000	12,000	0
Gain Share Housing	20,500	20,500	0
	40,034	40,003	-31

6. Capital and Treasury Position

CPCA received its first tranche of funding from Department for Communities and Local Government (DCLG) on 20 March 2017. The £40.5m received was made up of £8m 2016/17 Revenue Gainshare, £12m Capital Gainshare, £10.5m Cambridge Housing Grant and £10m General Housing Grant.

The funds were put on short term deposit in accordance with the approved Treasury Management and Investment Strategy.

External Auditors

Public Sector Audit Appointments ltd has confirmed the appointment of Ernst & Young LLP as the external auditor for the Cambridgeshire and Peterborough Combined Authority to 31 March 2018.

See Note 1, page 16, for further information on external audit fees.

7. Related Parties

The Authority is required to disclose material transactions with related parties; bodies or individuals that have the potential to control or influence the Authority or be controlled or influenced by the Authority. These disclosures can be found in Note 6 on page 17.

8. Summary

I hope readers will find the following pages helpful and interesting in providing an insight into the finances and performance of the Authority.

John Harrison
Interim Chief Finance Officer

Independent Auditors' Report to the Members of the Cambridgeshire and Peterborough Combined Authority

This page will be updated with the External Audit report following the completion of the audit – Sept 2017

Signed:

Date:

Suresh Patel
For and on behalf of Ernst & Young LLP, Appointed Auditor
London

Statement of Responsibilities for the Statement of Accounts

The Combined Authority's Responsibilities

The Combined Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Combined Authority, that officer is the Interim Chief Finance Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Interim Chief Finance Officer's Responsibilities

The Interim Chief Finance Officer is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Interim Chief Finance Officer has:

selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Interim Chief Finance Officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Interim Chief Finance Officer's Certificate

I certify that the accounts set out on pages 11 to 28 present a true and fair view of the financial position of the Combined Authority at 31 March 2017 and its income and expenditure for the period ended 31 March 2017.

Interim Chief Finance Officer:	Xxxxxx
	John Harrison
Date:	XX September 2017

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 21 September 2017.

Chair of the Audit Committee:	*Not to be signed until September 2017*
	Name
Date:	21 September 2017

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Combined Authority's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

			2017	
Expenditure and Funding Analysis (EFA)	**Notes** (From Page 16)	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis***	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
		£000	**£000**	**£000**
Governance	2	293	-	293
Fiscal	1	118	-	118
New Homes		56	-	56
Skills		14	-	14
Communities & Communication		18		18
Cost of Services		**499**	**-**	**499**
Other Income & Expenditure	4,5	(8,002)	(32,500)	(40,502)
(Surplus) / Deficit on Provision of Services		**(7,503)**	**(32,500)**	**(40,003)**
Opening General Fund Balance at 3 March 2017		-		
Less/Plus (Surplus) or Deficit on General Fund Balance in Period		**(7,503)**		
Closing General Fund Balance at 31 March 2017		**(7,503)**		

**When accounting on a statutory basis, unspent capital grants without conditions are unapplied from the next Expenditure Chargeable to the General Fund, under generally accepted accounting practices these are credited to the CIES.*

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the period of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Combined Authorities can raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

		2017		
Comprehensive Income & Expenditure Statement (CIES)	**Notes (From Page 16)**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
Governance	2	293	-	293
Fiscal	1	118	-	118
New Homes		56	-	56
Skills		14		14
Communities & Communication		18	-	18
Cost of Services		**499**	**-**	**499**
Financing & Investment Income & Expenditure	4	-	(2)	(2)
Taxation & Non-Specific Grant Income & Expenditure	5	-	(40,500)	(40,500)
(Surplus) / Deficit on Provision of Services	7	**499**	**(40,502)**	**(40,003)**
Other Comprehensive Income & Expenditure		**-**	**-**	**-**
Total Comprehensive Income & Expenditure				**(40,003)**

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the period to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in period of the Combined Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the period. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the period following those adjustments.

Movement in Reserves	**Note**	**General Fund Balance**	**Earmarked General Fund Reserves**	**Capital Grants Unapplied Account**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 3 March 2017		**-**	**-**	**-**	**-**	**-**	**-**
Total Comprehensive Income & Expenditure		**(40,003)**	**-**	**-**	(40,003)	**-**	**(40,003)**
Adjustments between accounting basis & funding basis under regulations - Capital grants & contributions unapplied from the CIES		32,500	-	(32,500)	-	-	-
Net Increase before Transfers to Earmarked Reserves		(7,503)	-	(32,500)	(40,003)	-	(40,003)
Transfers to / (from) Reserves		446	(446)	-	-	-	-
Increase / (Decrease) in 2017		**(7,057)**	**(446)**	**(32,500)**	**(40,003)**	**-**	**(40,003)**
Balance at 31 March 2017 Carried Forward		**(7,057)**	**(446)**	**(32,500)**	**(40,003)**	**-**	**(40,003)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Combined Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Combined Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

3 March 2017	**Balance Sheet**	**Notes**	**31 March 2017**
£000			**£000**
-	**Long Term Assets**		**-**
-	Short Term Investments	0	27,000
-	Short Term Debtors	13	2
-	Cash & Cash Equivalents	11, 16	13,500
-	**Current Assets**		**40,502**
-	Short Term Creditors	14	(499)
-	**Current Liabilities**		**(499)**
-	**Long Term Liabilities**		**-**
-	**Net (Liabilities) / Assets**		**40,003**
-	Usable Reserves		(40,003)
-	Unusable Reserves		-
-	**Total Reserves**		**(40,003)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Combined Authority.

Cash Flow Statement	**Notes**	**2017 £000**
Net (Surplus) / Deficit on the Provision of Services		(40,003)
Adjustments to net surplus or deficit on the provision of services for Non Cash Movements		(497)
Adjustments for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		-
Net Cash Flows from Operating Activities		**(40,500)**
Investing Activities	15	27,000
Financing Activities		-
Net (Increase) / Decrease in Cash & Cash Equivalents		**(13,500)**
Cash & Cash Equivalents at the Beginning of the Reporting Period		-
Increase / (Decrease) in Cash and Cash Equivalents		13,500
Cash & Cash Equivalents at the end of the Reporting Period	16	**13,500**

1 External Audit Costs

The Authority has incurred the following cost in relation to the audit of the Statement of Accounts, certification of grant claims and for non-audit services provided by the Authority's external auditors, Ernst & Young LLP (EY).

External Audit Costs	2017
	£000
Fees payable with regard to external audit services carried out by the appointed auditor	18
Other services provided by the appointed auditor	-
Total	**18**

2 Mayor's and Member's Allowances

No mayor's or member's allowances were paid during the period.

James Palmer was elected as the first Mayor for Cambridgeshire and Peterborough on Thursday 4 May 2017.

3 Officers' Remuneration

The Accounts and Audit Regulations 2015 require the disclosure of certain details relating to employees whose remuneration was £50,000 or more. Additional disclosures are required relating to the organisation's Senior Employees.

These requirements only apply to directly employed staff. During the period the Combined Authority did not have any directly employed staff.

The Combined Authority agreed to appoint three senior officers from constituent councils to fulfil Combined Authority statutory roles whilst continuing the duties of their substantive posts. This arrangement continued until May 2017, or until the earlier permanent appointment to those roles. In each case, the officer's employment contract remained with the constituent council. For all three posts a fixed contribution was due to the officer's employing Council. The associated costs are detailed below.

These reflect transactions between the relevant councils, including currently irrecoverable VAT. No remuneration was received by the officers from the Combined Authority.

Post	Employing Body	Cost £000
Interim Chief Executive (Head of Paid Service)	Fenland District Council	45
Interim Chief Finance Officer	Peterborough City Council	36
Interim Monitoring Officer	Peterborough City Council	57

4 Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

Financing & Investment Income & Expenditure	2017
	£000
Interest Receivable & Similar Income (Note 0)*	(2)
Total	**(2)**

5 Comprehensive Income & Expenditure Statement – Taxation and Non Specific Grant Income

Taxation & Non-Specific Grant Income	2017
	£000
Non-Specific Government Grants	
Gain Share - Revenue	(8,000)
Total Non-Specific Grants	**(8,000)**
Capital Grants & Contributions	
Gain Share - Capital	(12,000)
Housing Grant - General	(10,000)
Housing Grant _ Cambridge	(10,500)
Total Capital Grants & Contributions	**(32,500)**
Total Income	**(40,500)**

6 Related Parties

The Combined Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Combined Authority or to be controlled or influenced by the Combined Authority.

a) Central Government

The UK Central Government has significant influence over the general operations of the Combined Authority, it is responsible for providing the statutory framework, within which the Combined Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Combined Authority has with other parties.

The Department for Communities and Local Government (CLG) provides the majority of the Combined Authority's capital expenditure financing.

The period's transactions, and period end balances were as follows;

	2017 £000
Income	
CLG – revenue grants	(8,000)
CLG – capital grants	(32,500)

b) Cambridgeshire and Peterborough Constituent Councils

The Leaders of the district councils, county council and unitary authority; and the Chair of the local enterprise partnership also serve as members of the Combined Authority.

The period's transactions, and period end balances were as follows;

	2017 £000
Expenditure	
General expenditure with councils	469
Creditors	
General creditors with councils	469

c) Members

The Members of the Combined Authority have direct control over the Combined Authority's financial and operating policies.

During the period no works or services were commissioned from companies in which any Members had an interest.

d) Officers

The senior officers of the Combined Authority may have direct control over the Combined Authority's financial and operating policies.

During the period no works or services were commissioned from companies in which the officers had an interest. However, as noted in Note 3 key management personnel and officers of Fenland District Council and Peterborough City Council are also the interim statutory officers of the Combined Authority.

The period's transactions, and period end balances with those councils are included in the transactions and balances set out in the table above.

7 Expenditure and Income Analysed by Nature

Expenditure and Income Analysed by Nature	2017
	£000
Expenditure	
Other Service Expenses	499
Total Expenditure	499
Income	
Interest & Investment Income	(2)
Government Grants & Contributions	(40,500)
Total Income	(40,502)
Deficit / (Surplus) on the Provision of Services	**(40,003)**

8 Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

General Fund Earmarked Reserves	3 March 2017	Transfers Out	Transfers In	Movement between Reserves	31 March 2017	Purpose of the Earmarked Reserve
	£000	£000	£000	£000	£000	
Revenue Reserve	-	81	500		419	This reserve provides a working balance to cover risks to the revenue budget. The transfer from reserves was made to fund currently irrecoverable VAT on expenditure during the period.
Departmental Reserves	-	-	27	-	27	These represent funding for items approved in the 2017 budget where due to timing differences expenditure will be incurred during 2017/18.
Total Reserves	**-**	**81**	**527**	**-**	**446**	

10 Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2017
Financial Assets	**£000**
Interest income	(2)
Total for Financial Assets	**(2)**
Total for Financial Liabilities	**-**
Net expenditure for the period	**(2)**

The following categories of financial instrument are carried in the Balance Sheet:

3 Mar 2017 Long Term	*3 Mar 2017 Current*	**Financial Instruments Balances**	**31 Mar 2017 Long Term**	**31 Mar 2017 Current**
£000	*£000*		**£000**	**£000**
-	-	Investments - Loans and receivables	-	17,000
		Total investments		**17,000**
-	-	Debtors - Loans and receivables	-	23,002
		Total Debtors		**23,000**

11 Fair Value of Financial Assets and Financial Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost.

Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB interest rates for new loans at 31 March 2017 have been used for loans from the PWLB;
- the prevailing rate of a similar instrument with a published market rate has been used as the discount factor for other loans receivable and payable
- no early repayment is recognised;
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The Cambridgeshire and Peterborough Combined Authority is not carrying any Financial Liabilities as at 31st March 2017. All Financial Assets held by the Authority are due to mature in less than 12 months so Fair Value is assumed to be the carrying amount. The input level in the fair value hierarchy is Level 1 for all Financial Assets held.

The Loans and Receivables value includes trade debtors. The Fair Values calculated are as follows:

3 March 2017			**31 March 2017**	
Carrying Amount	*Fair Value*	**Financial Assets**	**Carrying Amount**	**Fair Value**
£000	*£000*		**£000**	**£000**
-	-	Short Term Investments	17,000	17,000
-	-	Total Cash and bank	500	500
-	-	Other Short Term Loans & Receivables	23,002	23,002
-	-	**Total**	**40,502**	**40,502**

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

12 Nature and Extent of Risks Arising from Financial Instruments

The Combined Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Combined Authority.
- Liquidity risk – the possibility that the Combined Authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Combined Authority as a result of changes in such measures as interest rates and money market movements.

The Combined Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Capital and Treasury Team, under policies approved by the Authority in the Annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Combined Authority's customers.

The risk is minimised through the Annual Investment Policy, which requires that investments are not made with financial institutions unless they meet minimum credit criteria in accordance with the Fitch Moody's and Standard & Poor's Credit Ratings Services. This Policy also imposes a maximum sum to be invested with a financial institution located within each category.

The 2016/17 Annual Investment Policy sets out the credit criteria below although the Authority actually minimised the risk further by only investing with the Debt Management Office, its banking provider (Barclays), Bank of Scotland (part of the Lloyds Banking Group) and the CCLA money market fund.

The credit criteria in respect of financial assets held by the Combined Authority are as follows:

- Deposits could be made with banks and other financial institutions that have been rated by recognised independent credit rating agencies with a minimum score of "A", with £100m of the total amounted deposited in the highest rated category. The credit element of the methodology focuses solely on the Short and Long Term investment ratings, therefore no longer including the viability and financial strength of the institution.
- Deposits can be made with other institutions that have not found it necessary to maintain a credit rating e.g. local authorities, and these are subject to an assessment of risk that is carried out internally. Deposits to these bodies are limited to £50m in total.
- No more than £15m is held with any one banking institution, except for the Debt Management Office (DMO), regardless of standing or duration, and a range of counterparties that operate in different sectors in the UK is used to reduce risk exposure.

- All the counterparties used are licensed to accept deposits in the United Kingdom and are regulated by the Financial Conduct Authority.
- Creditworthiness advice and market intelligence is received from treasury advisors, Capita Asset Services.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Combined Authority.

The Combined Authority had a total of £15.0m deposited with the Debt Management Office (DMO), UK banks and CCLA at 31 March 2017. As the DMO is within the scope of HM Treasury this reduces the overall credit risk. There is a specific risk attached to amounts deposited with the individual institutions based on their ability to make interest payments and repay the principal outstanding, it is however more difficult to assess the risk in general terms. Recent experience has shown that it is rare for such entities to not meet their commitments. Whilst there is a risk of recoverability with regard to these deposits, there was no evidence that this was likely at 31 March 2017.

Liquidity Risk

The Combined Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. In the unlikely event that unexpected movements happen, the Authority has ready access to borrowings from the Public Works Loans Board (PWLB) and the money market generally. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market risk

Interest rate risk

The Combined Authority is exposed to risk in terms of its exposure to interest rate movements on its and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- investments at fixed rates – the fair value of the assets will fall
- investments at variable rates – the interest income credited to the (Surplus) / Deficit on the Provision of Services will rise

The Capital and Treasury Team assesses interest rate exposure which feeds into the setting of the annual budget and is used to update the forecasts during the period. This allows any adverse changes to be accommodated.

Price Risk

The Combined Authority does not invest in equity shares and hence currently has no exposure to losses arising from movements in the prices of the shares.

Foreign Exchange Risk

The Combined Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

13 Debtors

3 March 2017 £000	Debtors	31 March 2017 £000
-	Other entities and individuals	2
-	**Total Debtors**	**2**

14 Creditors

3 March 2017 £000	Creditors	31 March 2017 £000
-	Other local authorities	(469)
-	Other entities and individuals	(30)
-	**Total Creditors**	**(499)**

15 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2015/16 £000	Cash Flow Statement – Investing Activities	2017 £000
-	Purchase of Short Term Investments	27,000
-	**Net cash flows from investing activities**	**27,000**

16 Cash Flow Statement – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is shown in the following table.

2015/16 £000	Cash Flow Statement – Cash and Cash Equivalents	2017 £000
-	Short Term Cash Investments	40,000
-	Bank Current Accounts	500
-	**Total Cash & Cash Equivalents**	**40,500**

17 Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out above, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Combined Authority's VAT registration is not yet complete. Furthermore in order to reclaim non-business related VAT, a Section 33 order is required, and this has not yet been enacted by HM Treasury, but is expected to be in place later this year. Discussions are ongoing with HMRC and it is hoped that all VAT will be eventually be reclaimed. As this is not confirmed, the Combined Authority has determined that a prudent approach should be taken to the expenditure in the accounts and no recovery of VAT has been assumed. Once the necessary arrangements are in

place, any VAT related to the period covered by these accounts will be recovered in the next accounting period.

- The Combined Authority has received a number of capital grants, see note 5. A judgement has been required for each one, and although some of the grants have been ring fenced for specific purposes, there are no conditions in place that satisfy the requirements of the Code to treat the unspent elements of the grants as Capital Grant Receipts in Advance. All unspent capital grant funding has been accounted for in the CIES and transferred to the Capital Grants Unapplied Reserve.

18 Authorisation of the Accounts

The Interim Chief Finance Officer authorises these accounts to be issued on 30 June 2017.

Accounting Policies

General Principles

The Statement of Accounts summarises the Combined Authority's ('the Authority') transactions for the period 3 March 2017 to 31 March 2017 and its position at the period-end 31 March 2017. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015.

The Statement of Accounts must be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Underlying Assumptions

Going Concern

The accounts have been prepared on the assumption that the Authority will continue in existence for the foreseeable future.

Primacy of Legislation Requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards. The following legislative accounting requirements have been applied when compiling these accounts:

- Capital receipts from the disposal of property, plant and equipment are treated in accordance with the provisions of the Local Government Act 2003;
- The Local Government Act 2003 requires the Authority to set aside a minimum revenue provision.

Accruals of Income and Expenditure

Activity is accounted for in the period that it takes place, not when cash is paid or received. In particular;

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Events after the Reporting Period

These are events that occur between the end of the accounting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- If events provide new evidence of conditions that existed at the balance sheet date the Statement of Accounts is adjusted.
- Other events are only indicative of conditions that arose after the balance sheet date. The Statement of Accounts is not adjusted. But where such a category of events would have a material effect, disclosure is made in the notes. The note sets out of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority is contractually committed to a financial instrument. They are initially measured at fair value. They are carried at their amortised cost.

The amount charged to revenue is based on the effective interest rate. The effective interest rate discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The carrying value for most loans is outstanding principal repayable plus accrued interest. Interest charged to the CIES is the amount payable under the agreement.

Annual charges for these loans are made to the Financing and Investment Income and Expenditure line in the CIES. The charge is the carrying amount of the liability multiplied by the effective rate of interest.

For these loans the difference between the annual charge and the cash paid is reversed out in the MIRS.

Gains and losses on the repurchase or early settlement of borrowing are charged to the Financing and Investment Income and Expenditure line in the CIES.

Repurchase may be part of restructuring the Authority's loans portfolio. Restructuring involves the modification or exchange of existing instruments.

Any premium or discount on redemption of loans is added to the amortised value of the replacement loan. Premiums and discounts are written down to the CIES. This is done by adjusting the effective interest rate. Regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the charge over the remaining term of the loan replaced.

The amount charged to the CIES may differ from the charge against the General Fund Balance. An appropriate transfer is made from the Financial Instruments Adjustment Account in the MIRS.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority is contractually committed to a financial instrument. They are initially measured at fair value. They are carried at their amortised cost.

The amount credited to revenue is based on the effective interest rate. The effective interest rate discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

The carrying value for most loans made by the Authority is outstanding principal repayable plus accrued interest. Interest credited to the CIES is the amount payable under the agreement.

When soft loans are made, a loss is recorded in the CIES. The loss is charged to the appropriate service line. The loss is the present value of the interest that will be foregone over the life of the instrument. The amortised value is therefore lower than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES. The effective rate of interest is higher than the actual rate, increasing the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the accounting period. The amount charged to the CIES may differ from the charge against the General Fund Balance. An appropriate transfer is made from the Financial Instruments Adjustment Account in the MIRS.

Assets are identified as impaired if there is a likelihood arising from a past event that payments due under the contract will not be made. The asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the

CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows. The calculation is made by discounting at the asset's original effective interest rate.

Any losses that arise on the derecognition of an asset are charged to the Financing and Investment Income and Expenditure line in the CIES.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority is contractually committed to a financial instrument. The assets are initially measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits are made to the Financing and Investment Income and Expenditure line in the CIES. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Some assets do not have fixed or determinable payments. Income is credited to the CIES when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach)

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain / loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

The exception is where impairment losses have been incurred. Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Assets are impaired if

- There is a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments). The impairment loss is the difference between the carrying amount and the present value of the revised future cash flows. The calculation uses the asset's original effective interest rate.
- Fair value falls below cost. The impairment loss is the shortfall of fair value against the acquisition cost of the instrument. The acquisition cost is net of any principal repayment and amortisation.

Any gains and / or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that;

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Authority are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that period. It is included in the Surplus or Deficit on the Provision of Services in the CIES.

The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits. These reserves are not usable resources for the Authority – these reserves are explained in the relevant policies.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Glossary

Accounting Period - 1st April to 31st March is the local authority accounting period. For 2017, the period is 3 March 2017 to 31 March 2017. It is also termed the financial year or financial period.

Accruals - Revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are accrued with income and expenditure due but unpaid at 31 March brought into the accounts.

Annual Governance Statement – Identifies the systems that the Authority has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

Balance Sheet – This statement is fundamental to the understanding of the Authority's financial position at the period-end. It shows the balances and reserves at the Authority's disposal and its long term indebtedness. It also shows the long term and net current assets employed in its operations.

Balances – The non-earmarked reserves of the Authority. These are made up of the accumulated surplus of income over expenditure. This is known as the General Fund Balance. Adequate revenue balances are needed to meet unexpected expenditure or a shortfall in income. The Authority may decide to use its revenue balances to reduce its budget and thus its call on the Collection Fund.

Budget - A statement of an Authority's plans for net revenue and capital expenditure.

Capital Expenditure - Expenditure on the acquisition or development of major assets which will be of use or benefit to a Authority in providing its services beyond the period of account.

Capital Grant - A grant received towards the capital expenditure incurred on a particular service or project. Capital grants can be made by an Authority.

Cash Equivalent – An investment that is liquid and matures within 3 months. There is no significant risk to the value on redemption.

Code of Practice on Local Authority Accounting – The statutory accounting code published by CIPFA.

Comprehensive Income and Expenditure Statement or CIES- Reports the income and expenditure for all the Authority's services. The CIES demonstrates how services have been financed from general government grants and income from taxpayers.

Creditor - An amount owed by the Authority for work done, goods received or services rendered to the Authority within the accounting period but for which payment has not been made.

Current Asset - An asset which can be expected to be consumed or realised during the next accounting period.

Current Liability - An amount which will become payable or could be called in within the next accounting period.

Debtor - An amount owed to the Authority within the accounting period, but not received at the Balance Sheet date.

Effective Rate of Interest – The rate of interest that is consistent with estimated cash flows over the life of a financial instrument and its initial value in the balance sheet. It is calculated using discounted cash flow.

Fair Value – Fair value is an important in setting the value for various assets in the balance sheet. It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset – A right to future economic benefits controlled by the Authority. Examples include bank deposits, investments made and loans receivable by the Authority.

Financial Instrument – This is an important definition in understanding the accounts. It includes both financial assets and liabilities. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Liability – An obligation to transfer economic benefits controlled by the Authority. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

General Fund - The main fund of the Authority that meets the cost of most services provided by the Authority. The services are paid for from Council Tax, business rates, government grant and other income.

Government Grants and Subsidies - Grants towards either the revenue or capital cost of Authority services. These may be either in respect of particular services or purposes, (specific and supplementary grants), or in aid of local services generally such as Revenue Support Grant.

Movement in Reserves Statement or MIRS – This statement shows the movement in the period on the different reserves held by the Authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

Non-current asset - An asset which has value beyond one financial year.

Non-Domestic Rates (NDR) or business rates - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property. There is a lower multiplier for small businesses.

Precept - The amount a local authority that cannot levy a council tax directly on the public requires it to be collected on its behalf. The Authority collects precepts on behalf of Cambridgeshire Constabulary, Cambridgeshire Fire and Rescue Service and 25 Parish Councils.

Reserves - Amounts set aside for purposes falling outside the strict definition of provisions are considered as reserves. Reserves include earmarked reserves set aside for specific projects or service areas, or expected future commitments.

Revenue Expenditure - The day-to-day running costs the Authority incurs in providing services (as opposed to capital expenditure).

Usable Reserves – Those reserves that can be applied by the Authority to fund expenditure or reduce local taxation.

Unusable Reserves – Those reserves that absorb the timing differences arising from different accounting arrangements. Unusable reserves are not available to fund expenditure or reduce local taxation.

Index of Notes to the Core Financial Statements

Annual Governance Statement

3 March 2017 to 31 March 2017

Scope of Responsibility

The Cambridgeshire and Peterborough Combined Authority ("the Authority") is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Combined Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk.

As the Authority was formally established on 3 March 2017, the organisation is in its infancy and this is its first statement. Prior to its establishment, a shadow board was set up in December 2016 to oversee the development of the Authority's corporate governance arrangements. The Authority has made good progress which is described in this statement and further progress will be made throughout the year. A copy of the Authority's constitution is available on its website.

The governance arrangements being developed will comply with the principles of the Local Code of Governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government 2016*

This statement explains how the Combined Authority has complied with the Code and meets the requirements of the Accounts and Audit (England) Regulations 2015 Regulation 6.1 (b) in relation to the publication of an Annual Governance Statement.

The Authority acknowledges that good governance arrangements will enable it to establish effective policies and to deliver ambitious programmes to communities in the combined authority area. The arrangements put in place must be both robust and adaptable to deliver its objectives in a dynamic and strategic environment. For this reason, a review has been undertaken to establish progress in implementing its governance arrangements against the 2016 principles.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the Authority is directed and controlled and how it engages with and leads the community in those activities for which it is accountable. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the

Authority's policies, aims and objectives, to evaluate the likelihood of and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

As the organisation is in its infancy, the governance framework is in its development stage.

The Governance Framework

Context

Between March and June 2016, seven constituent councils across the Cambridgeshire and Peterborough area negotiated a devolution deal with Government. In June 2016, the constituent councils agreed a scheme for a combined authority for the Cambridgeshire and Peterborough area, with a directly elected Mayor, for wider consultation. Following extensive consultation with residents, businesses and stakeholders in Cambridgeshire and Peterborough over a six week period, the seven councils submitted the scheme to the Secretary of State for approval in November 2016. The Cambridgeshire and Peterborough Combined Authority Order 2017 was made on 2 March 2017 and came into force on 3 March 2017.

The Cities and Local Government Devolution Act 2016 came into force on 28 March 2016, making Cambridgeshire and Peterborough local authorities amongst the first to establish a combined authority for its area under these new provisions.

The powers which have been devolved from Central Government to the Combined Authority include:

- Control of a new additional £20 million a year funding allocation, over 30 years, to be invested to the Cambridgeshire and Peterborough Single Investment Fund, to boost growth.
- £170 million to deliver new homes over a five-year period in Cambridgeshire and Peterborough which includes affordable, rented and shared ownership housing
- Responsibility for chairing an area-based review of 16+ skills provision
- Responsibility to develop a more effective joint working with the Department for International Trade to boost trade and investment through agreement of a Joint Export Plan
- Powers devolved to the new Mayor as part of the devolution plan include:
    - Responsibility for a multi-year, consolidated and devolved transport budget
    - Responsibility for an identified Key Route Network of local authority roads
    - Powers over strategic planning and the responsibility to create a non-statutory spatial framework for Cambridgeshire and Peterborough and to develop with Government a Land Commission.

The Combined Authority is small in size and strategic in nature. The Authority will adopt a commissioning model with delivery being undertaken by those best qualified to do so across the public and private sector.

Prior to the making of the Order, the constituent councils agreed to set up a shadow board to begin the process of putting in place appropriate governance arrangements to establish the Authority. Following the making of the order, the first meeting of the Combined Authority Board was held on 20 March 2017, and the Authority's first directly elected Mayor was elected on 4 May 2017 for a four year term of office until May 2021.

Cambridgeshire and Peterborough Combined Authority Structure

The Authority is made up of a directly elected Mayor and the following seven local authorities (referred to as the Constituent Councils) and the Greater Cambridge Greater Peterborough Enterprise Partnership "the LEP":

- Cambridge City Council;
- Cambridgeshire County Council;
- East Cambridgeshire District Council;
- Fenland District Council;
- Huntingdonshire District Council;
- Peterborough City Council; and
- South Cambridgeshire District Council.

The Constitution for the Authority sets out the Authority's governance arrangements. It sets out the powers and functions of the Combined Authority, including matters reserved to the Mayor and Board, financial procedures, contract standing orders, Member Codes of Conduct, the scheme of delegation to officers and arrangements for the operation of an overview and scrutiny committee, and an audit and governance committee function.

The Scheme of Delegation provides for the day to day management and oversight of the Authority including the responsibilities of the Head of Paid Service, the Chief Finance Officer and the Monitoring Officer.

The key elements of the governance framework, its systems and processes, are outlined below.

Board

Each of the Constituent Councils appoints a nominated representative to be a Member of the Combined Authority and another Member to act in his or her absence. The LEP will nominate one of its Members, normally the Chair and a substitute member. The Combined Authority Members comprise the Board. The Board's role and powers are set out in the constitution. Essentially, it provides strategic leadership for the Combined Authority area, approving strategies, policies and overseeing fiscal matters to ensure that the required outcomes are delivered. The Board meets monthly.

The Combined Authority Board has invited the following organisations with direct responsibility for functions relevant to the Combined Authority objectives to become Co-opted Members to attend the Combined Authority Board and may take part in the debate.

(a) The Police and Crime Commissioner for Cambridgeshire;
(b) Cambridgeshire and Peterborough Fire Authority representative;
(c) Clinical Commissioning Group representative.

Mayor

Certain functions are reserved to the Mayor as set down in the Order and the Constitution. The Mayor has an overall leadership role and chairs the Board meetings. Both the Mayor and the Combined Authority have a general power of competence.

The functions of the Combined Authority are grouped into portfolios. In accordance with the Combined Authority's Constitution, the Mayor and the Combined Authority Board agree portfolio responsibilities in respect of those functions. The Mayor allocates the agreed portfolio responsibilities to each Member of the seven constituent councils. Each portfolio holder leads on his/her allocated portfolio functions and is accountable for his/her portfolio area. The Mayor has appointed two deputies.

Investment Working Group and the Delivery Working Group

The Board is supported by two working groups: The Investment Working Group and the Delivery Working Group. Their terms of reference and membership are set out in the constitution. The operational governance arrangements are summarised in Appendix 1.

Investment Working Group

The Investment Group will oversee the development of investment opportunities from conception stage through to full, detailed business cases for approval by the Combined Authority Board. It is expected to meet monthly, or more frequently in the initial stages.

It will consider the area's future needs for infrastructure investment and help to maintain Cambridgeshire's competitiveness in the UK and across the world. It will take its lead from the Fiscal Strategy and work with the Single Investment Pot in addition to developing opportunities to lever private investment into the area.

The economic strategy will provide the basis for investment decisions made by the Authority, although investments may take into account the objectives of the Cambridgeshire and Peterborough Devolution Deal. This will form the basis for business cases and show the linkages between single pot investments and growth in the economy of the area. The economic strategy will directly inform the development of the Cambridgeshire and Peterborough CA Infrastructure and Investment Plan. The plan will identify the strategic programmes and projects that will deliver sustainable economic growth and support the social economy and health and well-being of the area.

Projects brought forward to the Investment Group may include schemes that enable housing, economic growth, skills, transport and digital connectivity. It will make recommendations to the Combined Authority Board as to the robustness of the business cases.

The Authority has agreed with Government an assurance framework. The Investment Group will provide assurance to the Board and Government through the implementation of the framework arrangements. The expected inputs and outputs from the group are summarised in Appendix 1.

Delivery Working Group

The Delivery Group will oversee the implementation of the devolution programme and its component projects or schemes, which may be cross-cutting or have interdependencies. It is expected to meet monthly.

It is the group to whom those commissioned to deliver projects initially report and it is accountable to the Combined Authority Board for the successful implementation and the achievement of the desired targets and outcomes.

The Authority has agreed a monitoring and evaluation framework with Government. The Delivery Group will provide assurance to the Combined Authority Board and to Central Government through robust monitoring and evaluation arrangements for each of the commissioned projects. The expected inputs and outputs from the group are summarised in Appendix 1.

Overview and Scrutiny Committee

At its first annual meeting, the Board established an overview and scrutiny committee. The committee has been established to comply with the requirements of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017

It comprises 14 elected councillors, two from each of the seven constituent councils, and reflects the political balance across the combined authority area. Its primary role is to review and scrutinise decisions of the combined authority, prior to or after they have been made. They will monitor the forward plan of forthcoming key decisions, and may call-in any of these decisions where members consider that further scrutiny and challenge is required.

A shadow committee was set up earlier in the year and work began with the Centre for Public Scrutiny to explore other areas of scrutiny. Members are keen to undertake other roles including pre-decision scrutiny where they can act as a “critical friend” to highlight key issues, and challenge policies at the developmental stage. Now the committee is formally established it will be developing its role and it relationship with the board.

Audit and Governance Committee

The Board has established an Audit and Governance Committee in accordance with the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017. It comprises 7 elected members reflecting the political balance across the area and an independent person who will also chair the meetings.

The Greater Cambridge Greater Peterborough Enterprise Partnership

The Greater Cambridge Greater Peterborough Enterprise Partnership is a voluntary partnership between constituent councils and non-constituent local authorities and the business community, playing a key role in determining local economic priorities and growth. The Partnership is a key interface with Centre Government and the region, and offers policy advice and strategic direction aligned to the Authority's objectives. The LEP is a key member of the Combined Authority. Three local authority leaders and the Mayor are members of the LEP recognising the importance of the LEP's role and the private sector in any growth strategies for delivery in the Combined Authority area.

Decision Making

All agendas and reports produced for meetings of the Combined Authority and its associated Committees are issued to members and published on the Authority's website in accordance with access to information requirements in the 2017 Order. All board and committee meetings are held in public.

A Forward Plan identifying strategic decisions that will be made by the Board over a four month period is updated and presented to the Board each month. It will also include all forthcoming key decisions which require at least 28 days' notice.

Notice of decisions are also published no more than two days after the meeting and are not implemented until four days after they are published to enable the overview and scrutiny committee to exercise its right to call-in decisions.

Financial Management

A key responsibility of the Combined Authority is determining, agreeing and monitoring appropriate budgets in order for it to be able to fulfil strategic objective. The First budget was agreed at the first Board meeting in March 2017 and is regularly reviewed by the Board.

A budget framework has been agreed for setting the budget in future years which takes account of the process laid down in the Combined Authorities (Finance) Order 2017

In summary, for the financial year 2018/9 onwards, the draft Budget shall be submitted to the Combined Authority Board for consideration and approval for consultation purposes before the end of December. The Board will agree the timetable for consultation and those to be consulted. The consultation period shall not be less than four weeks, and the consultees shall include Constituent Authorities, the Local Enterprise Partnership and the Overview and Scrutiny Committee.

Before 1st February, having taken into account the draft Budget, the consultation responses, and any other relevant factors, the proposed budget for the following financial year, including the Mayor's budget, will be submitted to the Board for final approval. There is also a process for agreeing the Mayor's budget where no agreement can be reached.

Developing Capacity

The member structure is well defined, and following the appointment of the Chief Executive, a workforce plan will be developed to identify the resources required to ensure the organisation is best placed to deliver its objectives through a commissioning model.

Internal Audit

Peterborough City Council provides the internal audit function, and the Chief Internal Auditor will be submitting the first audit plan to the first meeting of the Audit and Governance Committee.

External Audit

Ernst & Young LLP has been appointed as the Authority's external auditors and will be auditing these accounts.

Risk Management

The Authority's Audit and Governance Committee is responsible for overseeing the Authority's risk management strategy and corporate risk register.

Corporate and project risk will be identified, recorded and will be monitored by the Delivery Group and the Audit and Governance Committee, and escalated to the Board where needed.

Managing Performance

Given the level of investment the combined authority will generate, it is vital that robust programme management processes are developed for its programmes, across distinct themes and for collective consideration of outputs and outcomes. An evaluation and performance framework has been agreed by the Board and Government. A Performance Management Framework will be developed to monitor the impact of projects/programmes and to bring all the funding streams and programmes together to monitor cross cutting issues, and provide output and outcome information.

Review of Effectiveness

The Authority has responsibility for conducting an annual review of the effectiveness of its governance framework. This includes consideration of systems of internal control and arrangements for internal audit and assurance statement from key officers. The Authority is in its infancy, just three months old. Therefore this review has focused on where we are now and where we want to be in the year ahead against the Good Governance Principles.

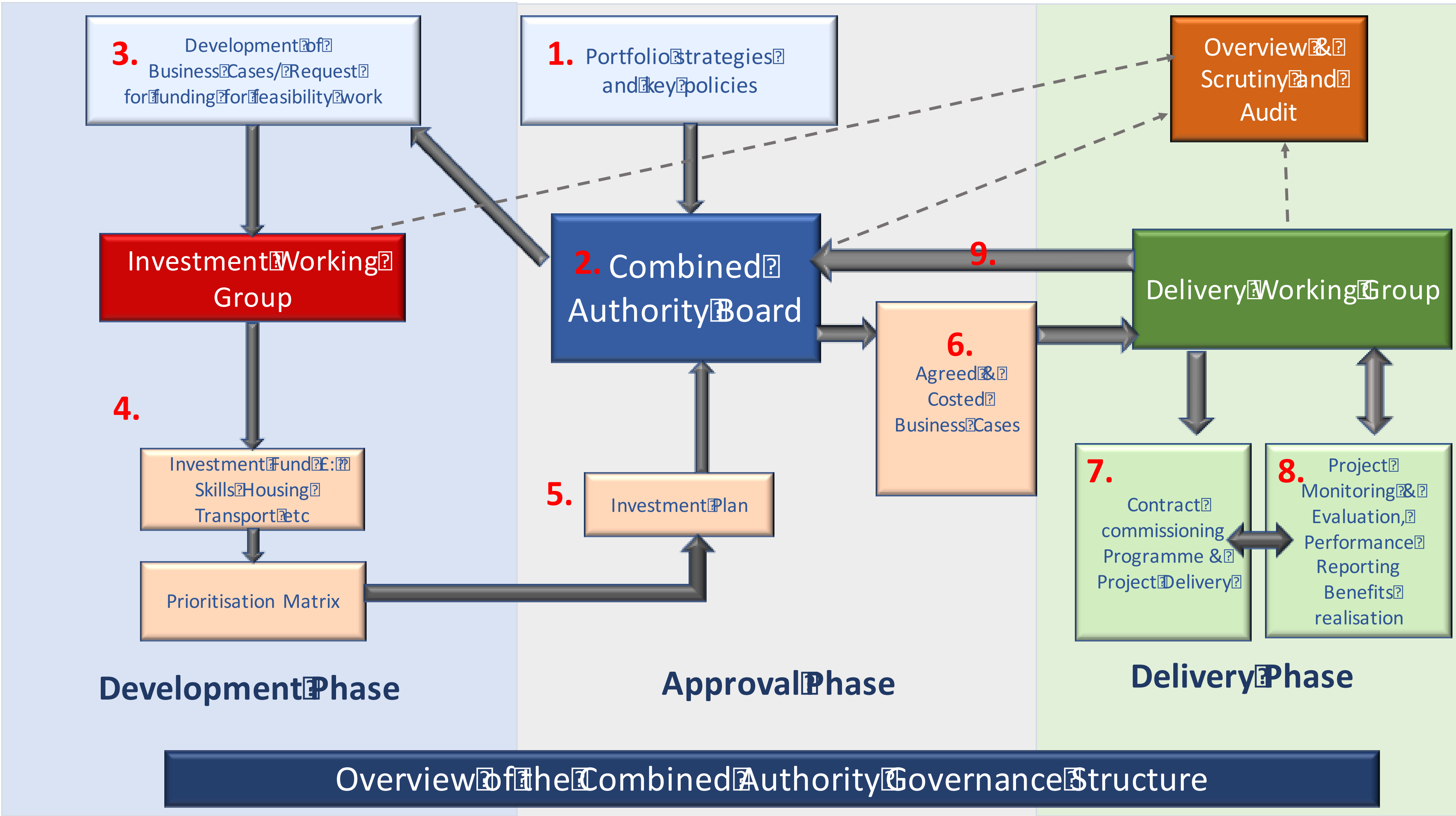
Governance Issues

The following actions to develop the governance arrangements are planned over the next year:

Issue	Action Required	Responsible Officer	Date of Completion
Code of Corporate Governance	Establish a Code of Corporate Governance in line with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.	Kim Sawyer/Monitoring Officer & Finance Officer	
Whistleblowing,	These policies to be developed.	Kim Sawyer. Monitoring Officer	
Anti-fraud and corruptions Policies	These policies to be developed	Kim Sawyer, Monitoring Officer & Finance Officer	
Complaints procedure	Procedure to be developed once staff in place	Kim Sawyer. Monitoring Officer	
Risk Management	Establish risk management and reporting arrangements for corporate and individual projects.	Martin Whiteley, Interim Chief Executive/Chief Finance Officer	
Communications Strategy	A strategy to be developed to include partnership frameworks and community engagement	Kim Sawyer. Monitoring Officer	
Economic Strategy	Strategy to identify evidence base	Martin Whiteley, Interim Chief Executive	
Infrastructure and Investment Plan	Plan to identify strategic programmes and projects	Martin Whiteley, Interim Chief Executive	
Performance Management	Systems to be established	Martin Whiteley, Interim Chief Executive	

Governance

The Diagram below shows the high-level roles, relationships & reporting lines between the different structures in the Combined Authority.



Combined Authority Board

Role	To provide strategic leadership for the Combined Authority area, approving strategies, policies and overseeing fiscal matters to ensure that the required outcomes are delivered
Membership	The elected Mayor (Chair) One elected member from each Constituent council One member from the Local Enterprise Partnership
Meetings	Monthly

Items requiring Combined Authority Board Approval		
Strategies/ Policies/ Frameworks	Budget Matters	Governance
• Economic Strategy • Investment Plan • Growth Strategy • Evidence Base • Housing Strategy • Local Transport Plan • Skills Strategy • Delivery Plan • Other strategies and plans as agreed • Assurance Framework • Programme Management Framework • Prioritisation Framework • Monitoring & Evaluation Framework • Equality Framework	• CA budget • Fiscal Strategy • Plans for the allocation of transport-related funding • Treasury Management Strategy including borrowing limits • Capital Investment Strategy • Single Investment Fund Allocation	• Constitution • Establishment & membership of committees & sub-committees • Establishment and membership of Joint committees and commissions • Mayoral Allowance • Appointments of Statutory Officers • Appointment of Independent Person for Audit & Governance Committee • Any other matters reserved to the Board

Inputs to Combined Authority Board	Outputs from Combined Authority Board
For approval: • Strategies, polices & frameworks • Projects selected for inclusion via the prioritisation framework • Business Cases • Budget matters (as per above list) • Financial decisions • Statutory Officer & Independent Person appointments • Governance arrangements (as per above list) **For guidance/ decision:** • Matters where a project or scheme has a major risk or issue that has been escalated to the Board • Other issues where guidance is required prior to CA board decision or escalation **For information:** • Reports including monitoring and evaluation of investment decisions • Delivery Working Group report including ➢ Progress reports on overall programme/ project delivery • Corporate risk register and issues log • Outcomes of consultations • Audit reports	• Publicly available minutes • Record of decisions • Approved budget, strategies, frameworks, business cases etc • Clear direction & instructions to the Investment Group and Working Group • Commissions i.e. to establish a sub-committee or agree to commission a partner authority to deliver a workstream • Reports to DCLG as required

Investment Group

Role	The Investment Group will oversee the development of investment opportunities from conception stage through to full, detailed business cases for approval by the Combined Authority Board. It will consider the area's future needs for infrastructure investment and help to maintain Cambridgeshire's competitiveness in the UK and across the world. It will take its lead from the Fiscal Strategy and work with the Single Investment Pot in addition to developing opportunities to lever private investment into the area. Projects brought forward to the Investment Group may include schemes that enable housing, economic growth, skills, transport and digital connectivity. It will make recommendations to the Combined Authority Board as to the robustness of the business cases. It will provide assurance to The Combined Authority Board and to Central Government through the implementation the Assurance Framework arrangements.
Membership	Deputy Mayor (Statutory) - Chair Fiscal Portfolio Holder (Vice-Chair) Strategic Planning Portfolio Holder Chair of the LEP Supported by senior financial and legal advisors as appropriate
Meetings	Monthly

<table>
<tr><th colspan="4">Items requiring Investment Group input or action</th></tr>
<tr><th>Strategies/ Policies</th><th>Budget Matters</th><th>Delivery-related</th><th>Governance</th></tr>
<tr>
<td>Fiscal Strategy
Investment Strategy
Strategic Infrastructure Delivery Plan
Local Transport Plan
Transport Strategy including Key Route Network (management & maintenance)
Bus Franchising (subject to the Bus Services Bill)
Investment Plan</td>
<td>CA budget (& MTFP)
Local Transport Budget
Single Investment Pot
19+ Skills budget (from 19/20)
Apprenticeship Grant for Employers
Contracts (as per contract standing orders)
New Local Government Finance System</td>
<td>Prioritisation Framework
Project Appraisal process
Individual business cases for schemes/ projects
Individual project/ programme risks, issues, changes, exceptions, close down</td>
<td>Governance arrangements
Assurance Framework refresh
5-yearly evaluation panels (Investment Fund Grant)</td>
</tr>
<tr><th colspan="2">Inputs to Investment Group</th><th colspan="2">Outputs from Investment Group</th></tr>
<tr>
<td colspan="2">For review and comment to the CA Board:
Strategies, polices & frameworks (will feed into the Investment Plan produced by the Investment Group)
Business Cases (linked to prioritisation framework)
Budgets
Financial decisions
Governance arrangements</td>
<td colspan="2">Minutes of the meetings
Recommendations to the CA Board on budgets, strategies, frameworks, business cases etc
Investment programme/ project pipeline
Investment Plan
Reports on the Investment budget (Single Pot)
Reports that provide an assessment of the outcomes and impact of each project to the Combined Authority Board
Reports for Overview and Scrutiny</td>
</tr>
</table>

For Investment Group action: • Draft Investment Strategy for detailed review and input • Draft Investment Budget (single pot) for detailed review, input and comments throughout its stages of preparation • Development of an Investment Plan • Business Cases for projects that are to be assessed via the prioritisation framework • Matters where a project or scheme has a financial risk or issue that has been escalated to the Investment Group • Other issues where guidance is required prior to CA Board decisions • Annual review of Local Assurance Framework • Outcome reports from the Delivery Group to be reviewed and inputted to, identifying the benefits, direct and indirect impacts in order to provide evidence of success of the investment • Project Closedown report for Investment Group recommendation to closedown **For information:** • Economic and other local data/ Intelligence to inform strategy development and identification of needs • Modelling information and data to inform options • Delivery Group reports • Progress reports on overall programme/ project delivery • Corporate risk register and issues log • Outcomes of consultations • Audit reports	• Commissions i.e. to produce an investment strategy, investment budget • Refreshed Local Assurance Framework

Delivery Group

Role	The Delivery Group will oversee the implementation of an approved Cambridgeshire and Peterborough devolution programme and its component projects or schemes, which may be cross-cutting or have interdependencies. It is the group to whom those commissioned to deliver projects initially report and is accountable to the Combined Authority Board for the successful implementation and the achievement of the desired targets and outcomes. It will provide assurance to The Combined Authority Board and to Central Government through robust monitoring and evaluation arrangements for each of the commissioned projects. Projects may include schemes that enable housing, economic growth, skills, transport and digital connectivity.
Membership	Deputy Mayor (Constitutional) - Chair Housing Portfolio Holder (Vice Chair) Employment & Skills Portfolio Holder Transport & Infrastructure Portfolio Holder It will invite to the Board non-voting independent advisors such as financial and legal professionals and those with specialist expertise in matters relating to the programmes to be delivered, as it considers appropriate.
Meetings	Monthly

Items requiring Delivery Board Review, Input or Action

Strategies/ Policies	Budget Matters	Delivery-related	Governance
• Investment Plan for information • Other strategies and plans for information only	• MTFP for information • Contract approval (as per contract standing orders) • Monitoring delivery of approved projects/ schemes against budget	• Strategic Programme Delivery Plan • Individual business cases for schemes/ projects • Individual project/ programme risks, issues, changes, exceptions • Performance Management & Reporting • Day to Day project Monitoring & Evaluation • Benefits realisation & Outcome Measurement • Agreements with providers/ partners	• Governance arrangements 1. Assurance Framework refresh 2. Monitoring & Evaluation Framework 3. 5-yearly evaluation panels (Investment Fund Grant) 4. Performance Management Framework

Inputs to Delivery Group	Outputs from Delivery Group
For review and comment to the CA Group: • Strategies, polices & frameworks as appropriate • Business Cases (since this Group will oversee their delivery) **For the Operation of the Delivery Group:**	• Minutes of the meetings • Record of decisions (made within the parameters allowed) • Recommendations to the CA Board as appropriate • Programme Management Framework • Strategic Programme Delivery Plan

Initial items: • Programme management arrangements including Toolkit and reporting templates to be agreed and implemented across all projects • Standard Contract management arrangements to be developed • Performance Management arrangements and reporting to be developed *Ongoing items:* • Pipeline of projects from Investment Group and approved by CA Board to be built into Strategic Programme Delivery Plan • Project plans from leads for initial signoff before commencement • Detailed programme plans, project resourcing plan, corporate risk register and issues log for review and maintenance • Project Highlight reports for review, direction and comment • Exception reports where a project or scheme has a financial, technical, timescale or other risk/ issue • Other issues where guidance is required prior to CA Board decisions or escalation • Draft outcome reports identifying the benefits, direct and indirect impacts in order to provide evidence of success of the investment – production overseen by the Delivery Group for submission to the Investment Group and the CA Board • Project Closedown report for Investment Group agreement • Lessons Learned Log – review and learning shared • Annual review of Evaluation and Monitoring Framework	• Individual detailed project plans (with officer support) • Refreshed Evaluation and Monitoring Framework (annual) • Project update reports and overall programme update reports • Highlight and exception reporting • Corporate Risk Register and Issues Log • Lessons Learned Log • Reports that provide an assessment of the benefits, outcomes and impacts of each project to the Investment Board (for input) and the Combined Authority Board • Reports for Overview and Scrutiny • Project Closedown reports to Investment Group & CA Board

<table>
<tr>
<td>For information:

Economic and other local data/ Intelligence to inform strategy development and identification of needs
Modelling information and data to inform options
Delivery Group reports
Progress reports on overall programme/ project delivery
Corporate risk register and issues log
Outcomes of consultations
Audit reports

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AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 3.2
26 June 2017	**PUBLIC REPORT**

TITLE: EXTERNAL AUDIT

1 PURPOSE

1.1 To enable the Audit and Governance Committee to discuss the Audit Plan for the audit of the 2016/17 Statement of Accounts with Ernst & Young LLP.

DECISION REQUIRED
FROM: John Harrison, Interim Chief Finance Officer
Lead Officer: John Harrison, Interim Chief Finance Officer
Author: Jon Alsop, Accountant Audit Plan: Suresh Patel, Executive Director, Ernst & Young LLP
RECOMMENDATIONS That members agree the Audit Plan.

2 BACKGROUND

2.1 According to the Cambridgeshire and Peterborough Combined Authority (CPCA) Audit and Governance Committee Terms of Reference (the subject of a separate Board paper to this meeting), the Committee's responsibilities for external audit are as follows:

- Review the annual accounts;

- Consider the annual external audit of the Combined Authority's accounts, including the Annual Audit Letter and assessing the implications and monitoring managers' response to concerns
- Consider any issues arising from External Auditor's audit of the accounts

2.2 Following consultation with Officers of the Combined Authority, Public Sector Audit Appointments Limited (PSAA) confirmed the proposed appointment of Ernst & Young LLP as the external auditor of CPCA for the period from 3 March 2017 to 31 March 2018.

2.3 The PSAA Board approved the appointment of Ernst & Young LLP at its meeting on 5 April 2017.

2.4 The appointment was made under section 3 of the Audit Commission Act 1998, saved under provisions of the Local Audit and Accountability Act 2014 and delegated to PSAA by the Secretary of State for Communities and Local Government.

3 MAIN ISSUES

3.1 Ernst & Young LLP have provided the Committee with their Audit Plan which sets out how they intend to carry out their responsibilities in their first year as auditor for CPCA. The Audit Plan is shown at Appendix 1.

3.2 The purpose of the Audit Plan is to provide the Audit & Governance Committee with a basis to review their proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by PSAA, auditing standards and other professional requirements.

3.3 The plan is also to ensure that the audit is aligned with the Committee's service expectations. The plan recognises the unusual circumstances of preparing financial statements for a four week period and the need to undertake a full external audit, including a value for money conclusion.

3.4 The plan summarises Ernst & Young's initial assessment of the key risks driving the development of an effective audit for the Authority and outlines their planned audit strategy in response to those risks.

4 FINANCIAL IMPLICATIONS

4.1 The agreed audit fee for the 'Opinion Audit' of the 2016/17 CPCA Statement of Accounts is £15,000.

5 LEGAL IMPLICATION

5.1 The Local Audit and Accountability Act 2014 requires local authorities to put in place arrangements for the appointment of external auditors

6 EQUALITIES IMPLICATION

6.1 None specific

7 **APPENDICES**

7.1 The Ernst & Young LLP Audit Plan for the period ended 31 March 2017 is attached at Appendix 1

Source Documents	**Location**
None	

Cambridgeshire & Peterborough Combined Authority

Year ending 31 March 2017

Audit Plan

To be presented to the Audit & Governance Committee on
26 June 2017

Ernst & Young LLP
1 More London Place
London
SE1 2AF
Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

Audit & Governance Committee
Cambridgeshire & Peterborough Combined Authority
c/o: Peterborough City Council
Town Hall
Bridge Street
Peterborough
PE1 1QT

12 June 2017

Dear Committee Members

2016/2017 Audit Plan

In April this year Public Sector Audit Appointments Ltd (PSAA) appointed EY as your external auditor on the basis that as auditors to Peterborough City Council and the majority of other councils in the area we can deliver a more efficient audit. This followed confirmation from the Department of Communities and Local Government that you would need to prepare financial statements for the period ending 31 March 2017.

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities in our first year as your auditor. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by PSAA, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan recognises the unusual circumstances of preparing financial statements for a three week period and the need to undertake a full external audit, including a value for money conclusion. It summarises our initial assessment of the key risks driving the development of an effective audit for the Authority and outlines our planned audit strategy in response to those risks. If new risks arise between this meeting and the next we will communicate matters to the Chair.

We welcome the opportunity to discuss this Audit Plan with you on 26 June 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Executive Director
For and behalf of Ernst & Young LLP
Enc

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies '. It is available from the Chief Executive and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit & Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

The Authority has been required to prepare financial statements for the period ending 31 March 2017, for three weeks of transactions all relevant to the set-up of the Authority. As a result we are required to prepare a plan that enables us 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 2017 and of the income and expenditure for the year then ended; and

- ► Any additional specific sector requirements.

If required 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.

Where relevant and appropriate we will draw on our understanding and knowledge of the Authority's financial activities as transacted by the finance team of Peterborough City Council, where we are also the appointed auditor.
Our audit will 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.

We will provide an update to the Audit & Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Authority identified through our knowledge of the Authority's operations and discussion with those charged with governance and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue and expenditure recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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 will: ► Review and test revenue and expenditure recognition policies. ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias. ► Develop a testing strategy to test material revenue and expenditure streams. ► Review and test revenue cut-off at the period end date.
Risk of management override	
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.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ► Reviewing accounting estimates for evidence of management bias. ► Evaluating the business rationale for significant unusual transactions.
Other financial statement risks	
Financial statements presentation	
For this first year, the accounts will only contain a few initial transactions: ► Grant income of £40.5m received in March, held in investments at 31.3.17; and ► Estimated accrued set up costs of £500k recharged to the Authority from the other constituent Councils. These will mainly be apportioned salary costs. However the accounts will need to comply with the Code of Practice and contain a number of mandatory statements and notes.	We will: ► Engage early with the finance team about the format and content of the accounts, and any key judgments, ► Apply a proportionate audit approach to the level of risk.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- Identifying fraud risks during the planning stages;
- Enquiry of management about risks of fraud and the controls to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address any identified risks of fraud, and
- Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

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. Given that that Authority’s arrangements are only relevant for the 3 week period ending 31 March 2017 we have taken a proportionate approach to this work.

For 2016/17 this is based on the overall evaluation criterion:

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

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

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

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

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion.

We will update our risk assessment throughout the audit. This will include reviewing the financial resilience of the Authority and the robustness of the medium term financial plans and assumptions. We will update the Audit & Governance Committee with our findings at the September 2017 Committee.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements.

We issue an audit report that covers:

Financial statement audit and regularity audit

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

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

4.2 Audit process overview

Our audit involves:

► Assessing the key internal controls in place and, where we consider it appropriate to do so, testing the operation of these controls.

► Review and re-performance of the work of Internal Audit where appropriate.

► Substantive tests of detail of transactions and amounts.

Internal audit

We will review internal audit plans and the results of their work, if they have performed any for the Authority in 2016/17. We will reflect the findings from any reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. We do not anticipate relying on any EY or third party specialists for the first year audit, as the accounts will contain very few transactions.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

► Addressing the risk of fraud and error;

► Reviewing significant disclosures included in the financial statements;

► Reviewing entity-wide controls;

- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and

- Considering and reporting on auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement

- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Authority is £10,000 based on 2% of forecast gross expenditure on provision of services. We will communicate uncorrected audit misstatements greater than £500 to you.

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.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Cambridgeshire & Peterborough Combined Authority is £15,000 (excluding VAT).

4.6 Your audit team

As the Authority is being hosted by Peterborough City Council, and uses its financial systems and the services of its finance team, we will involve the same audit team to provide continuity, efficiency and the appropriate capacity at senior level to ensure we meet your client service needs. Suresh Patel, an Executive Director with significant experience of local government audit will lead the team. He will be supported by Kay McClennon who also has significant experience of local government audits. Kay is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Authority through the Audit & Governance Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Authority and external stakeholders, including members of the public.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
High level planning	April 2017	TBC	Audit Fee Letter
Risk assessment and setting of scopes	April 2017	TBC	Audit Plan
Testing routine processes and controls.	April 2017	TBC	Progress report – we will only report by exception if there are any matters to draw to the attention of the Committee at this stage from our interim audit work.
Year-end audit	June-early August	September 2017	Detailed timeline and audit requirements for year-end to be agreed with the finance team.
Completion of audit	September	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return if necessary.
Conclusion of reporting	**October**	**TBC**	**Annual Audit Letter**

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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 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; and ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, 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 services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

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

5.2 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 any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; 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 the Authority.

At the time of writing, there are no long outstanding fees.

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 the Authority. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 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 other 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 your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

Other threats

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

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

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, the audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

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 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 ended June 2016 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £
Opinion Audit	15,000	15,000

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- 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 and reported to the Audit & Governance Committee at the appropriate time for consideration. Any variation to the scale fee also needs to be approved by Public Sector Audit Appointments Limited.

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 UK required communications with those charged with governance

There are certain communications that we must provide to the Audit & Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
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
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Audit Results Report
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 ► A discussion of any other matters related to fraud	► Audit Results Report
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
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Audit Results Report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► 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

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director'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	► Audit Plan ► Audit Results Report
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
Significant deficiencies in internal controls identified during the audit	► Audit Results Report
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Audit Results Report and Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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