



**CAMBRIDGESHIRE  
& PETERBOROUGH**  
COMBINED AUTHORITY

## **AUDIT & GOVERNANCE COMMITTEE**

**Date: Friday, 30 November 2018**

**11:00 AM**

**Democratic Services**  
Patrick Arran  
Interim Monitoring Officer

The Incubator  
Alconbury Weald  
Cambridgeshire  
PE28 4WX

**East Cambridgeshire District Council  
Council Chamber, The Grange, Nutholt Lane, Ely, CB7 4EE**

### **AGENDA**

**Open to Public and Press**

- |          |   |                |
|----------|---|----------------|
| <b>1</b> | <b>Apologies for Absence</b>                  |                |
| <b>2</b> | <b>Declarations of Interest</b>               |                |
| <b>3</b> | <b>Draft A&amp;G Minutes 280918</b>           | <b>5 - 14</b>  |
| <b>4</b> | <b>Treasury Management update 22 Nov 2018</b> | <b>15 - 24</b> |
| <b>5</b> | <b>External Audit Plan 201819 22 Nov 2018</b> | <b>25 - 28</b> |

<b>6</b>	<b>Chief Executive Resignation</b>	<b>29 - 32</b>
<b>7</b>	<b>Risk Report November 2018</b>	<b>33 - 46</b>
<b>8</b>	<b>C&amp;PCA Outline Audit Plan November</b>	<b>47 - 72</b>
<b>9</b>	<b>2018.11 CPCA Progress Report</b>	<b>73 - 82</b>
<b>10</b>	<b>Audit Committee Self Assessment 16 Nov 2018</b>	<b>83 - 86</b>
<b>11</b>	<b>Staffing Structure and Scheme of Delegation</b>	<b>87 - 88</b>
<b>12</b>	<b>Work Programme Cover Report</b>	<b>89 - 94</b>

The Audit & Governance Committee comprises the following members:

John Pie

Councillor Nichola Harrison

Councillor Anne Hay

Councillor Tony Mason

Councillor Chris Morris

Councillor Richard Robertson

Councillor David Seaton

*For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact*

Clerk Name: Anne Gardiner

Clerk Telephone:

Clerk Email: Anne.Gardiner@cambridgeshirepeterborough-ca.gov.uk

The Combined Authority is committed to open government and members of the public are welcome to attend 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.

Public speaking on the agenda items above is encouraged. Speakers must register their wish to speak by making a request in writing to the Monitoring Officer (Patrick Arran) no later than 12.00 noon three working days before the day of the meeting at [patrick.arran@cambridgeshirepeterborough-ca.gov.uk](mailto:patrick.arran@cambridgeshirepeterborough-ca.gov.uk). The request must include the name, address and contact details of the person wishing to speak, together with the full text of the question to be asked.

For more information about this meeting, please contact Richenda Greenhill at [Richenda.Greenhill@cambridgeshire.gov.uk](mailto:Richenda.Greenhill@cambridgeshire.gov.uk) or on 01223 699171.





**CAMBRIDGESHIRE  
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# **CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY – DRAFT MINUTES**

## **AUDIT AND GOVERNANCE COMMITTEE: MINUTES**

**Date:** 28<sup>th</sup> September 2018

**Time:** 11am

**Location:** Cambridgeshire County Council

**Present:**

Mr J Pye  
Cllr Anthony Mason  
Cllr Nichola Harrison  
Cllr Alan Sharp  
Cllr Will Sutton  
Cllr Lynne Ayres  
Cllr Richard Robertson

Chairman  
South Cambridgeshire District Council  
Cambridgeshire County Council  
East Cambridgeshire District Council  
Fenland District Council  
Peterborough City Council  
Cambridge City Council

**Officers:**

Karl Fenlon  
Kim Sawyer  
Steve Crabtree  
Anne Gardiner  
Jon Alsop  
Noel O'Neil  
Neil Cuttell  
Darren Edey

Interim Chief Finance Officer  
Interim Chief Executive Officer  
Chief Internal Auditor – PCC  
Scrutiny Officer  
Head of Finance  
Section 151 for Business Board  
Skills Programme Manager  
Compliance Manager

**Others in attendance:**

Suresh Patel

Executive Director – Ernst & Young LLP

**1. Apologies and Declarations of Interests**

1.2 Apologies were received from Cllr Anne Hay, substituted by Cllr Will Sutton and

apologies from Cllr Chris Morris, substituted by Cllr Alan Sharp. Apologies received from Cllr Mac McGuire.

1.3 No declarations of interest were made.

## **2. Minutes of the meeting held on 20<sup>th</sup> July 2018**

2.1 Under paragraph 8.2 Cllr Robertson advised he had not been contacted by officers to reassure that funding for the housing in Cambridge was not being used for other projects. Officers agreed to contact the relevant finance team at Cambridge City Council and get a response regarding this.

2.2 The minutes of the meeting held on the 20<sup>th</sup> July were agreed as a correct record.

## **3. Combined Authority Board Update**

3.1 The Chairman invited the Interim Chief Finance Officer, Karl Fenlon to provide the committee with an overview of the Combined Authority activities.

3.2 The following points were made:-

- There had been a lot of change at the Combined Authority, with the resignation of the Chief Executive Officer, appointment of new directors and new interim joint Chief Executives.
- It had been recognised that there had been many interim members of staff and this was something the Combined Authority wanted to work on and get more permanent staff members appointed.
- There was a new management team and a new interim staff structure which would allow the organisation to move forward, thinking carefully about how the organisation should operate in a new, fresh, innovative way.
- There was work to be done on the Medium Term Financial Plan to make it clearer in regard to the capital and revenue streams.
- The new Business Board had been appointed that week which was a significant step forward.
- In response to a questions and concerns raised about the internal review the committee were advised that the review was to help the organisation look forward. A lot of time had been spent trying to ensure that the correct compliance and governance arrangements were in place and moving forward the review would ensure that the right processes were in place and that the organisation had a structure that was appropriate for the future.
- Officers felt that there were strong arrangements in place currently with the Board meeting monthly which was more than many other councils. The O&S committee met regularly and reviewed the Boards agenda each month and had exercised its power of call in on two occasions. All governance arrangements that had been put in place had been brought to the Audit and Governance Committee for approval.

- In response to a question regarding a letter received by the Combined Authority from the Chief Executive Officers of the constituent councils, the Interim Chief Executive advised that a positive meeting had been held with the CEOs and that things had moved on with a further meeting planned to update the CEOs on the internal review.
- Part of the new interim CEOs' roles would be to carry out the review and officers would feedback to the Board that the Audit Committee would like to be part of the review.
- Governance structure had been looked at by internal audit - they had found that the processes in place were reasonable but that lots of areas needed to be embedded.
- The Committee recognised internal audit's role was to investigate any concerns about governance.

3.3 The Interim Chief Executive Officer agreed that they would report back to the Audit and Governance Chair and the Overview and scrutiny Chair on the progress of the internal review. If the two Chairs felt further action was required, the matter would be brought back to the relevant committee.

3.4 The Committee asked that Internal Audit conduct a review of governance, with the scope to be agreed between the Chair and the Interim Chief Finance Officer. A report would be brought back to the November meeting.

#### **4. External Audit - Annual Audit Letter**

4.1 The Committee received the report from the external auditor which outlined the annual audit letter.

4.2 The Committee noted the report.

#### **5. Treasury Management Mid-Year Update**

5.1 The committee received the report which requested that the committee review the current performance against the prudential indicators included within the Treasury Management Strategy.

5.2 The following points were raised: -

- Grants were not consistent with investment & return within the Treasury Management Strategy; however, part of strategy was to give grants to support low cost housing. Alongside this strategy the team were developing investment structures which would allow the Combined Authority to use its borrowing capacity.
- The report reflected the current status for the organisation. Few of the funds had been paid out for capital programmes at this time. The estimates in the report for 2018/19 had been taken from the draft Medium Term Financial Plan, which would be brought back to the Board for approval in October.

- The indicators in the report didn't provide much information but as the capital programme developed these indicators would become more informative.
- In response to a question around proposals to lend money, officers advised that the due diligence of an organisation was considered. The timescale for the loan, background checks, state aid rules and the amount of return that was applicable to those loans was also considered.
- Officers advised that loaning short term fund was appropriate for the Combined Authority given the surplus of funds; however longer-term loans would not be appropriate.
- There were currently two reviews being undertaken by Cambourne and the CPIER in parallel to one another, and the results from each would be taken into account going forward.
- The current focus was to get funds deployed in the Combined Authority's core business rather than within the Treasury Management Strategy.
- There would be sufficient investment opportunities in the future, these would need to be prioritised and would be outlined within the Medium Term Financial Plan.

5.3. The Committee requested that an update and a copy of the Medium Term Financial Plan approved by the Board in October be brought to the November meeting.

5.4 The Committee agreed to note the emerging investment and capital strategy.

## **6. Corporate Risk Register Review**

6.1 The Committee received the report from the Assurance Manager, which asked the committee to review the Combined Authority Corporate Risk Register and suggest any changes they would like to put forward as a recommendation to the Board.

6.2 In response to a question around the type of risks being considered, officers advised that political change - although difficult to control - needed to be included so that the organisation was aware of the impact, and was agile enough to weather such changes that may be brought about.

6.3 The Committee requested that the Risk Register become a standing item on the agenda and that an easier to read copy of the risk register would be produced for future meetings.

6.4 The Committee requested that they receive a copy of the Business Board Risk register at each meeting as well.

6.5 The Committee agreed to note the risk register.

**The Committee agreed to take items 7 and 8 together.**

## **7. Interim Governance Review of Business Board & Briefing on Governance of**



## **the Business Board**

- 7.1 The Committee received the reports from the Assurance Manager and the Deputy Section 151 Officer (being the Section 151 Officer for the Business Board) which outlined the governance arrangements that had been put in place since the Combined Authority took over the LEP; this included the new governance arrangements put in place for the Business Board.
- 7.2 The following points were raised during the discussion: -
- Transparency was key for the new Business Board; compliance around code of conduct, declaration of interests, agendas and minutes would all be published on the website.
  - A spot check was due to be carried out by Business, Energy and Industrial Strategy department in the next six weeks to ensure that the authority was compliant in these areas.
  - Part of the legislation laid out for the Business Board was that there must be a separate section 151 officer; however, as the Combined Authority was the accountable body for the Business Board and responsible for approving business cases and expenditure. The Business Board would make recommendations to the Combined Authority Board, based upon the rules for the use of funding defined by central government.
  - Complaints and reports of whistleblowing would be dealt with under the Combined Authority policies, which were available on the website.
  - The Combined Authority Board had agreed to suggest to government that the make-up of the Business Board should be reduced from the current 15 authorities so that membership was coterminous with the membership of the Combined Authority.
  - There had been a comprehensive recruitment process to ensure key industrial sectors for the area were covered in the representation on the Business Board. How further members may be co-opted onto the remaining vacancies would be a decision for the new Business Board to take.
  - There is a requirement by central government for the membership of the Business Board be made up of one third of women by 2020 and by 50% women by 2023; this was an issue that officers were aware of.
- 7.3 The Committee requested that an update of the governance for the Business Board be brought to the March meeting, in particular to consider how declarations of interest and members code of conduct was being dealt with.
- 7.4 The Committee noted the reports.
- 9. Internal Audit – Progress Report**
- 9.1 The Committee received the report which provided detail of the progress made in delivering the approved Audit Plan for 2018 / 2019.

9.2 The Committee agreed to note the progress report.

## **10. Adult Education Budget**

10.1 The Committee received the report from the Skills Programme Manager which informed the Audit and Governance Committee of the AEB Devolution Programme.

10.2 The Skills programme Manager advised that internal audit would need to check that the appropriate processes were in place.

10.3 The Skills programme manager confirmed that the additional funding would be brought down from central government.

10.4 The Committee agreed to:

a) note the Readiness Conditions submitted to the Department for Education in May 2018.

b) note that the AEB Programme will be identified on the CPCA Risk Register

c) note the inclusion of the AEB Programme audit on the CPCA Internal Audit plan

d) note the timelines for delivery of the AEB Programme going forward.

## **11. Recruitment Processes**

11.1 The Committee received the report from the Interim Chief Finance Officer which outlined the recruitment process followed for the appointment of Director for Strategy and Planning.

11.2 The following points were raised during the discussion:-

- The shortlisting process was not a key recordable step in the process and O&S, earlier in the week, had suggested that this area should be looked into as this was a misstep.
- In response to a question regarding the change in job title for the Director of Strategy; members were advised that due to the interim CEO arrangements agreed at the Board on Wednesday some of the roles for directors had been redistributed.
- The requirement for a political balance on all future sub-committees at the Combined Authority had been reinstated under the constitutional changes agreed by the Board on Wednesday.

- 11.3 In response to questions regarding the Chief Executive Officer's resignation, the committee were advised that the severance payment received was normal and would be reflected in the statement of accounts at the end of the financial year.

The external auditors would review the process to ensure it had been followed properly.

The interim CEO gave the committee assurance that proper processes had been followed by the Mayor and that external legal advice had been provided regarding the matter.

- 11.4 The Committee requested that an information paper be brought to the next meeting to outline the new staffing structure and roles.
- 11.5 The Committee requested that the Combined Authority follow best HR practice in regard to shortlisting practices in future.
- 11.6 The Committee noted the report.

## **12. Work Programme**

- 12.1 The Committee received the report which provided the draft work programme for Audit and Governance Committee for the remainder of the 2018/19 municipal year.
- 12.2 The Committee agreed to add the following to the work programme:
- Interim Report from Internal Auditor on the governance arrangements.
  - Update on the Medium Term Financial Plan taken to the Board meeting in October.
  - That the Risk Register become a standing item.
  - Update of the governance for the Business Board be brought to the March meeting, in particular to consider how declarations of interest and member code of conduct was being dealt with.
  - The Committee requested that an information paper be brought to the next meeting to outline the new staffing structure and roles.

## **13. Date and Location of the Next Meeting**

- 13.1 The Committee agreed the next meeting would be held on November 30<sup>th</sup> 2018 at East Cambs District Council.

Meeting Closed: 13:26pm

### Audit and Governance Committee Action Sheet – 28<sup>th</sup> September 2018

Date	Action	Officer	Delegated officer	Completed
28 <sup>th</sup> Sept 2018	Officers to check and feedback to Cllr Robertson whether funding at Cambridge City Council had been used purely for housing and had not been used for other projects.	Karl Fenlon/Jon Alsop	Jon Alsop	02/10/2018
	CEO will report back to Audit and O&S Chairs on the internal review of governance– consulting with the committee if further action was needed.	Kim Sawyer		
	Internal Auditor to conduct an early review of the governance framework.  Report to come to November meeting.  CFO and Chair to meet with Internal Auditor to scope the review.	Steve Crabtree/Karl Fenlon		
	TMS and MTF Plan Update at the November meeting	Karl Fenlon		
	Add the Risk Register as a standing item to the Audit agenda	Anne Gardiner/Darren Edey		
	Compliance Manager to ensure that risk register is presented in a more readable format	Darren Edey		

	The top five risks are detailed in the covering risk register report.	Darren Edey		
	An update of the governance for the Business Board to come to the March meeting, to include how declaration of interests are being dealt with effectively.	Noel O'Neil/ Darren Edey		
	Information paper detailing the new interim staffing structure for the CA to come to November's meeting.	Karl Fenlon/Kim Sawyer		





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<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 4</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **TREASURY MANAGEMENT UPDATE**

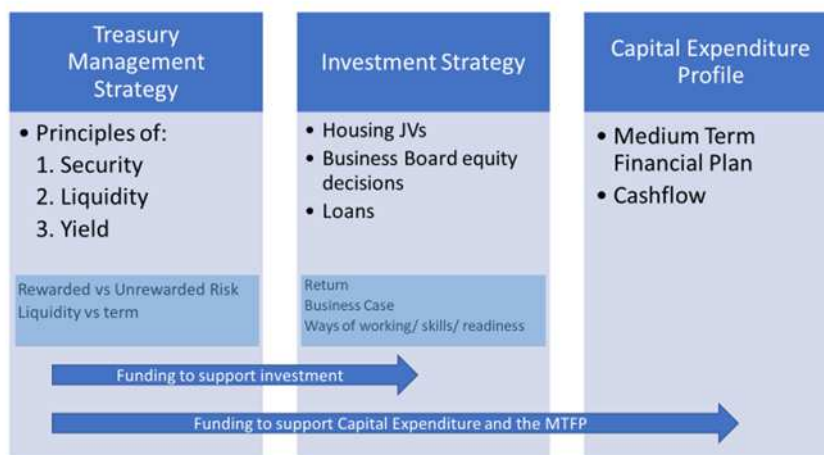
### **1.0 PURPOSE**

- 1.1. The purpose of this report is to provide the Audit and Governance Committee with an update on the Combined Authority (CPCA)'s Treasury Management.

<b>Lead Officer:</b>	<b>Jon Alsop – Head of Finance</b>
<ul style="list-style-type: none"><li>• The Audit and Governance Committee is recommended to review and comment on the Combined Authority's Treasury Management.</li></ul>	

### **2.0 BACKGROUND**

- 2.1. At its September meeting, the Audit and Governance Committee received a mid-year update to the Treasury Management Strategy.
- 2.2. The mid-year update highlighted three categories of investment. The three categories and the relationships between them are set out in the table below.



- 2.3. **Capital Expenditure:** This includes expenditure on Projects and Programmes identified by the Combined Authority to deliver its Corporate objectives as set out in the Four Year Plan and as quantified in the Medium Term Financial Plan (MTFP).
- 2.4. The Four Year Plan and the draft MTFP were approved by the Board in May 2018. The MTFP has since been refreshed and a revised version will be presented to the 28<sup>th</sup> November Board meeting along with the draft 2019/20 budget. The draft budget is subject to a consultation process and will be presented to a dedicated meeting of the Board in February for final approval.
- 2.5. The ambition of the CPCA stretches beyond the existing funding envelope. Whilst the budget and MTFP set out how resources will be used to develop the major infrastructure programmes, there will also be a focus of effort on developing and securing new funding sources to deliver those ambitions.

### **Development of the Capital Programme**

- 2.6. The Combined Authority's capital programme sets out how capital funding will be used to deliver projects that meet its ambitions. It has developed over the course of the past two years and has been shaped by the needs of the area's geography primarily through the devolution deal and the prioritisation of schemes brought forward by the constituent authorities. There is a significant emphasis on housing, transport and infrastructure schemes.
- 2.7. The Combined Authority has a number of sources of funding available to deliver capital schemes. The capital programme has been broken down into four categories according to the funding sources currently available. The categories, as set out below, are based upon the level of control that the Authority has over the funding source and the projects that can be financed:
- (a) Directly Controlled Expenditure  
The projects in this category are funded by Gainshare Capital and Transforming Cities Grants. These funds have few restrictions placed



on their use and thus the Board has a large degree of discretion over which projects to finance in this category. Projects include those approved by previous Board allocations and identified priority schemes.

(b) Potential Future Schemes

This category identifies indicative costs of potential future schemes. The detailed businesses cases, when completed, will determine the exact call on funding. The CPCA and Mayor have an ambitious strategic plan for Cambridgeshire and Peterborough, as set out in the 2030 Vision. This vision will require capital investment far in excess of the funds currently available to the Authority. In order to finance these strategic schemes, the Authority is looking at innovative funding mechanisms including Tax Increment Financing and Land Value Capture as well as leveraging both private and Government investment.

(c) Passported Expenditure

This category includes capital highways maintenance funding, the National Priorities Infrastructure Funding and the two Housing Infrastructure Funds. These funding sources are ringfenced for particular uses and thus the Board has less control over the projects in this category. The highways maintenance funding has controls imposed by the devolution agreement until March 2021.

(d) Growth Funds Expenditure

As the Accountable Body for The Business Board (TBB), the region's Local Enterprise Partnership, the Authority holds, and is accountable to Government for, the Growth Fund allocated to TBB by Government. Prioritisation and financing of projects using these funds is decided by the Business Board and reviewed by the CPCA Board.

## Summary of the Capital Programme

2.8. The table below sets out a high-level summary of the CPCA's capital programme and how the expenditure will be funded.

Capital Category	Earmarked Reserves	Expenditure (£m)			Future Years
		19-20	20-21	21-22	
<i>Directly Controlled Expenditure</i>					
Committed Schemes		23.74	13.56	21.57	
<i>Funded By</i>					
Capital Gain Share		(12.00)	(12.00)	(12.00)	
Transforming Cities		(17.00)	(22.00)	(30.00)	(21.00)
Available in-year funding		(5.01)	(20.94)	(19.98)	(21.00)
Costed but not yet committed schemes		10.40	29.34	25.00	
Movement on reserves if schemes approved	(25.19)	5.13	8.90	5.57	
Potential Future Schemes			44.00	250.03	5,778.15
Passported Expenditure		90.26	86.52	40.10	23.21
<i>Funded By</i>					
DfT Capital Funding		(23.08)	(23.08)	(23.08)	(23.08)
Housing - Cambridge City	(17.98)	(17.00)	(15.00)		
Housing Infrastructure Fund	(23.99)	(9.00)	(18.00)		
Housing Loan Repayment*		(1.18)	(5.33)		
National Priorities Investment Fund	(2.00)				
Housing Investment Fund	(22.00)	(6.00)	(12.00)		
Growth Funds Expenditure		33.52	42.95	0.50	
<i>Funded By</i>					
Growth Fund Income	(25.32)	(15.88)	(35.74)		

2.9. **Investment Strategy:** This will include potential future Joint Ventures, equity investments and loans.

2.10. Key principles of investments will be as follows:

- Drawn down in accordance with agreed Investment Strategy as equity or loans
- Development will assist in one or more of CPCA's ambitions
- Scheme is viable and provides adequate contribution to economic strategy per £ invested
- Subject to risk, business case assessment and due diligence in accordance with standard market practice
- Must be State Aid compliant
- Surplus profits as well as initial funding are recycled into future projects.

## 2.11. Debt and Equity Investments

**Debt** – Typically focussed towards tactical investments in the region, debt investments are carried out as follows:

- CPCA acts as lender to the property owner, deal or sponsor.
- Loan is secured against the real estate and underwritten in a commercial loan agreement.
- CPCA receives a fixed rate of return determined by the security on the loan, how much is invested and the credit worthiness of the borrowing organisation.
- Loan is repaid in accordance with the terms of loan agreement, typically at practical completion or when scheme is partially or fully sold/let.
- Typically development loans are for a term of 2-3 years depending on the scale of the project.

**Equity** – Typically associated with strategic investments in the region, equity investments are carried out as follows:

- CPCA enters into project level Joint Venture (JV) partnership.
- CPCA commits equity to project(s) in accordance with Participation Agreement.
- CPCA receives a fixed rate of return (coupon) and/or profit share determined by how much invested and wider role in the project.
- Returns could be generated through land value uplift, onward sale of serviced sites, or a contractual relationship with a JV partner.
- Equity is repaid at the point of exit or when the scheme is refinanced.
- Typically the investment horizon for an equity investment is likely to be longer than that of a loan.

## Treasury Management Strategy

2.12. As set out in the Treasury Management Strategy, the role of treasury management is to ensure cash flow is adequately planned to ensure that funds are available when they are needed.

2.13. Where it is necessary for investments to be undertaken in order to manage the Combined Authority's cash flows, the Combined Authority's primary principle is for the security of its investments. To support this principle, the Combined Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.

- 2.14. A Cashflow forecast has been developed based on the draft MTFP, with assumptions made on anticipated funding receipts and the drawdown of funds required to service future Revenue and Capital expenditure.
- 2.15. The cashflow indicates when funds will be needed to support Strategic Investment Decisions and the Capital expenditure Programme, with surplus cash balances being held in accordance with the Treasury Management Strategy and Prudential principles of security, liquidity and yield.
- 2.16. The Quarterly Cashflow Forecast, based on the budgetary outturn forecast for 2018/19 and the MTFP to March 20122 is shown at Appendix A.
- 2.17. The 'Live Investments' held by the Combined Authority as at 31 October 2018 were as follows:

Investment Type	Average Interest rate on balances held 31 Oct 2018	Balances as at 31 Oct 2018 (£m)	Range of IR	TMS Collective limit (£m)	TMS Individual limit (£m)
Debt Management Agency Deposit Facility	n/a	0.0	n/a	n/a	150.0
Term deposits with UK Government and Local Authorities	0.75%	157.5	0.5% to 1.1%	200.0	20.0
Term deposits & Certificates of Deposit with Banks	0.40%	0.1	0.40%	100.0	15.0
Money Market Funds	0.71%	10.0	0.71%	50.0	10.0
<b>Total</b>		<b>167.6</b>		<b>350.0</b>	

Term deposits with UK Government and Local Authorities were as follows:

Start Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
23/04/18	18/04/19	Lancashire County Council	1.00%	5,000,000
23/04/18	18/04/19	Dundee City Council	1.00%	5,000,000
20/04/18	21/01/19	Barnsley Metropolitan Borough Council	0.79%	5,000,000
04/06/18	04/12/18	Surrey Heath Borough Council	0.65%	12,000,000
01/08/18	08/04/19	Suffolk County Council	0.62%	10,000,000
19/06/18	25/03/19	South Ayresshire Council	0.65%	5,000,000
19/06/18	28/05/19	Stockport Metropolitan Borough Council	0.60%	5,000,000
25/06/18	25/03/19	Derbyshire County Council	0.60%	10,000,000
25/06/18	26/11/18	Kingston upon Hull City Council	0.50%	10,000,000
25/06/18	28/05/19	Stockport Metropolitan Borough Council	0.60%	10,000,000
25/06/18	26/11/18	Telford and Wrekin Borough Council	0.55%	5,000,000
25/06/18	21/01/19	West Dunbartonshire Council	0.50%	5,000,000
25/06/18	21/01/19	Dundee City Council	0.50%	5,000,000
19/06/18	21/01/19	King's Lynn and West Norfolk Borough Council	0.50%	5,000,000
17/07/18	15/03/19	Highland Council	0.61%	5,000,000
09/07/18	08/07/19	Doncaster Metropolitan Borough Council	0.77%	5,500,000
31/08/18	30/08/19	London Borough of Croydon	1.05%	10,000,000
10/09/18	12/08/19	Highland Council	0.95%	5,000,000
10/09/18	10/06/19	Cambridgeshire County Council	0.95%	5,000,000
20/09/18	20/02/19	North Lanarkshire Council	0.87%	5,000,000
01/10/18	01/02/19	Birmingham City Council	0.80%	5,000,000
05/10/18	07/05/19	London Borough of Haringey	0.90%	5,000,000
23/10/18	23/07/19	Lancashire County Council	1.10%	5,000,000
27/09/18	26/09/19	Birmingham City Council	1.05%	5,000,000
05/10/18	05/09/19	Plymouth City Council	1.00%	5,000,000
				<b>157,500,000</b>

- 2.18. The majority of the investments held at 31 October 2018 were with other Local Authorities which are considered to be very low risk. Interest rates receivable on these balances are dependent on market factors existing at the time the

loan was provided, the amount of the loan itself and the duration of the loan. Interest rates range from 0.5% for a £5m loan provided in June 2018 for a duration of 5 months, to 1.1% for a £5m loan provided in October 2018 for 9 months.

- 2.19. In order to provide liquidity whilst there is uncertainty in the exact timing of cash funding required for capital and other investments, loans are staggered in order to provide the Combined Authority with a regular stream of Treasury investments returning on a monthly basis. The 'investments returning', as shown on the cashflow, would then be available to fund capital expenditure requirements, or to be reinvested as part of the 'Total available for investments' sum. As the capital programme develops over time, existing reserve balances will be used to fund these programmes. There will therefore be fewer funds available for long term investment and the liquidity of those funds will become increasingly important.
- 2.20. Whilst interest rates are still 'low' (from a historical perspective), and whilst there is uncertainty about future interest rates, keeping treasury investments short term (i.e. <365 days) will enable the Combined Authority to take advantage of interest rate increases should they occur.
- 2.21. There are opportunities to earn increased rates of interest on balances, but there is a trade-off between return and risk.
- 2.22. In March 2018, the Combined Authority approved a loan, subject to due diligence, to support the Affordable Housing Programme without the need to incur external borrowing. In order to comply with State Aid requirements, the interest rate applied was based on EU competition 'Base rates' (November 2018 = 1%), plus a margin based on the rating of the undertaking concerned and the collateral offered on the loan. For a 'Good' undertaking risk, with a 'Normal' level of collateral on the loan, this adds a margin of 1% point on the base rate providing an overall interest rate of 2%, which is in excess of current treasury rates.
- 2.23. The Treasury Management Strategy allows for the Combined Authority to investigate the appropriateness of offerings to the market in light of the Combined Authority's risk appetite and on the advice of independent advisors. Any potential investment identified would be subject to a full due diligence review.
- 2.24. The Forecast Cash Balance line on the cashflow demonstrates that the Combined Authority will maintain a positive cash balance, with appropriate buffer, for the period to March 2022.

### **3.0 FINANCIAL IMPLICATIONS**

- 3.1. There are no further financial implications other than those discussed in the main body of the report.

#### 4.0 LEGAL IMPLICATIONS

4.1. There are no legal implications arising from this report

#### 5.0 SIGNIFICANT IMPLICATIONS

5.1. None.

#### 6.0 APPENDICES

- Appendix A: Quarterly Cashflow Forecast

<u>Source Documents</u>	<u>Location</u>
<i>None</i>	

## Appendix A: Quarterly Cashflow Forecast

### CPCA Quarterly Cashflow

	<u>Oct-18</u>	<u>Dec-18</u>	<u>Mar-19</u>	<u>Jun-19</u>	<u>Sep-19</u>	<u>Dec-19</u>	<u>Mar-20</u>	<u>Jun-20</u>	<u>Sep-20</u>	<u>Dec-20</u>	<u>Mar-21</u>	<u>Jun-21</u>	<u>Sep-21</u>	<u>Dec-21</u>	<u>Mar-22</u>
Balance B/fwd /£k		193	5,724	53,157	112,671	112,626	75,206	36,723	129,348	85,346	41,344	21,281	61,775	39,413	17,051
<b>Funding Receivable</b>		<b>247</b>	<b>16,705</b>	<b>122,935</b>	<b>62</b>	<b>62</b>	<b>0</b>	<b>159,765</b>	<b>62</b>	<b>62</b>	<b>0</b>	<b>87,034</b>	<b>62</b>	<b>62</b>	<b>0</b>
<b>Expenditure</b>			0	0	0	0	0	0	0	0	0	0	0	0	0
Current Commitments		-10,007	-5,003	-25,739	0	0	0	0	0	0	0	0	0	0	0
Operational Costs		-1,106	-1,688	-1,912	-1,912	-1,912	-1,912	-2,211	-2,211	-2,211	-2,211	-3,309	-2,269	-2,269	-2,269
<b>Revenue Programme Costs</b>		<b>-387</b>	<b>-580</b>	<b>-1,131</b>	<b>-1,131</b>	<b>-4,008</b>	<b>-4,008</b>	<b>-4,653</b>	<b>-4,653</b>	<b>-4,653</b>	<b>-4,653</b>	<b>-3,820</b>	<b>-3,820</b>	<b>-3,820</b>	<b>-3,820</b>
<b>Capital Programme Costs</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Direct Control		-970	-1,456	-5,996	-5,996	-5,996	-5,996	-3,265	-3,265	-3,265	-3,265	-5,455	-5,455	-5,455	-5,455
Schemes Previously Identified and Costed		-569	-853	-2,599	-2,599	-2,599	-2,599	-7,335	-7,335	-7,335	-7,335	-6,499	-6,499	-6,499	-6,499
Passported		-6,961	-8,618	-38,665	-15,588	-15,588	-15,588	-38,938	-15,861	-15,861	-15,861	-27,333	-4,256	-4,256	-4,256
Growth Fund		-716	-1,074	-8,380	-8,380	-8,380	-8,380	-10,738	-10,738	-10,738	-10,738	-125	-125	-125	-125
<b>Total Expenditure</b>		<b>0</b>	<b>-20,715</b>	<b>-19,272</b>	<b>-84,422</b>	<b>-35,606</b>	<b>-38,482</b>	<b>-67,140</b>	<b>-44,063</b>	<b>-44,063</b>	<b>-44,063</b>	<b>-46,540</b>	<b>-22,423</b>	<b>-22,423</b>	<b>-22,423</b>
Investments returning		0	27,000	50,000	45,000	35,500	1,000	0	0	0	24,000	0	0	0	10,000
<b>Total available for investments</b>		<b>0</b>	<b>6,724</b>	<b>53,157</b>	<b>136,671</b>	<b>112,626</b>	<b>36,723</b>	<b>129,348</b>	<b>85,346</b>	<b>41,344</b>	<b>21,281</b>	<b>61,775</b>	<b>39,413</b>	<b>17,051</b>	<b>4,628</b>
New investments		0	-1,000	0	-24,000	0	0	0	0	0	0	0	0	0	0
<b>Forecast Cash Balance</b>		<b>193</b>	<b>5,724</b>	<b>53,157</b>	<b>112,671</b>	<b>112,626</b>	<b>75,206</b>	<b>36,723</b>	<b>129,348</b>	<b>85,346</b>	<b>41,344</b>	<b>21,281</b>	<b>61,775</b>	<b>39,413</b>	<b>4,628</b>
<b>Live investments</b>	167,600	141,600	91,600	70,600	35,100	34,100	34,100	34,100	34,100	34,100	10,100	10,100	10,100	10,100	100
<b>Total Funds</b>	<b>167,793</b>	<b>147,324</b>	<b>144,757</b>	<b>183,271</b>	<b>147,726</b>	<b>109,306</b>	<b>70,823</b>	<b>163,448</b>	<b>119,446</b>	<b>75,444</b>	<b>31,381</b>	<b>71,875</b>	<b>49,513</b>	<b>27,151</b>	<b>4,728</b>







<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 5</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **AUDIT PLAN 2018/19**

### **1.0 PURPOSE**

- 1.1. The purpose of this report is to receive and approve the 2018/19 Outline Audit Plan as prepared by Ernst & Young LLP (EY).

<b><u>DECISION REQUIRED</u></b>	
<b>Lead Officer:</b>	<b>Jon Alsop, Head of Finance</b>
<p>It is recommended that the Audit and Governance Committee:</p> <ol style="list-style-type: none"><li>1. Receive the Outline Audit Plan for 2018/19 and consider:<ul style="list-style-type: none"><li>• whether the planned audit is aligned with the Committee's expectations, and</li><li>• whether there are other matters which may influence the audit.</li></ul></li><li>2. Note the planned audit fees for the year.</li></ol>	

### **2.0 BACKGROUND**

- 2.1. According to its Terms of Reference, the Audit and Governance Committee shall 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.

- 2.2. The Outline Audit Plan for 2018/19 as shown at appendix A has been prepared by EY to set out how they intend to carry out their responsibility as auditor to the Combined Authority. The purpose of the plan is to provide the Audit and Governance Committee with a basis to review their proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.
- 2.3. The plan summarises EY'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. EY are currently undertaking audit planning procedures and once completed will issue a Final Audit Plan which will be present to the next Committee.
- 2.4. The Committee is asked to comment on whether the planned audit is aligned with the Committee's expectations, and to consider whether there are other matters which may influence the audit.

### **3.0 FINANCIAL IMPLICATIONS**

- 3.1. The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The fee for 2018/19 reflects year 1 of the new 5 year contract awarded by PSAA.
- 3.2. The fee for the planned code work is £26,950. Additional fees of £1,500 are expected for EY's 'value for money' code work and £1,000 for EY's work on the severance of the Chief Executive. Further costs will be incurred for work on capitalisation issues and for work on The Business Board (TBB) governance and financial arrangements. These additional fees will be dependent on the extent of the capitalisation issues and on the scope of the requirement for TBB work.
- 3.3. All additional code work fees are to be confirmed and agreed with the Chief Finance Officer and will need to be approved by PSAA.

### **4.0 LEGAL IMPLICATIONS**

- 4.1. None.

### **5.0 SIGNIFICANT IMPLICATIONS**

- 5.1. None.

### **6.0 APPENDICES**

6.1. Appendix A: The CPCA Outline Audit Plan 2018/19.

<u>Source Documents</u>	<u>Location</u>
None	





<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 6</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **CHIEF EXECUTIVE RESIGNATION**

### **PURPOSE**

- 1.1 To provide the Audit and Governance Committee with the factual background relating to the circumstances of the resignation of the former Chief Executive ('CEO').

<b>Lead Officer:</b>	<b>Patrick Arran, Interim Monitoring Officer and Legal Counsel</b>
<b>It is recommended that:</b> 1. The Audit and Governance Committee consider the report	

### **2.0 BACKGROUND**

- 2.1 The former Chief Executive left the Authority by mutual agreement on the 30<sup>th</sup> of September 2018. A formal confidential settlement agreement recorded the terms agreed between the Authority and the CEO. Independent external legal advice was procured from Trowers and Hamlins Solicitors LLP on behalf of the Mayor who advised him throughout the process and prepared the Settlement Agreement.
- 2.2 Trowers and Hamlins advised the Mayor in person, and then followed this up with written legal advice. The legal advice, which is subject to legal privilege, consisted of advice relating to the Mayor's powers to enter into a mutually agreed termination of the CEO's employment, the appropriate level of any settlement and the terms of any Settlement Agreement. The cost of this legal advice was £11,202 plus VAT.
- 2.3 A confidential meeting then took place between the Mayor and the former CEO. The outcome of this meeting was that a mutually agreed exit would be negotiated with the terms being recorded in a Settlement Agreement. As stated

above, Trowers and Hamlins advised throughout and concluded the Settlement Agreement on the Authority's behalf.

- 2.4 In terms of the decision making process, the Mayor is legally able to do anything that the Combined Authority may do. This is referred to as a general power of competence and is provided for by paragraph 12 (3) of the Cambridgeshire and Peterborough Combined Authority Order 2017. There is no constitutional or other requirement for decisions such as this to be taken to the Combined Authority Board. There are no legal issues arising from the decision made.
- 2.5 Acting on independent legal advice, the Mayor took the decision that it was appropriate to agree an exit payment and Settlement Agreement with the former CEO to resolve matters swiftly in the interests of the efficient running of the Authority. This is akin to a local government setting where the decision to agree an exit of a Chief Officer from the organisation is within the remit of the Leader.
- 2.6 The details of the financial severance package agreed are as follows:
- A payment of £95,000 - which included normal payment elements of pay in lieu of notice, consideration for restrictive covenants (£500) and compensation for loss of office
  - A payment in lieu of 2 days untaken holiday accrued as at the Termination Date
  - As is usual in these circumstances a payment was made in respect of the CEO's legal fees of up to £2,000 plus VAT
- 2.7 All of the payments were subject to the normal deductions of PAYE and NI, where appropriate.
- 2.8 The Authority has appropriately disclosed information arising from a number of FOI requests. After detailed consideration and having received advice from the Monitoring Officer, it has refrained from providing copies of the Settlement Agreement and the contract of employment as it is considered that to do so would breach the General Data Protection Regulations. Furthermore, any legal advice is subject to legal advice privilege and the Authority is not in a position to waive privilege and disclose that advice.

### **3.0 SUMMARY**

- 3.1 The Mayor took independent legal advice as to the level of settlement from a reputable firm specialising in employment law and it was reasonable for him to

place reliance on that advice. He made the decision to proceed based on that advice.

- 3.2 Taking all of the circumstances into account, the level of payment was proportionate and appropriate in the circumstances. The details of the settlement have been considered by the Authority's external auditors, EY and they have not identified any issue which would cause them to issue any adverse report or comment in the Authority's accounts.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications arising from this report

#### **5.0 LEGAL IMPLICATIONS**

- 5.1 There are no legal implications arising from this report

#### **6.0 SIGNIFICANT IMPLICATIONS**

- 6.1 There are no direct wider CPCA implications arising from this report.

#### **APPENDICES**

None

<u>Source Documents</u>	<u>Location</u>
List background papers: None	N/A







<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 7</b>
	<b>PUBLIC REPORT</b>

## **CORPORATE RISK REGISTER REVIEW**

### **1.0 PURPOSE**

- 1.1** In the interests of good governance, the Committee is requested to review the Combined Authority Corporate Risk Register and suggest any changes they would like to put forward as a recommendation to the Board.

<b><u>RECOMMENDATIONS</u></b>
<b>Lead Officer: Darren Edey, Assurance Manager</b>
<p>The Audit and Governance Committee are recommended to:</p> <p>(a) review the Combined Authority Corporate Risk register. (Appendix A)</p> <p>(b) recommend any proposed changes to be reported to the next Board meeting for approval.</p>

### **2.0 BACKGROUND**

- 2.1. The first draft of the Corporate Risk register was presented to the Audit and Governance Committee on 26<sup>th</sup> March 2018. It was requested that the register be amended to reflect the risks in order of Risk Level and that a Residual Risk category also be included.
- 2.2. Whilst reviewing the register and carrying out the requested amendments it was decided to make further additions to the register to ensure that more detail was provided during the Risk Management Process. These included adding Risk Categories, Risk Type, Controls, an Accepted Target Score, Risk Trend and a Monitoring Frequency field.

- 2.3. Directors were asked to provide the Assurance Manager with their top risks for the organization.
- 2.4. Once collated these were grouped together by themes and any duplicated risks were merged and scored appropriately by Directors.
- 2.5. Risks were then sorted by Residual Risk Rating.
- 2.6. The Risk Register will be updated by Risk Owners and then reviewed monthly in the Directors meeting
- 2.7. As agreed at the previous meeting on 28<sup>th</sup> September 2018, this will be a standing agenda item.

### **3.0 CURRENT TOP RISKS**

1. Investment Strategy under-developed
2. Financial Transition
3. Progress on University of Peterborough stalls
4. Lack of Structural resilience / Insufficient Internal Resources
5. External delivery partners unable to respond to CPCA needs

\*For full details of risks please see Appendix 1 - CPCA Risk register

### **4.0 NEXT STEPS**

Each individual project currently has risks and mitigations recorded and RAG rated as part of the routine project reporting process. A process to link these to the overall Corporate Risk Register is currently underway and will be reported to Audit & Governance Committee once agreed.

### **5.0 FINANCIAL IMPLICATIONS**

- 5.1. All of the work has been carried out in-house, therefore there are no significant financial implications to this activity.

### **6.0 LEGAL IMPLICATIONS**

NA.

### **7.0 APPENDICES**

- 7.1. Appendix 1 – The Corporate Risk Register (inc Scoring Matrix)

<u>Source Documents</u>	<u>Location</u>

Risk ID	Date	Risk Title	Risk Description / Summary	Risk Owner	Risk Category (Operational / Strategic / Project)	Risk Type (Reputational, Political / Economic / Legal / Infrastructure etc)	Inherent Impact (1-5)	Inherent Likelihood (1-5)	Inherent Score (1x1)	Risk Rating (VH,H,M,L)	Risk Controls & Actions	Residual Impact (1-5)	Residual Likelihood (1-5)	Residual Score (1x1)	Residual Risk Rating (VH,H,M,L)	Accepted Target Score	Risk Trend	Monitoring
1	11/06/2018	Investment Strategy under-developed	Major projects are planned to be funded through new legislation and an innovative mechanism for LAND VALUE Capture (LVC) which is still being developed and understood. Our medium term project capacity is dependent on leveraging our capital base. These projects are at risk if funding is not secured or is otherwise not available when required.	CFO	Strategic	Finance	5	5	25	Very High	An Investment Strategy to outline delivery options is being developed by Finance working with CBRE. The Housing Team and Mayor's office are working on LVC possibilities. Finance are reviewing our project stack to look at those that will leverage our existing funding streams.	5	5	25	Very High	3x3=9	Steady	Monthly
17	21/11/2018	Financial Transition	Failure to transition & communicate effectively into a constrained budget environment causes confusion, loss of focus and ultimately loss of confidence	CEO	Operational	Reputational	5	4	20	Very High	Clear communication & prioritisation	5	3	15	Very High	5x1=5	Decreasing	Monthly
5	11/06/2018	Progress on University of Peterborough stalls	Partners including ourselves arent able to meet their declared commitments	Director of Business & Skills	Strategic	Reputational	5	4	20	Very High	CPCA to implement measures to ensure all partners have absolute clarity of their deliverables and that they meet expectations fully. Current analysis of the above taking place	4	3	12	High	3x2 = 6	Decreasing	Monthly
2	11/06/2018	Lack of Structural resilience / Insufficient Internal Resources	Failure to maintain BAU during rapidly expanding programme of work whilst developing, restructuring and recruitment of CPCA  There are a significant volume of projects being developed and the CPCA in its infancy has been in the position to mobilise its resources. Sufficient internal 'client' resources need to be available to oversee the development and delivery of programmes. This extends not only to programme management and project management resources but also more specialist functions such as land acquisition, communications, legal, procurement, etc  Insufficient project management resources to deliver Priorities & Programmes identified in 4 year plan	Chief Exec	Operational	Infrastructure	4	4	16	Very High	There is a recruitment process for the permanent Chief Executive, a senior management structure under review by the Employment Committee and each Director is tasked with reviewing the team structures to ensure sufficient people resources to deliver against objectives.  The Directors meet weekly and are responsible for signing off recruitment to new posts  The HR team has been increased to support the organisational structure and recruitment of candidates of calibre.  There are staff dedicated to programme management with a system of monthly project highlight reporting. This enables directors to move resources to higher risk projects. We are in the process of standardising documentation to create a single source of information which builds resilience in case of individual staff members incapacity	4	3	12	High	4x2 = 8	Decreasing	Monthly
3	11/06/2018	External delivery partners unable to respond to CPCA needs	The number of active CA & Partner projects may create conflicts in external organisations.  The private sector is not able to respond adequately to the needs of the Combined Authority. This includes both capacity and capability as well as a willingness to explore more innovative approaches which can accelerate delivery  The CPCA is taking a border approach to infrastructure delivery, many of the projects of this scale would typically be delivered for more traditional organisations such as Network Rail, Highways England etc	Director of Infrastructure	Strategic	Infrastructure	3	4	12	High	Review our approach to market engagement and investigate alternative procurement models that might encourage different behaviours.	3	4	12	High	3x2 =6	Steady	Monthly
4	11/06/2018	Failure to deliver Key devolution commitments	Failure to deliver Key devolution commitments and as a result government loses confidence in CA and withhold or claw back funds and is not minded to consider future devolution opportunities.	Director of Strategy & Planning	Strategic	Infrastructure	4	3	12	High	Project management approach implemented and reviewed in October. Training and engagement for PMs Directors to oversee their directorate projects and provide assurance to CE M&E framework and performance reporting being refreshed. Project prioritisation exercise underway.	4	3	12	High	4x2=8	Steady	Monthly
19	21/11/2018	E100m Affordable Housing Programme	The combined authority's position on funding for the supply of affordable rented housing is compromised because it receives it funding direct from the treasury and the rent standard guidance does not permit the affordable housing providers to receive a grant from us without MHCLG implementing secondary legislation the current risk is between November 18 & April 19 we have up to 90 units potentially impacted across the existing programme	Director of Housing & De	Operational	Infrastructure	3	4	12	High	Over the past 2 months we have been escalating this issue with MHCLG, they have acknowledged the problem and recognised they need to initiate the secondary legislation required to resolve this issue. Their timing in doing this is uncertain.  This has now been escalated to the point as where on the 21/11/18 the Mayor has sent a letter to Kit Malthouse requesting urgent attention to this matter	3	4	12	High	1x1=1	Steady	Monthly
6	29/08/2018	Immaturity of Financial System	The Authority's finance function remains immature, despite ongoing strong development to support transition from start-up organisation. Managing within a fast paced and pioneering environment combined with an inability to scale existing informal processes and reliance on a temporary / remote working workforce (only 2 out of 6 roles are permanent) contribute to risks currently being addressed. Prioritisation is required to develop resilient finance systems and processes that can drive/enhance wider governance processes, cost management and speed of delivery/progress. As the Authority moves rapidly to build its operational phase, the finance team must build on its foundations to lead pace and drive change, co-ordinating successfully with the other corporate teams to achieve effective governance and affordable delivery within available resources.  Finance risk will therefore vary in line with organisational challenges and progress. At this point finance risk can usefully be split into two groups: • Systems / processes with key areas being: implementing a new finance system, embedding delegation and end-to-end process clarity for example getting projects from concept to delivery • Capacity / prioritisation, again key areas are: confirming resource availability and capacity through a revised MTFP, developing rigorous project appraisal capabilities, sources and uses of funds, availability of debt facilities	CFO	Operational	Economic	5	5	25	Very High	Finance has basic processes in place for existing resources and requirements, (i.e. payments, cash accounting and treasury). There is a risk of mitigation becoming less effective overall if we don't keep up with the organisation as it develops its commitments, moves into live project execution and increases activity volumes i.e. our mitigating processes and systems that we have today but we need to cover the planned and now emerging activity.  We are in the process of developing the existing Finance system to include new functionality such as raising PO's, Approval Workflows and budgetary control reporting which will enable better contraol over finances and delegated authority to budget holders.	3	3	9	High	2x2=4	Increasing	Monthly
18	21/11/2018	Reputational risk	High profile (trade magazine) articles and local concern regarding the governance processes of the CPCA and the recent departure of the Chief Executive .	CEO	Operational	Reputational	3	5	15	Very High	Interim CEX appointed with a remit to conduct a chief executive review and report to Leaders on (1) recruitment to established staffing structure (2) prioritisation and performance management (3) budget review (4) governance processes. A key outcome of this review is to improve relations with local stakeholders.  Internal Audit review of governance processes taking place	3	3	9	High	2x2=4	Decreasing	Monthly
7	11/06/2018	Failure to deliver Mayoral Committed Projects	Failure to deliver programmes & projects identified in 4 year plan for example significant work carried out on the Cambridge Autonomous Metro,	Director of Strategy & Planning	Strategic	Reputational	4	3	12	High	CPCA project management approach applied across the portfolio and reviewed in October Regular progress monitoring and reporting at project level, director level and to leaders/c Ex's Alignment between project management and financial reporting Project prioritisation exercise currently under way.	3	3	9	High	3x2=6	Steady	Monthly
13	08/08/2018	Post Brexit Uncertainty	Post Brexit, the UK Shared Prosperity Fund is to replace current funding streams. The value of the fund and the process for distribution is not known. The impact on local business and the economy is uncertain Potentially required to change priority programmes to address economic and social stability following Brexit. This could impact on delivery of transport & housing due to supply chain disruption. If a downturn in the housing market occurs then the ability to negotiate land deals will take a different approach. We may see 'land banking' and a need for Compulsory Purchase to happen. It may also mean that the sale to the public sector may become more agreeable to the landowner. Further this could be radically affected if a new government (anti-devolution or borrowing) did not want Combined Authorities to be major stakeholders in land deals.	Chief Exec	Strategic	Infrastructure	4	3	12	High	Keep under review National Policy on Brexit. Further adapt services as and when required to achieve delivery. Working with the LGA and Government Departments to understand the potential risks and to develop the Shared Prosperity Fund process.	3	3	9	High	3x2=6	Steady	Monthly
15	08/08/2018	National Change in Administration	With the possibility of a General Election in 2019 or 2020 theres a risk that that the new administrations policies on devolution may differ to that of the current government and require a different approach.	Director of Strategy & Planning	Strategic	Political	3	3	9	High	Work at political level to ensure national parties and Whitehall remain committed to devolutionary policies, including by engaging with the LGA and with the Metro Mayors grouping.	3	3	9	High	2x2=4	Steady	Monthly
10	11/06/2018	AEB not ready in time	AEB is not up and ready and professional by deadline of April next year.	Director of Business & Skills	Operational	Reputational & Financial	5	3	15	Very High	DFE to provide assurances that they are happy with progress Regular meetings ongoing Formal letter of confirmation of responsibility received. Potential withholding of finances allayed as extra finances committed	4	2	8	High	4x1=4	Decreasing	Monthly
8	11/06/2018	Failure to adhere to Internal Frameworks	The Combined Authority fails to adhere to internal frameworks which could put at risk the release of the Single Pot Funding.	Director of Strategy & Planning and CFO	Operational	ALL	4	3	12	High	Project management approach documented Training and engagement for PMs Directors to oversee their directorate projects and provide assurance to CE M&E framework and performance reporting being refreshed Assurance framework to be reviewed.	4	2	8	High	4x1=4	Steady	Monthly
14	06/11/2018	Coordination with other transport bodies in the region	That there is insufficient coordination with the other bodies in the region that have a role delivering transport projects	Director of Infrastructure	Operational	Infrastructure	4	3	12	High	Work is underway to determine an appropriate delivery structure and organisation for the transport function including discussions with CCC, PCC and GCP as above; this includes appropriate partner governance to ensure coordination across each of the bodies	4	2	8	High	4x2=8	Decreasing	Monthly
16	21/11/2018	Securing funding from central government	That the CPCA is unable to sufficiently advance some of the larger transport projects in order that they could be considered within the funding cycles of central government bodies including Highways England and DfT	Director of Infrastructure	Operational	Infrastructure	4	3	12	High	Decisions have so far been taken to advance technical work with the explicit aim of meeting funding deadlines	4	2	8	High	4x2=8	Decreasing	Monthly
9	22/06/2018	Changes in Political Management of Combined authority	Given the long term financial commitments potential funders are looking for a stable leadership and direction of CA. Any change in the elected leaders could impact available funding	Chief Exec	Strategic	Political	4	2	8	High	Direction of Combined Authority has been agreed in the 2030 vision and the 4 year plan. There is support across the board for the programme of investment and priorities	4	2	8	High	3x2=6	Steady	Monthly
11	11/06/2018	Economic Delivery Organisation is not set up in the foreseeable future	No appropriate Economic Delivery Organisation created to undertake delivery mechanisms for the Combined Authority.	Director of Business & Skills	Operational	Reputational	3	3	9	High	Strategic discussions taking place with analysis of different options from an operational & legal perspective. Ongoing discussions with BIS and they have agreed to be on steering committee for Skills related delivery	2	3	6	Medium	2x2=4	Decreasing	Monthly
12	28/08/2018	Camkox economic vision (Trailblazer) initiative	The 4 partners involved lose common ground and delivery stalls.  Lack of business engagement in the initiative causes failure to the final product	Director of Business & Skills	Strategic	Political	3	3	9	High	Continued CPCA representation at a range of meetings. Ongoing dialogue with other partners	2	2	4	Medium	2x1=2	Decreasing	Monthly

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		Impact		
		1	2	3
Likelihood		Trivial	Minor	Significant
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2	Unlikely	2	4	6
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4	5
Major	Severe
20	25
16	20
12	15
8	10
4	5

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**Risk Description / Summary** - Why the risk is on there, Why the risk would occur. Background on the risk, eg. "There is a risk that a 'cause' may result in an 'event' leading to a 'consequence' ".

**Risk Owner** – Subject matter expert – the person accountable for risk

**Risk Category** – Whether the risk is 'Operational' 'Strategic' or a 'Project' risk

**Risk Type** – What type of risk it relates to, eg 'Reputational' 'Political', 'Economic', 'Technical', 'Infrastructure',

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**Risk Rating** – **Very High, High, Medium, Low** – taken from where the score sits on the matrix

**Mitigating Risk Controls & Actions** – The controls and actions we are putting in place to mitigate the risk. Controls are activities such as policies, processes and procedures which minimise the probability or impact of the risk occurring. There can be more than one action for each control and is the mitigating plan to get the risk to

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**Residual Risk Rating** – **Very High, High, Medium, Low** – taken from where the score sits on the matrix

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**Risk Trend** – Whether the risk is increasing, decreasing or steady. This identifies whether the risk needs looking at more regularly.

**Monitoring** – When the risk needs to be reviewed, weekly, monthly quarterly etc.





Risk ID	Date	Risk Title	Risk Description / Summary	Risk Owner	Risk Category (Operational / Strategic / Project)	Risk Type (Reputational, Political / Economic / Legal / Infrastructure etc)	Inherent Impact (1-5)	Inherent Likelihood (1-5)	Inherent Score (I x L)	Risk Rating (VH,H,M,L)	Risk Controls & Actions	Residual Impact (1-5)	Residual Likelihood (1-5)	Residual Score (I x L)	Residual Risk Rating (VH,H,M,L)	Accepted Target Score	Risk Trend	Monitoring
1	11/06/2018	Investment Strategy under-developed	Major projects are planned to be funded through new legislation and an innovative mechanism for LAND VALUE Capture (LVC) which is still being developed and understood. Our medium term project capacity is dependent on leveraging our capital base. These projects are at risk if funding is not secured or is otherwise not available when required.	CFO	Strategic	Finance	5	5	25	Very High	An Investment Strategy to outline delivery options is being developed by Finance working with CBRE. The Housing Team and Mayor's office are working on LVC possibilities, Finance are reviewing our project stack to look at those that will leverage our existing funding streams.	5	5	25	Very High	3x3=9	Steady	Monthly
17	21/11/2018	Financial Transition	Failure to transition & communicate effectively into a constrained budget environment causes confusion, loss of focus and ultimately loss of confidence	CEO	Operational	Reputational	5	4	20	Very High	Clear communication & prioritisation	5	3	15	Very High	5x1=5	Decreasing	Monthly
5	11/06/2018	Progress on University of Peterborough stalls	Partners including ourselves arent able to meet their declared commitments	Director of Business & Skills	Strategic	Reputational	5	4	20	Very High	CPCA to implement measures to ensure all partners have absolute clarity of their deliverables and that they meet expectations fully. Current analysis of the above taking place	4	3	12	High	3x2 = 6	Decreasing	Monthly
2	11/06/2018	Lack of Structural resilience / Insufficient Internal Resources	Failure to maintain BAU during rapidly expanding programme of work whilst developing, restructuring and recruitment of CPCA  There are a significant volume of projects being developed and the CPCA in its infancy has been in the position to mobilise its resources. Sufficient internal 'client' resources need to be available to oversee the development and delivery of programmes. This extends not only to programme management and project management resources but also more specialist functions such as land acquisition, communications, legal, procurement, etc  Insufficient project management resources to deliver Priorities & Programmes identified in 4 year plan	Chief Exec	Operational	Infrastructure	4	4	16	Very High	There is a recruitment process for the permanent Chief Executive, a senior management structure under review by the Employment Committee and each Director is tasked with reviewing the team structures to ensure sufficient people resources to deliver against objectives.  The Directors meet weekly and are responsible for signing off recruitment to new posts  The HR team has been increased to support the organisational structure and recruitment of candidates of calibre.  There are staff dedicated to programme management with a system of monthly project highlight reporting. This enables directors to move resources to higher risk projects. We are in the process of standardising documentation to create a single source of information which builds resilience in case of individual staff members incapacity	4	3	12	High	4x2 = 8	Decreasing	Monthly
3	11/06/2018	External delivery partners unable to respond to CPCA needs	The number of active CA & Partner projects may create conflicts in external organisations.  The private sector is not able to respond adequately to the needs of the Combined Authority. This includes both capacity and capability as well as a willingness to explore more innovative approaches which can accelerate delivery  The CPCA is taking a border approach to infrastructure delivery, many of the projects of this scale would typically be delivered for more traditional organisations such as Network Rail, Highways England etc	Director of Infrastructure	Strategic	Infrastructure	3	4	12	High	Review our approach to market engagement and investigate alternative procurement models that might encourage different behaviours.	3	4	12	High	3x2 =6	Steady	Monthly
4	11/06/2018	Failure to deliver Key devolution commitments	Failure to deliver Key devolution commitments and as a result government loses confidence in CA and withhold or claw back funds and is not minded to consider future devolution opportunities.	Director of Strategy & Planning	Strategic	Infrastructure	4	3	12	High	Project management approach implemented and reviewed in October. Training and engagement for PMs Directors to oversee their directorate projects and provide assurance to CE M&E framework and performance reporting being refreshed. Project prioritisation exercise underway.	4	3	12	High	4x2=8	Steady	Monthly
19	21/11/2018	£100m Affordable Housing Programme	The combined authority's position on funding for the supply of affordable rented housing is compromised because it receives it funding direct from the treasury and the rent standard guidance does not permit the affordable housing providers to receive a grant from us without MHCLG implementing secondary legislation the current risk is between November 18 & April 19 we have up to 90 units potentially impacted across the existing programme	Director of Housing & De	Operational	Infrastructure	3	4	12	High	Over the past 2 months we have been escalating this issue with MHCLG, they have acknowledged the problem and recognised they need to initiate the secondary legislation required to resolve this issue. Their timing in doing this is uncertain.  This has now been escalated to the point as where on the 21/11/18 the Mayor has sent a letter to Kit Malthouse requesting urgent attention to this matter	3	4	12	High	1x1=1	Steady	Monthly
6	29/08/2018	Immaturity of Financial System	The Authority's finance function remains immature, despite ongoing strong development to support transition from start-up organisation. Managing within a fast paced and pioneering environment combined with an inability to scale existing informal processes and reliance on a temporary / remote working workforce (only 2 out of 6 roles are permanent) contribute to risks currently being addressed. Prioritisation is required to develop resilient finance systems and processes that can drive/enhance wider governance processes, cost management and speed of delivery/progress. As the Authority moves rapidly to build its operational phase, the finance team must build on its foundations to lead pace and drive change, co-ordinating successfully with the other corporate teams to achieve effective governance and affordable delivery within available resources.  Finance risk will therefore vary in line with organisational challenges and progress. At this point finance risk can usefully be split into two groups: • Systems / processes with key areas being: implementing a new finance system, embedding delegation and end-to-end process clarity for example getting projects from concept to delivery • Capacity / prioritisation, again key areas are: confirming resource availability and capacity through a revised MTFP, developing rigorous project appraisal capabilities, sources and uses of funds, availability of debt facilities	CFO	Operational	Economic	5	5	25	Very High	Finance has basic processes in place for existing resources and requirements, (i.e. payments, cash accounting and treasury). There is a risk of mitigation becoming less effective overall if we don't keep up with the organisation as it develops its commitments, moves into live project execution and increases activity volumes i.e. our mitigating processes and systems that we have today but we need to cover the planned and now emerging activity.  We are in the process of developing the existing Finance system to include new functionality such as raising PO's, Approval Workflows and budgetary control reporting which will enable better contraol over finances and delegated authority to budget holders.	3	3	9	High	2x2=4	Increasing	Monthly
18	21/11/2018	Reputational risk	High profile (trade magazine) articles and local concern regarding the governance processes of the CPCA and the recent departure of the Chief Executive .	CEO	Operational	Reputational	3	5	15	Very High	Interim CEX appointed with a remit to conduct a chief executive review and report to Leaders on (1) recruitment to established staffing structure (2) prioritisation and performance management (3) budget review (4) governance processes. A key outcome of this review is to improve relations with local stakeholders.  Internal Audit review of governance processes taking place	3	3	9	High	2x2=4	Decreasing	Monthly
7	11/06/2018	Failure to deliver Mayoral Committed Projects	Failure to deliver programmes & projects identified in 4 year plan for example significant work carried out on the Cambridge Autonomous Metro,	Director of Strategy & Planning	Strategic	Reputational	4	3	12	High	CPCA project management approach applied across the portfolio and reviewed in October Regular progress monitoring and reporting at project level, director level and to leaders/c Ex's Alignment between project management and financial reporting Project prioritisation exercise currently under way.	3	3	9	High	3x2=6	Steady	Monthly
13	08/08/2018	Post Brexit Uncertainty	Post Brexit, the UK Shared Prosperity Fund is to replace current funding streams. The value of the fund and the process for distribution is not known. The impact on local business and the economy is uncertain Potentially required to change priority programmes to address economic and social stability following Brexit. This could impact on delivery of transport & housing due to supply chain disruption. If a downturn in the housing market occurs then the ability to negotiate land deals will take a different approach. We may see 'land banking' and a need for Compulsory Purchase to happen. It may also mean that the sale to the public sector may become more agreeable to the landowner. Further this could be radically affected if a new government (anti-devolution or borrowing) did not want Combined Authorities to be major stakeholders in land deals.	Chief Exec	Strategic	Infrastructure	4	3	12	High	Keep under review National Policy on Brexit. Further adapt services as and when required to achieve delivery. Working with the LGA and Government Departments to understand the potential risks and to develop the Shared Prosperity Fund process.	3	3	9	High	3x2=6	Steady	Monthly
15	08/08/2018	National Change in Administration	With the possibility of a General Election in 2019 or 2020 theres a risk that that the new administrations policies on devolution may differ to that of the current government and require a different approach.	Director of Strategy & Planning	Strategic	Political	3	3	9	High	Work at political level to ensure national parties and Whitehall remain committed to devolutionary policies, including by engaging with the LGA and with the Metro Mayors grouping.	3	3	9	High	2x2=4	Steady	Monthly
10	11/06/2018	AEB not ready in time	AEB is not up and ready and professional by deadline of April next year.	Director of Business & Skills	Operational	Reputational & Financial	5	3	15	Very High	DfE to provide assurances that they are happy with progress Regular meetings ongoing Formal letter of confirmation of responsibility received. Potential withholding of finances allayed as extra finances committed	4	2	8	High	4x1=4	Decreasing	Monthly
8	11/06/2018	Failure to adhere to Internal Frameworks	The Combined Authority fails to adhere to internal frameworks which could put at risk the release of the Single Pot Funding.	Director of Strategy & Planning and CFO	Operational	ALL	4	3	12	High	Project management approach documented Training and engagement for PMs Directors to oversee their directorate projects and provide assurance to CE M&E framework and performance reporting being refreshed Assurance framework to be reviewed.	4	2	8	High	4x1=4	Steady	Monthly
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11	11/06/2018	Economic Delivery Organisation is not set up in the foreseeable future	No appropriate Economic Delivery Organisation created to undertake delivery mechanisms for the Combined Authority.	Director of Business & Skills	Operational	Reputational	3	3	9	High	Strategic discussions taking place with analysis of different options from an operational & legal perspective. Ongoing discussions with BEIS and they have agreed to be on steering committee for Skills related delivery.	2	3	6	Medium	2x2=4	Decreasing	Monthly
12	28/08/2018	Camkox economic vision (Trailblazer) initiative	The 4 partners involved lose common ground and delivery stalls. Lack of business engagement in the initiative causes failure to the final product	Director of Business & Skills	Strategic	Political	3	3	9	High	Continued CPCA representation at a range of meetings. Ongoing dialogue with other partners	2	2	4	Medium	2x1=2	Decreasing	Monthly

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# **Cambridgeshire & Peterborough Combined Authority**

## **Outline Audit Plan**

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

**Year ended 31 March 2019**



Cambridgeshire & Peterborough Combined Authority

21 November 2018

Dear Members of the Audit & Governance Committee,

### **Outline Audit Plan for discussion**

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

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

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

We welcome the opportunity to discuss this report with you.

Yours faithfully

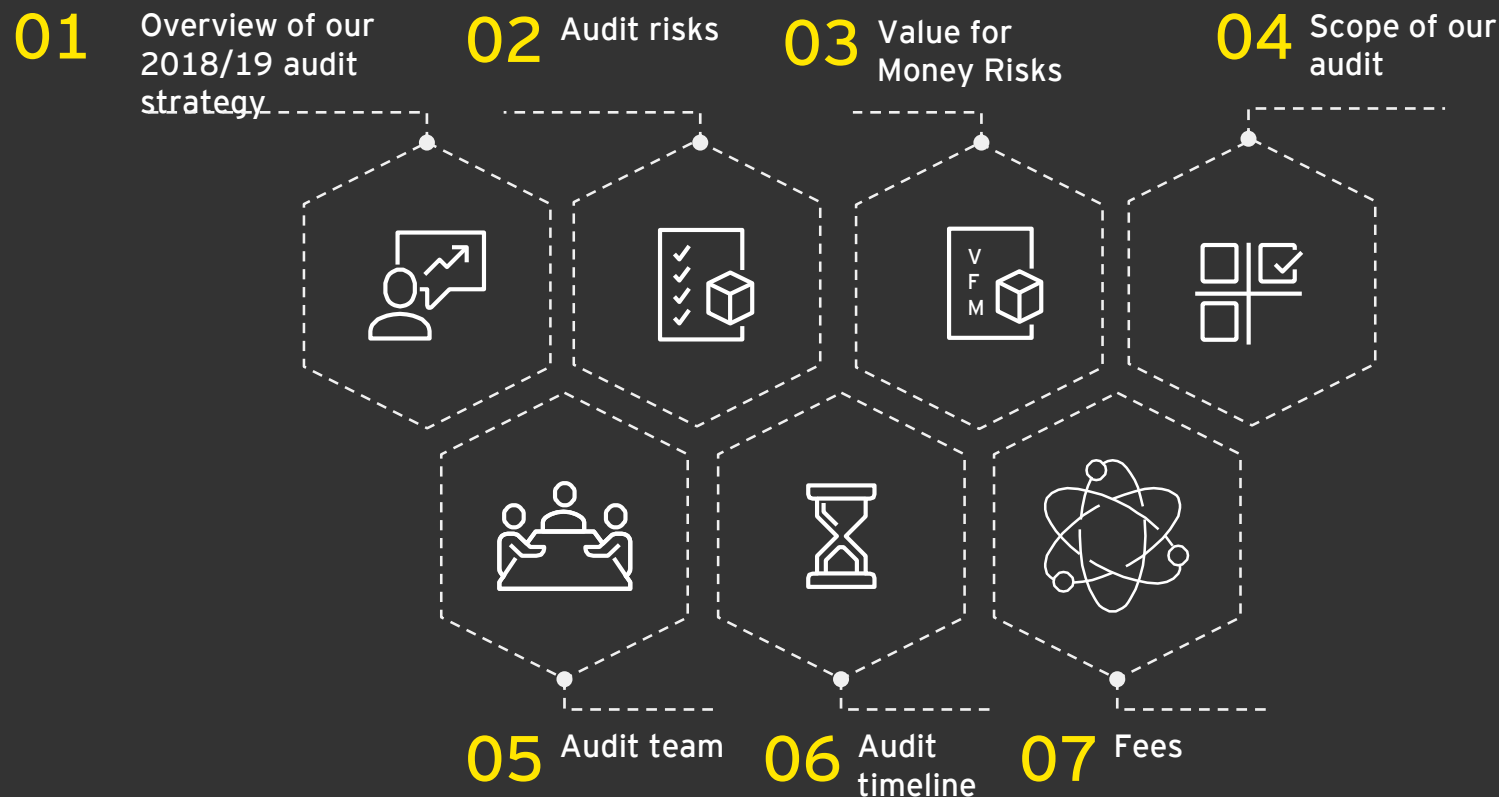
**Suresh Patel**

For and on behalf of Ernst & Young LLP

United Kingdom



# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority (C&PCA) in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee and management of C&PCA those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of C&PCA for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2018/19 audit strategy





## Overview of our 2018/19 audit strategy

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

### Audit risks and areas of focus

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

## Overview of our 2018/19 audit strategy

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

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

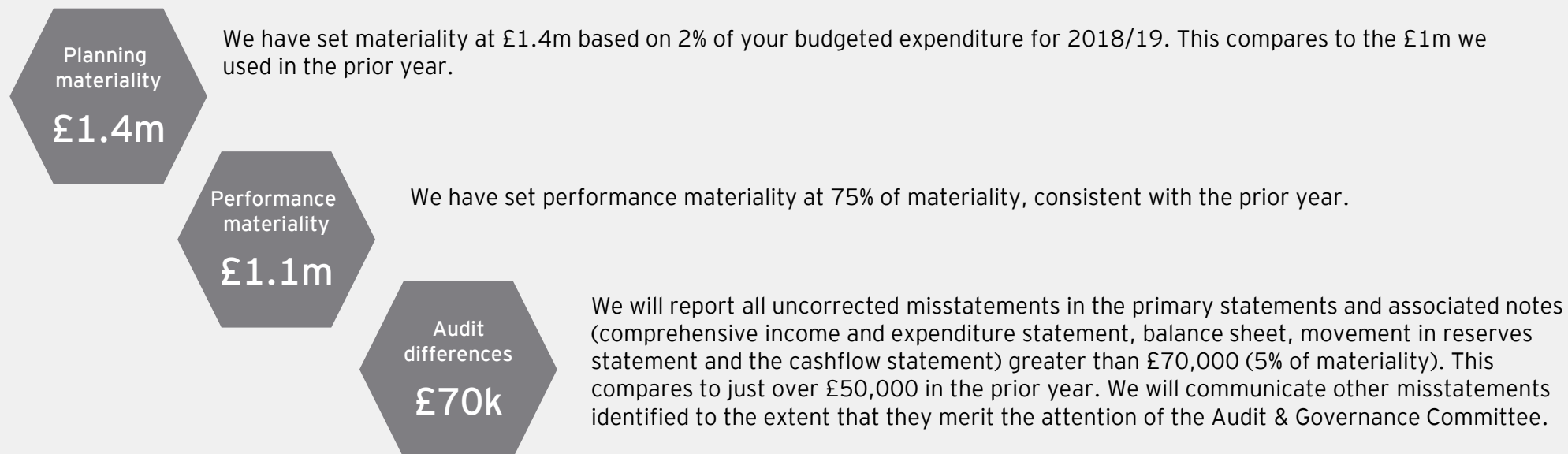
## Value for money conclusion

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

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

## Overview of our 2018/19 audit strategy

### Materiality



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

### Audit team

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

# Overview of our 2018/19 audit strategy

## Audit scope

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

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

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

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

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

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

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



02

## Audit risks

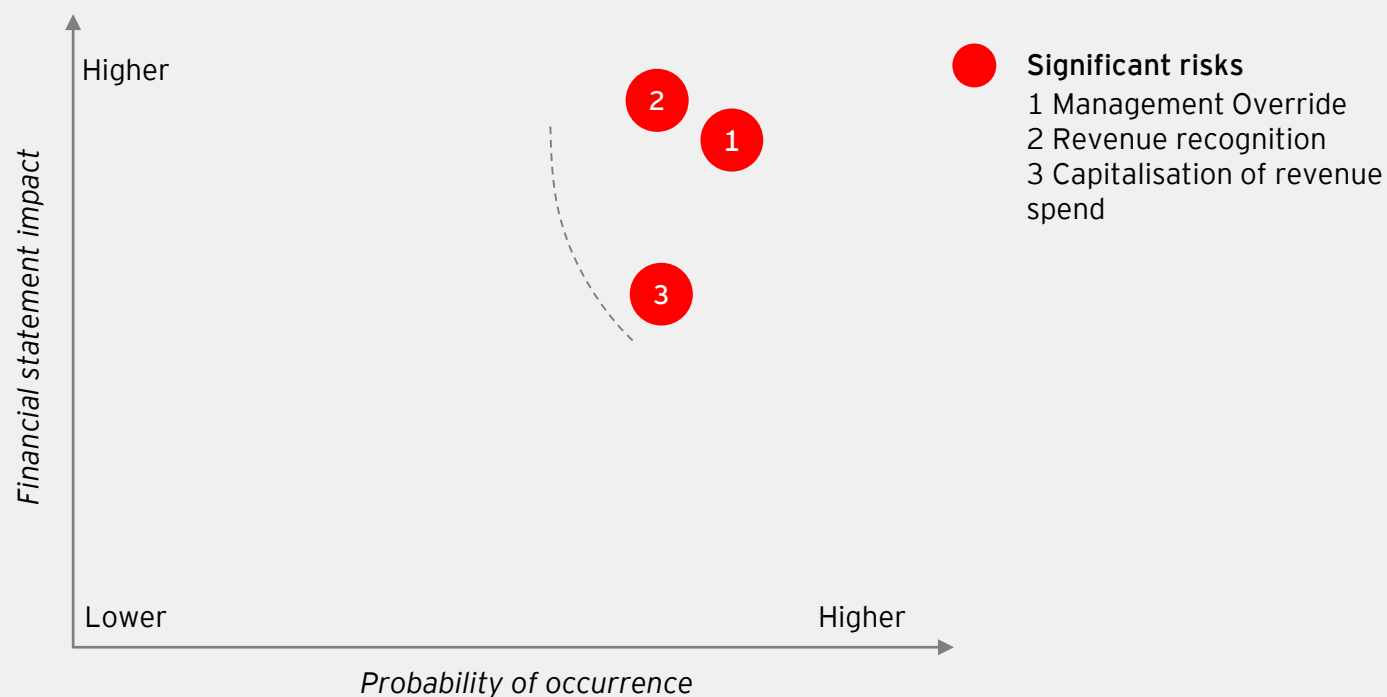


# Risk assessment

### Risk assessment

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

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







## Audit risks

### Our response to significant risks

#### Management Override: Misstatements due to fraud or error

#### What is the risk?

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

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

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

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

#### What will we do?

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

## Audit risks

### Our response to significant risks (continued)

#### Risk of fraud in revenue and expenditure recognition

##### Financial statement impact

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

##### What is the risk?

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

##### What will we do?

We will:

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

#### Incorrect capitalisation of revenue expenditure

##### What is the risk?

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

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

##### What will we do?

Our approach will focus on:

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

## Other areas of audit focus

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

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



03

## Value for Money Risks



## Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

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

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

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

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

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

## Value for Money Risks

### What is the significant value for money risk?

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

All public bodies are required to demonstrate that they have proper arrangements in place to secure the effective use of resources. For the purposes of the value for money conclusion, we have determined that by the 31 March 2019 there is a risk that not all the expected proper arrangements will be operating effectively throughout the year.

### What arrangements does the risk affect?

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

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

### What will we do?

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

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

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





## 04 Scope of our audit



# Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

#### 1. Financial statement audit

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

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

#### Procedures required by standards

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

#### Procedures required by the Code

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

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

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.



## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

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

#### **Analytics:**

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

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

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

#### **Internal audit:**

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



05

## Audit team



## Audit team

### Audit team structure:

Suresh Patel  
Lead Audit Partner

Melanie Richardson  
Audit Manager

Bach Pham  
Senior

### Working together with the Authority

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

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

### Audit team changes

Key changes to our team.

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

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





06

## Audit timeline





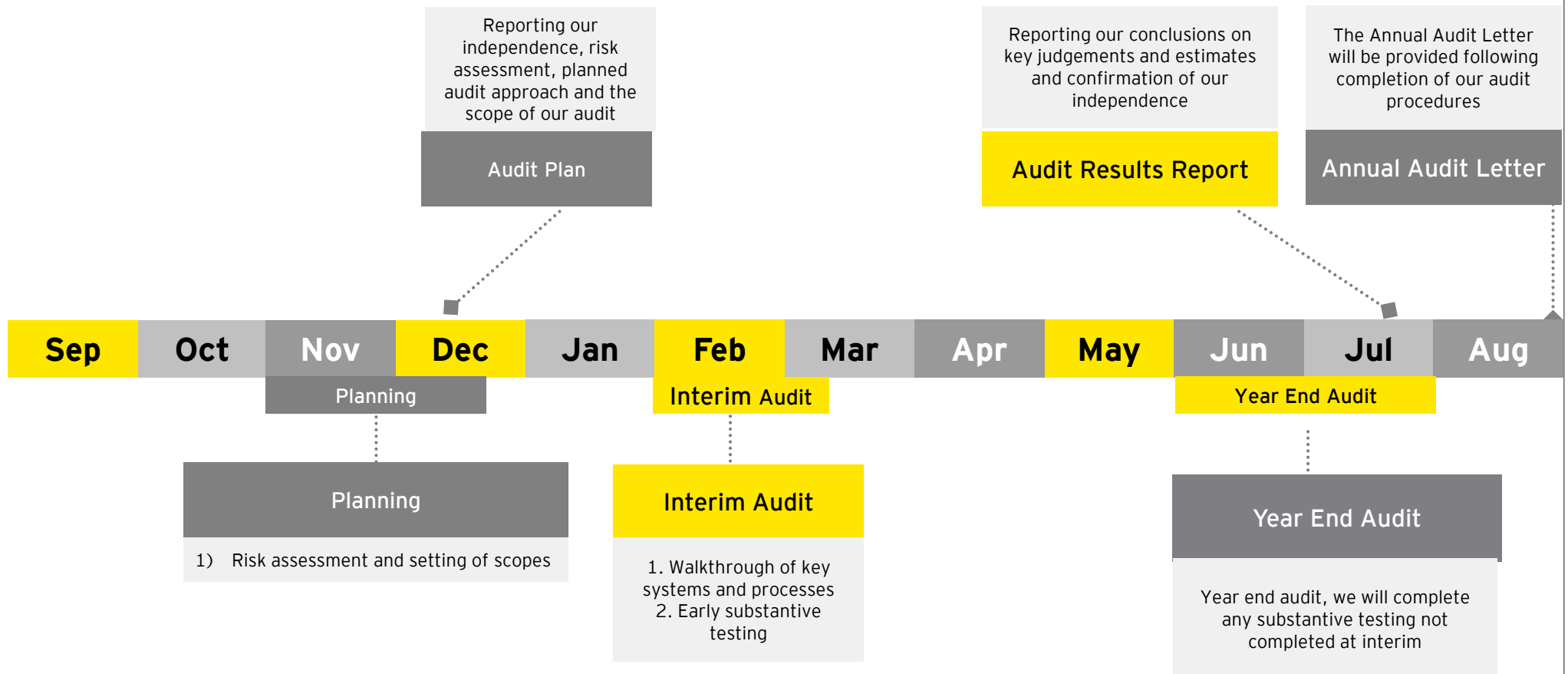


## Audit timeline

### Timetable of communication and deliverables

#### Timeline

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





07

## Fees



## Fees

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

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

**All fees exclude VAT**

**Note 1 - Dependent on the extent of capitalisation issues**

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

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

The agreed fee presented is based on the following assumptions:

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

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

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



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ED None

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<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No:8</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **INTERNAL AUDIT: PROGRESS REPORT 2018 / 2019**

### **1.0 PURPOSE**

- 1.1. Internal Audit 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 provides details of the progress made in delivering the approved Audit Plan for 2018 / 2019.

<b><u>DECISION REQUIRED</u></b>	
<b>Lead Officer:</b>	<b>Steve Crabtree – Chief Internal Auditor, Peterborough City Council</b>
The Audit and Governance Committee is recommended that the progress report from Internal Audit is considered.	

### **2.0 BACKGROUND**

- 2.1. In March 2018 Audit and Governance Committee discussed and agreed the Internal Audit Plan for 2018 / 2019. In accordance with the agreed work programme for Internal Audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing risk management, governance and the control environment.
- 2.2. The reports will also feed into the Annual Internal Audit report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

2.3. It is too early for an overall opinion to be made. Projects have been determined as business cases have been developed and funding released. **Appendix 1** provides commentary of progress made against the plan. At the last meeting of the Committee in September 2018, Members requested that Internal Audit undertook additional works in relation to the changes to corporate governance and recruitment processes. **Appendix 2** sets out the scope which has been agreed with senior management.

2.4. Since the last report, no frauds / irregularities have been reported to Internal Audit.

### **3.0 FINANCIAL IMPLICATIONS**

3.1. The cost of undertaking Internal Audit activities is contained within the charges contained within the Combined Authority's budget and are set out within the Service Level Agreement. Any increase in the required audit coverage will be agreed with Peterborough City Council on an ongoing basis.

### **4.0 LEGAL IMPLICATIONS**

4.1. The Accounts and Audit Regulations 2015, Regulation 5, requires a relevant organisation to undertake an effective internal audit to evaluate the effectiveness of its risk, control and governance processes, taking into account public sector internal auditing standards or guidance.

### **5.0 SIGNIFICANT IMPLICATIONS**

5.1. There are no direct wider CPCA implications arising from this report.

### **6.0 APPENDICES**

6.1. Appendix 1: Internal Audit Plan 2018 / 2019: Progress  
Appendix 2: Internal Audit Scoping Document: Governance Review

<u>Source Documents</u>	<u>Location</u>
List background papers:	

**APPENDIX 1**

## **INTERNAL AUDIT PLAN 2018 / 2019 PROGRESS REPORT**

**ANNUAL REPORT**

1. Introduction
2. Summary of Audit Reviews

This report has been prepared for the use of Members and management of the Cambridgeshire and Peterborough Combined Authority. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed Internal Audit plan.

## 1. **INTRODUCTION**

- 1.1 The purpose of this report is to bring the Audit and Governance Committee up to date with the progress made against the delivery of the 2018 / 2019 Internal Audit Plan.
- 1.2 The Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal Audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the Committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.
- 1.3 The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

<b>TABLE 1: ASSURANCE RATINGS</b>	
<b>Opinion / Assurance</b>	<b>Description</b>
SUBSTANTIAL	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There is some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
REASONABLE	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
LIMITED	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
NO	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

## 2. **SUMMARY OF AUDIT REVIEWS COMPLETED**

2.1 The original Internal Audit Plan for 2018 / 2019 was agreed by this Committee in March 2018 and is detailed below.

<b>TABLE 2: AUDIT PLAN 2018 / 2019</b>		
<b>FINANCIAL ARRANGEMENTS</b>		
TREASURY MANAGEMENT	Review of the operation of key controls including treasury management segregation, review and authorisation; third party services and assurances and the prudential code compliance.	10
<b>CORPORATE GOVERNANCE</b>		
GOVERNANCE	Follow up to the 2017 / 2018 audit review.	5
<b>PROGRAMMES, PROJECTS, AND CONTRACTING</b>		
PROJECTS	Processes and procedures. Compliance with funding agreements / scheme delivery to timescales and outputs.  Covering the various workstreams (Fiscal; Transport; Infrastructure; Housing and Skills). Specific project reviews will be determined during the year as schemes get approved / risk assessed etc.	30
CONTRACTS	Contract processes and procedures. These will link in with projects (above) as they are approved.  Areas which could be covered include specification design; tenders, evaluation and awarding of contracts; monitoring; and post contract review.	20
<b>GRANTS</b>		
GRANT CLAIMS	Review and certification of external funding claims in line with the various grant conditions and that monies are appropriate spent and accounted for	10
<b>INITIAL ALLOCATION OF DAYS</b>		75

2.2 The Audit Plan is re-profiled throughout the year when the risks profile of the Combined Authority changes and to react to emerging issues, management requests or Audit and Governance Committee requests. Following on from its initial approval, additional reviews have been requested (identified in Table 3). This has increased the number of days to be delivered from 75 to 105 days. This is reflected in the Service Level Agreement provided to Finance.

## 2.3 Progress against the works to date are as follows:

TABLE 3: AUDIT PLAN PROGRESS	
	Opinion
<b>AUDITED AREAS COMPLETED</b>	
<p><b>** NEW REQUIREMENT **</b></p> <p><b>BEIS LEP PROJECT GRANTS</b></p> <p>The Greater Cambridge and Greater Peterborough Local Enterprise Partnership (GCGP LEP) was a recipient of a grant from the Department for Business, Energy and Industry Strategy. When it ceased to operate as of 1 April 2018, its functions were transferred to the CPCA and was replaced by the Business Board.</p> <p>Internal Audit were commissioned to review the adequacy, or otherwise, of the financial records maintained and ensure that the grant sums claimed were in line with its conditions.</p> <p>The deadline for approval and return to BEIS was 25 June 2018.</p> <p><i>(This audit did not form part of the original audit plan as the LEP was at the time considered outside of scope of the CPCA).</i></p>	<p>Following review of the financial records maintained, supporting documentation and the grant conditions imposed, we were able to confirm that the monies claimed were appropriate.</p> <p>The grant letter was signed and issued in line with the timetable.</p>
<p><b>TRANSPORT GRANTS</b></p> <p>Four grants coordinated through the CPCA require a declaration to be sent to the Department for Transport, these being Capital Block Funding; Challenge Fund Tranche 2A; Local Transport Grant and Pothole Action Fund.</p> <p>Based on the determination letters, monies are spent separately by PCC and CCC. Where monies are spent directly by County they undertake a review of the appropriateness of spending and provided statement returns to that effect. Similar arrangements were undertaken by PCC.</p> <p>As Chief Internal Auditor for the CPCA, I have looked to place reliance on their works.</p>	<p>Following review of claims and completed statements we confirmed to DfT that monies had been spent in line with the determination letters.</p>



**WORK IN PROGRESS****\*\* NEW REQUIREMENT \*\*****LEP GOVERNANCE (NEW REQUIREMENT)**

Discussions at the Informal Audit and Governance Committee meeting 22 May 2018 considered the LEP transfer into CPCA. It was noted that a temporary Business Board had been created to oversee a number of the decision making processes until such time that appropriate business leaders are appointed. A separate report at the Audit and Governance Committee in 28 September 2018 provided further details at to the arrangements in relation to the LEP and the Business Board going forward together with member appointments.

The LEP has to have its governance arrangements approved by February each year. A national study was undertaken earlier in 2018 – the Mary Ney review – and this reviewed the workings of all LEPs to build on best practice so as to provide recommendations to make all LEPs “best in class”. As a result of this the previous assurance framework has been extensively revised.

CPCA are due to have submitted their assurance framework in November.

We are in discussion with the CLGU – who review a number of LEPs periodically - so as to avoid duplication of effort and look to place reliance on the various works.

*(This audit did not form part of the original audit plan as the LEP was at the time considered outside of scope of the CPCA).*

**PROJECTS: ADULT EDUCATION BUDGETS**

Adult Education Budgets are due to be devolved to the CPCA from 2018 / 2019. A report was been submitted to the Board earlier in the summer as well as Audit and Governance Committee.

Our review has commenced in terms of obtaining various background documents, meetings with the Project Manager and also attending an Assurance and Knowledge Working Group with the Education and Skills Funding Agency and other MCAs on assurance processes and discussion for future proposals. A series of meetings have taken place throughout October and November and the last was scheduled for 16 November 2018.

This is expected to set out the final assurance and audit arrangements in relation the previous Readiness Conditions which MCAs should follow. We will then be able to provide appropriate scrutiny and practical solutions where necessary.

**PROJECTS: EAST CAMBRIDGE TRADING COMPANY**

Internal Audit has identified the allocation of monies for housing projects in relation to the East Cambridge Trading Co. Ltd as an area for review. We are currently liaising with East Cambridgeshires’ Internal Auditors to obtain details of any previous works undertaken in this area as well as our rights of access to the Trading Company. In addition, we plan to review the business case.

We have now received a number of documents / data to assist with this review.

**FOLLOW UP: CORPORATE GOVERNANCE (SCOPE EXTENSION)**

The original audit plan was to focus on areas which had not been developed or embedded previously. However, following the last Audit and Governance Committee meeting the scope for this review was extended to include additional areas which had been identified. The scope of the audit is attached (**APPENDIX 2**) and was circulated and agreed with the Chief Financial Officer.

Work is ongoing on the various workstreams at present and a separate report will be provided to Members as previously agreed.

**FUTURE PROPOSALS**

Since the last Audit and Governance Committee:

- No fraud / irregularities have been reported to Internal Audit
- No new areas have been identified, however the Audit Plan remains a fluid document which will be reviewed regularly.



## INTERNAL AUDIT: SCOPING DOCUMENT

### GOVERNANCE REVIEW

Governance is the combination of processes and structures implemented by the Board in order to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Since its creation in 2017, the CPCA has developed and changed as new areas have been devolved or amalgamated within its remit. This has resulted in changes being introduced such as the Business Board (picking up on the activities previously within the LEP) and the introduction of a new committee structure to pick up on the various portfolio business areas. Furthermore, the previous audit review identified a number of areas which were in the process of being developed and requiring embedding and these will be confirmed. However, in light of the new activities and the creation of a series of committees, it is considered appropriate to have a full audit overhaul of the governance activities to ensure that the new arrangements are fit for purpose.

As a separate exercise, following discussion and debate at Audit and Governance Committee the review will also review the HR processes adopted by the CPCA.

Additional sources of information will be obtained from:

- Liaison with the CPSB members to verify actions have been addressed in relation to their concerns raised in August 2018;
- Comparisons with other MCA's Assurance Frameworks to establish any gaps and to inform on best practice; and
- Human Resources checklists and processes.

### Objectives of the Audit

The overall objective of the review is to provide assurance that the systems of control in respect of Corporate Governance are adequate and being consistently applied and address CPSB issues. The areas of focus will be:

- **Organisational Structure / Roles and Responsibilities:** To confirm that the Authority has an open and transparent organisational structure and that roles and responsibilities are clearly defined and communicated across the organisation.
- **Decision Making:** To confirm that there is a clear and transparent decision making process within the Authority and decisions taken adhere to these processes as set out in the assurance framework.
- **Strategy and Planning:** To confirm that the Authority's strategies are up to date and communicated across the organisation. To confirm that strategies complement and support each other and are linked to key aims and priorities.

Verification that HR processes are robust and follow best practice.

### Risks

- Ill-defined corporate governance, strategic planning and performance monitoring frameworks
- Non-compliance with legislation and recognised best practice
- Ill-defined objectives and outcomes
- Lack of understanding / definition of new areas of business
- Lack of clarity on roles, responsibilities and accountabilities
- Lack of transparency with inaccurate information available to members / staff
- Inconsistency in application of standards
- Ineffective reporting and communication arrangements

### Work to be undertaken

The following procedures will be adopted to identify and assess risks and controls and thus enable audit to recommend control improvements

- Discussions with key members of staff to ascertain the nature of the systems in operation
- Evaluation of the current systems of internal control through walk-through and other non-statistical sample testing
- Identification of control weaknesses and potential process improvement opportunities

NB: This assignment will not cover LEP Governance which is contained within a separate review.

### Allocation

Initial allocation within the Audit Plan was for 5 days to follow up previous recommendations. However, in light of the changes made within the CPCA, reviewing issues raised by CPSB and the Audit and Governance Committee, an additional allocation of 20 days is required.

Total: 25 days.



<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 9</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **SELF ASSESSMENT ACTIONS AND REVIEW**

### **1.0 PURPOSE**

- 1.1. The purpose of the report is for the Audit and Governance Committee to review the proposed actions from the Committee's first annual self-assessment exercise.

<b><u>DECISION REQUIRED</u></b>	
<b>Lead Officer:</b>	<b>Karl Fenlon – Interim Chief Finance Officer</b>
<ul style="list-style-type: none"><li>• The Audit and Governance Committee is recommended to review progress against the Committee's self-assessment action list.</li></ul>	

### **2.0 BACKGROUND**

- 2.1. At its July meeting the Audit and Governance Committee conducted a self-assessment exercise to help provide feedback for the committee after its first year in operation to ensure it was performing in line with its terms of reference and that it was providing an effective challenge to the governance arrangements put in place for the Combined Authority.
- 2.2. The self-assessment exercise was carried out to assess the Committee's performance against the following principles:

(a) Principle 1: Membership, independence, objectivity and understanding

The Audit and Governance Committee should be independent and objective. Each member should have a good understanding of the objectives and priorities of the organisation and of their role as an Audit and Governance Assurance Committee member.

(b) Principle 2: Skills

The Audit and Governance Committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

(c) Principles 3 and 4: The role and scope of the Committee

The Audit and Governance Committee should support the Board by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

(d) Principle 5: Communication and reporting

The Audit and Governance Committee should ensure it has effective communication with all key stakeholders, for example, the Board, the Chief Internal Auditor, the External Auditor and other relevant assurance providers.

2.3. The Committee requested that the self-assessment form be turned into an action sheet to be reviewed by the committee on a quarterly basis.

2.4. The self-assessment action list is shown at appendix 1.

2.5. The Committee is recommended to review and update the action list to ensure that the objectives of the self-assessment exercise are being met.

### **3.0 FINANCIAL IMPLICATIONS**

3.1. There are no financial implications arising from this report.

### **4.0 LEGAL IMPLICATIONS**

4.1. There are no legal implications arising from this report.

### **5.0 SIGNIFICANT IMPLICATIONS**

5.1. None.

### **6.0 APPENDICES**

- Appendix 1 – The self-assessment action list

<u>Source Documents</u>	<u>Location</u>
<i>None</i>	



## CPCA Audit and Governance Committee Self-Assessment Action log – 28 November 2018

<u>Action</u>	<u>Date set</u>	<u>Next action with:</u>	<u>Progress /Comments</u>	<u>Deadline</u>	<u>Open/Closed /Ongoing</u>
Improve attendance at Development sessions	20 July '18	All Members/ Anne G	All Members to attend Development sessions. Register to be kept to monitor improvement	N/A	Ongoing
Repeat of skills audit following change in membership to re-assess strengths and weaknesses.	20 July '18	Anne G		30 Nov '18	Open
To provide access to member training and development sessions materials	20 July '18	Anne G/ Jon A	To discuss with IT most appropriate means of providing access to materials e.g. separate group set up within Sharepoint.	30 Nov '18	Open
Induction pack to be developed along lines of Overview and Scrutiny Committee version.	20 July '18	Anne G		30 Nov '18	Open
Chair will hold annual 1:1s with Members to capture concerns, ensure engagement and build understanding.	20 July '18	Chair/Anne G	Dates of annual 1:1s to be scheduled	30 Nov '18	Open
Terms of reference to be reviewed annually	20 July '18	Anne G	To be included within Forward Plan	30 Nov '18	Ongoing
Separate Dedicated workshop held to consider the draft financial statements	20 July '18	Anne G	Date of workshop to be agreed and scheduled. Options: Public meeting – early June 2018 Non-Public – late May 2018	30 Nov '18	Open
In 2 <sup>nd</sup> year, Committee to hold informal private discussions with internal/external auditors – without Officers	20 July '18	Anne G	Dates of informal discussions to be scheduled	30 Nov '18	Open



<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM No: 10</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **STAFFING STRUCTURE & SCHEME OF DELEGATION**

### **PURPOSE**

- 1.1 To provide the Audit and Governance Committee with paper explaining the situation and timelines regarding a permanent senior staffing structure and to provide assurance about how good governance is being maintained in the interim.

<b>Lead Officer:</b>	<b>Patrick Arran, Interim Monitoring Officer and Legal Counsel</b>
<b>It is recommended that:</b> 1. The Audit and Governance Committee consider the report	

### **2.0 BACKGROUND**

- 2.1 The Combined Authority was established in 2017. By virtue of Section 4 of the Local Government and Housing Act 1989, it is the statutory responsibility of the Head of Paid Service (Chief Executive) to make arrangements for the following:
- (a) the manner in which the discharge by the authority of their different functions is co-ordinated;
  - (b) the number and grades of staff required by the authority for the discharge of their functions;
  - (c) the organisation of the authority's staff; and
  - (d) the appointment and proper management of the authority's staff.
- 2.2 These duties have been, and are being fulfilled, but the organisation has evolved, and the staffing structure has necessarily developed as appropriate to keep pace with and in response to these developments. Until recently a

temporary senior management structure had been in place. However, at its meeting on 14th of November 2018, the Employment Committee resolved to agree a permanent senior management structure which is currently subject to consultation.

- 2.3 In the view of the Monitoring Officer the Authority has well established arrangements in terms of governance to ensure that “the manner in which the discharge by the authority of their different functions is co-ordinated”. This is set out in the Constitution and more particularly the Scheme of Delegation. The Constitution is available on the Authority’s website.

<http://cambridgeshirepeterborough-ca.gov.uk/assets/Uploads/CPCA-Constitution-.pdf>

### **3.0 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications arising from this report

### **4.0 LEGAL IMPLICATIONS**

- 4.1 There are no legal implications arising from this report

### **5.0 SIGNIFICANT IMPLICATIONS**

- 5.1 There are no direct wider CPCA implications arising from this report.

## **APPENDICES**

None

<u>Source Documents</u>	<u>Location</u>
List background papers: None	N/A



<b>AUDIT AND GOVERNANCE COMMITTEE</b>	<b>AGENDA ITEM: 11</b>
<b>30 NOVEMBER 2018</b>	<b>PUBLIC REPORT</b>

## **WORK PROGRAMME**

### **1.0 PURPOSE**

- 1.1 To provide the Committee with the draft work programme for Audit and Governance Committee for the remainder of the 2018/19 municipal year.

<b><u>DECISION REQUIRED</u></b>	
<b>From:</b>	<b>30<sup>th</sup> November 2018</b>
<b>Lead Officer:</b>	<b>Anne Gardiner – Scrutiny Officer</b>
That the Committee notes the work programme for the Audit and Governance Committee for the 2018/19 municipal year attached at Appendix 1 and agree to regularly review the work programme at each meeting.	

### **2.0 BACKGROUND**

- 2.1 In accordance with the Constitution, the Audit and Governance Committee must perform certain statutory duties including the approval of accounts, governance arrangements, financial reporting and code of conduct.
- 2.2 A draft work programme which outlines when these decisions are taken is attached at Appendix 1.

### **3.0 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications

### **4.0 LEGAL IMPLICATION**

- 4.1 There are no legal implications

### **5.0 EQUALITIES IMPLICATION**

- 5.1 None

## 6.0 APPENDICES

### 6.1 Draft Work Programme

<b><u>Source Documents</u></b>	<b><u>Location</u></b>
<b>None</b>	



**AUDIT & GOVERNANCE COMMITTEE – WORK PROGRAMME**

**LEAD OFFICER(S): Karl Fenlon, S151 Officer**

**DEMOCRATIC SERVICES OFFICER (DSO): Anne Gardiner**

<b>Date</b>	<b>Report Description</b>	<b>Relevant Officer/ Report Author</b>
<b>Deadlines:</b>	<b>Final Reports to DSO: 4pm Tuesday 20 November 2018</b>	<b>Agenda Publication/Despatch: Thursday 22 November 2018</b>
30 November 2018 10am	Development Session – Medium Term Financial Plan	
	Update on Combined Authority Activity	Karl Fenlon/Kim Sawyer/Mayor
	External Audit - Annual Audit and Inspection Plan	Suresh Patel/Kay McClennon (Ernst & Young)
	Risk Register	Darren Edey
	Annual Treasury Management Strategy/MRP/AIS	Jon Alsop
	Internal Audit – Progress Report	Steve Crabtree
	Work Programme	Anne Gardiner
	Board report on Combined Authority Organisational Risk Strategy	Karl Fenlon
	Self-Assessment Actions for review	Jon Alsop
	Internal Audit – Interim report on governance review	Steve Crabtree/Karl Fenlon
	Update on the Medium Term Financial Plan	Karl Fenlon
	Information paper on staffing structure	Kim Sawyer

<b>Deadlines:</b>	<b>Final Reports to DSO: 4pm Tuesday 19 March 2019</b>	<b>Agenda Publication/Despatch: Thursday 21 March 2019</b>
29 March 2019 1pm Development Session	Development Session – Procedural Role of the Audit and Governance Committee.	
29 March 2019 10am – Public Meeting	External Audit Progress Report	Suresh Patel/Kay McClennon (Ernst & Young)
	External Audit - Local Government Sector Briefing	Suresh Patel/Kay McClennon (Ernst & Young)
	Business Board Governance Update	Noel O'Neil
	Code of Corporate Governance Review	Patrick Arran
	CA Constitution Annual Review	Patrick Arran
	Corporate Complaints Procedure(s) - Annual Reports & Review	Patrick Arran
	Corporate Risk Register Annual Review	Darren Edey
	Internal Audit Plan 2019/20	Steve Crabtree
	Internal Audit – Progress Report	Steve Crabtree
	Work programme	Anne Gardiner
	Assurance Framework	Darren Edey
31 May 2019 – Informal Workshop	Draft Accounts 2018/19	Jon Alsop

**Items to be Timetabled**



- *Performance Management Framework*

