Cambridgeshire & Peterborough Combined Authority

Annual Audit Letter for the year ended 31 March 2020

January 2021



Building a better working world

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

This 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 PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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





Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Cambridgeshire & Peterborough Combined Authority (CPCA) following completion of our audit procedures for the year ended 31 March 2020. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on CPCA's:	
► Financial statements	On 27 November 2020 we issued an unqualified opinion. The financial statements give a true and fair view of the financial position of CPCA as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on CPCA's arrangements for securing economy, efficiency and effectiveness	We responded to two pieces of correspondence which we took into account in performing the 2019/20 value for money audit. We concluded that CPCA has put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	CPCA's annual governance statement was consistent with our understanding of CPCA.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to CPCA, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of CPCA's Whole of Government Accounts return (WGA).	CPCA was below the testing threshold and we therefore had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of CPCA communicating significant findings resulting from our audit.	We issued an Audit Results Report to the 27 November 2020 Audit and Governance Committee. This followed our Audit Progress Report to the July 2020 Committee meeting.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued the certificate of completion of the audit on 27 November 2020.

Fees

In our Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have quantified the proposed final fee in Section 8 of this letter and provided supporting information to the Section 73 Officer, who has subsequently agreed the additional fees. This is now subject to approval by PSAA.

We would like to take this opportunity to thank CPCA staff for their assistance during the course of our work and in particular given the challenging period they faced as a result of the Covid-19 pandemic. Their acceptance of a collaborative approach enabled us to complete the 2019/20 audit by working remotely.



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of CPCA. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for CPCA.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 March 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements of CPCA; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements CPCA has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement (AGS) is misleading or not consistent with our understanding of CPCA;
  - Any significant matters that are in the public interest;
  - Any written recommendations to CPCA, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of CPCA

CPCA is responsible for preparing and publishing its statement of accounts accompanied by an AGS. In the AGS, CPCA reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

CPCA is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

CPCA's Statement of Accounts is an important tool for CPCA to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited CPCA's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 27 November 2020 Audit and Governance Committee. The key issues identified as part of our audit were as follows.

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit and Governance Committee.
Incorrect treatment of capital expenditure as revenue	We tested a sample of expenditure and were satisfied that it was correctly accounted for.

Other audit risks

Pension liability valuation – In 2019/20 CPCA became an admitted body to the Cambridgeshire Pension Fund, administered by Cambridge County Council. We reported an understatement of the net liability of £0.170 million on the pension liability as a result of an updated Cambridgeshire Pension Fund asset valuation. CPCA did not update the accounts on the basis that the amounts involved were not material.

Going concern – CPCA has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made appropriate disclosure in the statements.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be 2% of Gross Expenditure on provision of services and performance materiality at 75% of planning materiality.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of 5% of planning materiality.

Materiality	
Planning	£1.42 mn
Performance	£1.07 mn
Reporting	£0.071 mn

Section 4

Value for Money



Value for Money

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

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.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider LG bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year.

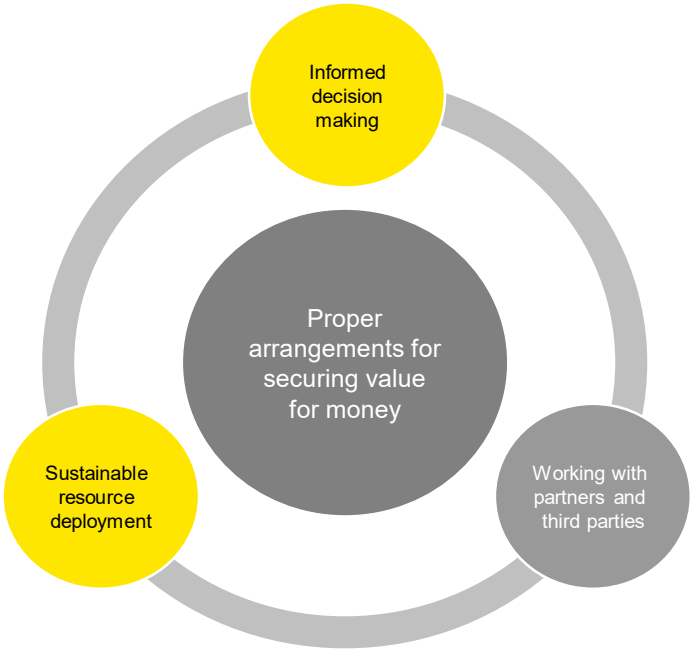
Only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion. We identified no such evidence for CPCA and therefore identified no significant VFM risk associated to Covid-19.

We performed the procedures outlined in our audit plan where we identified one significant risk in relation to CPCA's arrangements for delivering an ambitious capital programme. In addition, during the year, we received two separate pieces of correspondence which we took into account under our value for money responsibilities.

We reported our detailed findings on value for money in the Audit Results Report and other reporting to the Audit and Governance Committee.

We did not identify any significant weaknesses in CPCA's arrangements for ensuring it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We had no matters to report about CPCA's arrangements to secure economy, efficiency and effectiveness in its use of resources.





Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on CPCA's Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The Authority was below the threshold for requiring audit procedures on its WGA submission this year. We had no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in CPCA's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by CPCA or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires CPCA to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit and Governance Committee on 27 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We adopted a fully substantive audit approach and therefore did not test the operation of controls.



Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on CPCA is summarised in the table below.

Council responsibilities for value for money

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

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

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether CPCA has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to CPCA a commentary against specified reporting criteria (see below) on the arrangements CPCA has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that CPCA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to CPCA's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.



Section 8

Audit Fees

Audit Fees

Fees

Following communications to the Audit and Governance Committee on the changes and challenges impacting the audit profession, in June 2020 we communicated to the Section 73 Officer our view of the inadequacy of the current scale fee to enable us to deliver a quality audit in accordance with the NAO Code. In our view the scale fee should be increased by £2,695 for CPCA and we provided details supporting our rationale. At the same time we opened dialogue with PSAA on our view of scale fees nationally and shared with them proposed revisions for all our local government audited bodies. We include our proposed increase to the scale fee in the tables below. We remain in dialogue with PSAA over the scale fees. We include our proposed revision to the scale fee in the table below.

In addition, in the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We quantified the proposed fee and provided supporting information to the Section 73 Officer who has now agreed the additional fees. We will now seek approval from PSAA.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	26,950	26,950	26,950
Additional work:			-
- VFMC significant risk	5,909	5,750	3,500
- Significant risk – incorrect capitalisation of revenue expenditure and REFCUS	2,480	1,000-2,000	1,500
- IAS 19 audit of pension liability & disclosures	4,004	3,700	-
- Correspondence from the public	3,297	3,050	-
- Impact of Covid-19	1,755	1,500	-
- Mayor's request in respect of correspondence with MRGLG	3,912	3,900	-
- CEO Severance	-	-	1,000
- Area of focus – Business Board transfer	-	-	2,400
Total current scale and additional fees	**48,307**	**TBC**	**35,350**
Proposed increase to the scale fee	2,695		

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