

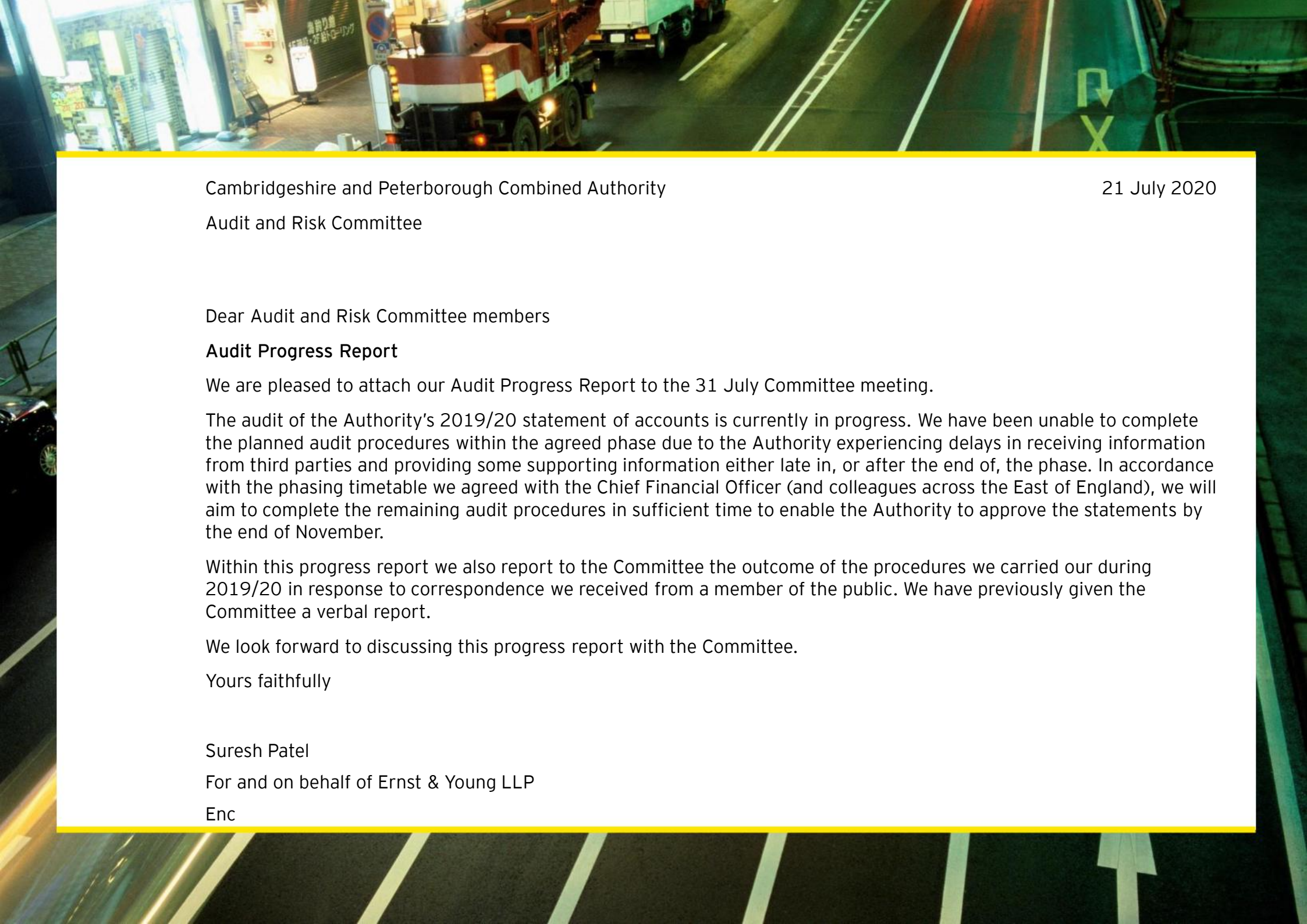


Cambridgeshire and Peterborough Combined Authority

Progress Report

Year-ended 31 March 2020

21 July 2020



Cambridgeshire and Peterborough Combined Authority
Audit and Risk Committee

21 July 2020

Dear Audit and Risk Committee members

Audit Progress Report

We are pleased to attach our Audit Progress Report to the 31 July Committee meeting.

The audit of the Authority's 2019/20 statement of accounts is currently in progress. We have been unable to complete the planned audit procedures within the agreed phase due to the Authority experiencing delays in receiving information from third parties and providing some supporting information either late in, or after the end of, the phase. In accordance with the phasing timetable we agreed with the Chief Financial Officer (and colleagues across the East of England), we will aim to complete the remaining audit procedures in sufficient time to enable the Authority to approve the statements by the end of November.

Within this progress report we also report to the Committee the outcome of the procedures we carried out during 2019/20 in response to correspondence we received from a member of the public. We have previously given the Committee a verbal report.

We look forward to discussing this progress report with the Committee.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

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Audit progress

Audit status

At the last Committee meeting in May 2020, we reported that we had agreed with the Authority to commence the audit of the 2019/20 statements on 18 May, with a view to completing audit procedures in an agreed phase ending 19 June. In accordance with the principles agreed with the East of England CFOs, we also confirmed that we would not be looking to issue the audit report until October 2020. The Authority received the relevant information from its Actuary in late May and then provided for audit the relevant pension disclosures in the accounts on 20 July. In addition, the Authority has provided some supporting information either late in the phase or after the phase ended. As a result, we have been unable to complete all our audit procedures within the agreed phase. In accordance with the principles agreed with the East of England CFOs, we have agreed with the Authority's CFO that we will aim to complete the outstanding audit procedures to enable us to report a completed audit to the planned October Committee meeting.

To date we have not identified any audit differences that we need to report to the Committee.

The Authority has now provided all requested information with the exception item 2 from the list of outstanding audit procedures:

1. Review of the IAS 19 accounting in the updated financial statements
2. Receipt and review of the final REFCUS sample items
3. Conclusion of our value for money work
4. Review of exit packages and officers remuneration
5. Review of going concern assessment and Covid-19 implications
6. Conclude on significant contracts and loan agreements
7. Conclude on employee expenses testing
8. Review of creditor sample items, including cut-off items
9. Final review procedures

In addition we have been notified by the auditor of Cambridgeshire Pension Fund that they are aiming to provide their IAS19 assurance letter by the end of September. Until we receive this letter and carry out our audit procedures we will not be in a position to conclude the audit.

Audit progress

Correspondence

In October 2019 information was brought to our attention in the form of correspondence from a member of the public. We considered this information to be relevant for our consideration of the Authority's arrangements for the effective use of resources for 2019/20 and our subsequent value for money conclusion. The letter highlighted concerns over the governance and accountability arrangements in respect of the loans given by the Authority to East Cambridgeshire Trading Company (ECTC).

Summary of matters highlighted

The correspondence highlighted three key concerns:

1. How does the Authority assure itself on an ongoing basis that there are no conflicts of interest in its relationship with ECTC?
2. What are the arrangements that the Authority has in place to gain assurance on the robustness of ECTC's financial forecasts?
3. How is the Authority managing the risk of ECTC being unable to repay its loan commitments and how is this factored into the Authority's Medium Term Financial Strategy?

Summary of procedures carried out by EY

We have made relevant enquiries to the Chief Financial Officer (CFO) and asked a series of questions in respect of the three issues identified above. As these procedures have formed part of our VFM work we have not carried out any testing of information provided but through requesting information and asking questions we have sought evidence that arrangements are in place. The CFO has responded promptly and comprehensively to all of our enquiries. We have also been provided with the internal audit follow up report on ECTC loans (dated June 2020). We concur with their findings and do not repeat them here.

Background

ECTC was incorporated on 14 March 2016 as a wholly owned subsidiary of East Cambridgeshire District Council. Its principle business is providing markets services, ground maintenance and property consultancy and development services.

On the 28 March 2018, the Authority's Board approved in principle a £6.5m two year loan to ECTC subject to the completion of the business case, due diligence being undertaken and agreement of loan terms. The loan was to facilitate a housing development in Haddenham. In May 2018, the interim CFO at the time reported on the due diligence that was undertaken to support the loan. This included due diligence by members of the Authority's Finance and Legal teams, discussions with the Portfolio lead for Fiscal, discussions with the ECTC management team and advice from external treasury advisors. In addition, specific legal advice was sought and obtained to develop a facilities agreement and provide assurance that all conditions precedent were met prior to the first drawdown. The loan was then approved by the Chief Executive, Monitoring Officer and interim CFO. Details of the background to the decision to approve the loan are included in the Officer Decision Notice. The loan facility agreement was signed on 26 November 2018.

The loan terms include the Authority having First Legal Charge over the land and housing assets of ECTC in relation to the loan. In addition to the repayment of the interest, the loan terms also include for the Authority an element of profit share. The Authority identified the provision of the loan facility as 'concept funding', meaning that it was the first time the Authority had provided a loan to a third party on this basis and for the fulfilment of key Authority strategic objectives. According to the CFO the principles of this first loan have been applied to subsequent loan applications.

On the 31 July 2019, the Authority agreed a further facility with ECTC to provide a £24m two year loan to ECTC for the purposes of delivering the MOD Ely development.



Consideration of the matters highlighted by the correspondence

1. How does the Authority assure itself on an ongoing basis that there are no conflicts of interest in its relationship with ECTC?

The Authority obtains its own Register of Interest forms from all Authority Board members and members of constituent authorities who sit on the Authority's committees. This process is repeated for each municipal year. In addition, the monitoring officer reviews each loan arrangement and is present at Board meetings to identify and advise on conflicts of interest. The Board members who made the decision to provide a loan to ECTC declared no interests in the company.

These arrangements appear reasonable to identify potential or actual conflicts of interest.

2. What are the arrangements that the Authority has in place to gain assurance on the robustness of ECTC's financial forecasts?

The Authority places significant emphasis on the initial due diligence it carries out before it agrees loan facilities. The Authority uses the loan drawdown process effectively as the valuation of the work in progress, on which the loan is being drawn. The Authority receives regular monitoring reports which documents the process upon which the CFO then approves when satisfied.

These arrangements appear reasonable to identify potential or actual issues with ECTC's financial forecasts.

3. How is the Authority managing the risk of ECTC being unable to repay its loan commitments and how is this factored into the Authority's Medium Term Financial Strategy?

The Authority aims to reduce the impact of the risk that ECTC cannot repay its loan commitments through the inclusion of loan terms providing it with First Legal Charge over the land and housing assets of ECTC in relation to the loan. In addition, the Authority relies on the ongoing financial monitoring as outlined above. The CFO is also required by the Investment Strategy (approved at the 25 March 2020 Board) to regularly consider all investment loans and if appropriate provide a loss allowance in the accounts, which will then also be reflected in the Medium Term Financial Strategy.

These arrangements appear reasonable to identify potential or actual risks if ECTC being unable to repay its loan commitments.

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