



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE

20th July 2018

10am

Committee Room 1 & 2, The Guildhall, Market Square, Cambridge CB2 3QJ

AGENDA

Open to Public and Press

Number	Agenda Item	Chief Officer	Papers	Pages
1	Apologies and Declarations of Interests	Chair	No	Oral
2	Appointment of Vice Chairman	Scrutiny Officer	No	Oral
3	Minutes – 26 th March 2018	Chair	Yes	Pages 4-10
4	Combined Authority Board Update	Chief Executive Officer	No	Oral
5	Report from the Informal Audit & Governance Committee Meeting	Chair	Yes	Pages 11-13

Number	Agenda Item	Chief Officer	Papers	Pages
6	Annual Audit Report	Chair	Yes	Pages 14-39
7	Constitution Review – Audit and Governance Committee	Chair	Yes	Pages 40-48
8	Annual Financial Report 2017/18	Interim Chief Finance Officer	Yes	Pages 49-112
9	External Audit - Audit Results Report	Ernst & Young	Yes	Pages 113-168
10	Review of Investment Strategy & Risk Appetite	Interim Chief Finance Officer	No	Oral
11	Internal Audit Annual Report	Internal Auditor	Yes	Pages 169-178
12	Internal Audit – Progress Report	Internal Auditor	Yes	Pages 179-184
13	Work Programme	Chair	Yes	Pages 185-189
	Date of next meeting			
14	28 th September 2018 – Cambridgeshire County Council	Chair	Oral	

The Audit & Governance Committee currently comprises the following members:

Chair: Mr John Pye (Independent Person)
 Councillor Mac McGuire - Huntingdonshire District Council
 Councillor Andrew Mason - South Cambridgeshire District Council
 Councillor Nichola Harrison - Cambridgeshire County Council
 Councillor Chris Morris - East Cambridgeshire District Council

Councillor Anne Hay - Fenland District Council
Councillor David Seaton - Peterborough City Council
Councillor Richard Robertson - Cambridge City Council

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

For more information about this meeting, please contact Anne Gardiner
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**CAMBRIDGESHIRE
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CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY – DRAFT MINUTES

AUDIT AND GOVERNANCE COMMITTEE: MINUTES

Date: 26th March 2018

Time: 10am

Location: Peterborough City Council

Present:

Mr J Pye
Cllr C Morris
Cllr K Aitken
Cllr R Robertson
Cllr A Hay

Chairman
East Cambs District Council
Peterborough City Council
Cambridge City Council
Fenland District Council

Officers:

Martin Whiteley
Kim Sawyer

Jon Alsop
Steve Crabtree
Anne Gardiner

Chief Executive Officer (CPCA)
Legal and Monitoring Officer –
Cambridgeshire and Peterborough
Combined Authority (CPCA)
Interim Project Accountant
Chief Internal Auditor – PCC
Scrutiny Officer - CPCA

Others in attendance:

Suresh Patel
Kay McClennon

Executive Director – Ernst & Young LLP
Ernst & Young LLP

1. Apologies and Declarations of Interests

- 1.1 The Chairman welcomed the Chief Executive Officer, Martin Whiteley.
- 1.2 Apologies were received from Cllr B Chapman, Cllr N Harrison and Cllr D Seaton, (substituted by Cllr K Aitken.)
- 1.3 No declarations of interest were made.

2. Minutes of the meeting held on 18th December 2017

- 2.1 The minutes of the meeting held on the 18th December were agreed as a correct record.
- 2.2 The Chair went through the Action sheet attached to the minutes and advised that all actions had been completed but asked if the number of FOI and Complaints received by the Combined Authority could be reported to the next meeting and was advised that these would be included in the Annual Report.

3. Combined Authority Board Update

- 3.1 The Chairman welcomed the Chief Executive, Martin Whiteley and invited him to provide the committee with an overview of the Combined Authority activities.
- 3.2 The Chief Executive highlighted the following points:-
 - The Combined Authority continues to be successful in attracting new forms of finance to the area.
 - The Combined Authority received £74m from the Reforming Cities Fund, this was allocated on a capita basis and it shows how much Combined Authorities are the governments place for investment. The Combined Authority also received extra funding for capacity, £1m this year and £1m next year. The Combined Authority's bid for housing investment for the Cambridge North East Project had successfully been progressed through to the next round.
 - The Combined Authority had received the final position on the Adult Education budget.
 - The Combined Authority position remains strong and the Chief Executive expected that the organisation would continue to secure funding into the area.
 - The strategic framework was becoming established and the Combined Authority was now turning its mind to investment.
 - The Combined Authority was more confident in securing private investment into the area and would require strategic financial partners to secure the projects.
 - The Combined Authority would continue to pursue land value capture and had made a submission to the relevant select committee and had secured legal advice on how land value cap model could work in the area without

primary legislation – this would come to the Audit and Governance committee at the appropriate time.

- On the 19th December 2017 the current members of the LEP Board resigned. There had been a successful winding up of the LEP company which would conclude in April and the accountable body status would transfer to the Combined Authority. The total amount of assets, a sum of £28m would transfer over from the LEP at this time and a further £14m was due to come which meant a total of £42m of capital sums for investment in projects.

In response to a question on processes and procedures and the appointment of consultants and of interim posts the Chief Executive made the following points:

- The appointment of consultants was done in conjuncture with a network of partners across the area; the terms of reference for each brief were made publicly available. The papers for each stage for developing the projects were brought to each Board meeting to show compliance to the assurance framework. The framework was used as a means to procure consultancy services; alternatively, the Combined Authority utilised teams at Cambridgeshire County Council and Peterborough City Council to undertake procurement on behalf of the authority.
- An Employment Committee had been established to oversee the process of recruiting senior officers; the committee would be agreeing the process for appointing the corporate directors this week. The appointment of interim directors was done after an interview process had been carried out by the Chief Executive, the relevant portfolio holder and an HR representative. Levels below the director role were made by the CEO to ensure that there was capacity in the short term.
- The only difference to this process was the Mayor's Chief of Staff which according to the legislation the Mayor was entitled to select rather than follow a recruitment process.
- The Combined Authority Board approved the recruitment of a Chief Finance Officer in December and this Wednesday would approve the process for the recruitment. It was hoped that by the end of July an appointment would be made.

3.3 The Chairman thanked the Chief Executive for attending to provide an update and asked him to return at a future date to keep the committee updated.

4. Treasury Management Strategy Review

4.1 The Committee received the report from the Interim Project Accountant which asked the committee to review and comment on the Combined Authority's draft Treasury Management Strategy for 2018/19.

4.2 Once the Treasury Management Strategy had been approved by the Board it would give the Combined Authority the ability to move the money to an area that would increase the yield on the return.

4.3 Local Authority investments were all done through Peterborough City Council

who followed the appropriate codes and local authorities were considered good risks with everything done in accordance with treasury advice to ensure risks were minimal.

- 4.4 The Committee would receive three updates on the Treasury Management strategy each year.

- 4.5 The Committee agreed to add to the recommendations that:

‘The Combined Authority should undertake an immediate review of its investment strategy and risk appetite to maximise the yield based on expert advice. The results from the review should be reported back to the committee.’

- 4.6 The Committee reviewed the Combined Authority’s draft Treasury Management Strategy for 2018/19 and noted that a final version will be taken to the Combined Authority Board as part of the Combined Authority’s Medium Term Financial Strategy.

5. Internal Audit Plan 2018/19

- 5.1 The Committee received the report from the Internal Auditor which set out how Internal Audit will look to support the Committee.

- 5.2 The key focus for the next year would be to consider the Treasury Management Strategy and to get into the specific schemes as they start to get commissioned.

There may be some actioning for the audit of the LEP which would be brought as part of future updates to the committee.

Governance would be looked at and it would follow the Cambridgeshire County Council and Peterborough City Council processes

- 5.3 The Committee agreed the draft plans for 2018 / 2019 noting the resources proposed.

6. Internal Audit – Progress Report

- 6.1 The Committee received the report from the Internal Auditor which provided assurance to the Audit and Governance Committee that activities undertaken across the Combined Authority were appropriately managed, monitored and delivered in accordance with set governance, controls and risk management frameworks.

- 6.2 Some gaps had been identified which had led to a report being sent to the Chief Finance Officer and Legal Officer for acknowledgement and action, however, many of the concerns raised were being dealt with and policies had been put in place.

The Internal Auditor would continue to monitor the situation to ensure policies were being followed and if any concerns were raised these would be brought to the committee.

In response to a query raised by Cllr Aitken the committee were advised that if further resources were required to audit the Combined Authority then the authority would ask Peterborough City Council to employ the appropriate staff.

The external auditor advised the Annual Governance Statement would need to reflect the gaps identified by the internal auditor's report to ensure transparency.

- 6.3 The Committee noted the review of the governance arrangements within the Combined Authority.

7. External Audit – Final Audit Plan 2017/18

- 7.1 The Committee received the report from the External Auditors, Ernst and Young which outlined the final 2017/18 Audit Plan.

- 7.2 The external auditor made the following points:-

- The involvement of the LEP was no longer considered a risk as it did not fall within this financial year.
- The external auditors had confidence in the finance team to deliver the draft accounts in the timeframe required.
- In regard to materiality the figures were changing but final figures would be provided by the workshop in May.
- They had identified some gaps and would be going through the evidence the authority had provided to explain gaps; conclusions should be made in the next couple of weeks.

The Committee agreed that they would use the informal meeting arranged for May to go through the internal and external audits as an additional check for the Combined Authority.

- 7.3 The Committee agreed that the final version of the External Audit Plan for 2017/18 was aligned with the Committee's expectations, and that the committee would run through both internal and external audit reports at the informal May meeting.

8. Risk Management Strategy & Corporate Risk Register

- 8.1 The Committee received the report which outlined the corporate risk strategy and the corporate risk register.

- 8.2 It was noted that the Audit & Governance Committee should not approve the registers but recommend the adoption to the Board.

- 8.3 Members raised concerns around the layout of the registers and requested that these be amended to show the risks in order of risk level and that it should show residual risk category.

- 8.4 The Committee were advised that the registers were under development and would be brought back to the July meeting.

- 8.5 The Committee considered the policy and approach outlined in the Corporate Risk Strategy and the associated corporate and project registers and noted the aims and objectives of the risk management strategy.

The Committee agreed to recommend the adoption of the Corporate Risk Strategy by the Combined Authority Board.

9. Anti-Fraud, Bribery & Corruption Policy

- 9.1 The Committee received the report which set out the Anti-fraud, Bribery and Corruption Policy and Strategy Statement.
- 9.2 It was noted by the committee that there were a number of new policies that needed to be imbedded into the authority including the anti-fraud, bribery and corruption policy.
- 9.3 Any matters regarding fraud would be reported back to the committee in the annual report.
- 9.4 The Committee agreed to:
 - (a) Note the policy and strategy outlined in the Anti-fraud, Bribery and Corruption Policy and Strategy.
 - (b) Note the aim of the policy and strategy is to take firm action in all cases in accordance with relevant policies and procedures and take the steps outlined in the statement to minimise the incidence of, and losses to, fraud and bribery.

10. Governance Framework for Market Towns Masterplan

- 10.1 The Committee received the report which provided clarification around the governance for the process around the delivery of the Market Towns Masterplans.
- 10.2 The Committee agreed that the following wording should be added to the guidance provided by the Combined Authority:

‘The Combined Authority expects and encourages the partnership team will appoint in a transparent manner and adhere to the outside bodies policies outlined in the relevant constituent councils constitution.’
- 10.3 The Committee noted the governance arrangements in place for Market Town Masterplans.

11. Code of Corporate Governance

- 11.1 The Committee received the report which outlined the Corporate Governance Code and Framework.
- 11.2 The Committee were advised that the plan was to draw the processes together and include the LEP to ensure everything across the two companies was covered.

A Single Corporate Framework to be adopted across the county councils was the goal but this had been delayed due to the work involving the LEP.
- 11.3 The Committee commented on and noted the Corporate Governance Code and Framework and agreed that the Combined Authority Board approve and adopt the Corporate Governance Code and Framework.

12. Whistleblowing Policy

- 12.1 The Committee received the report which outlined the Combined Authorities Whistleblowing Policy.

- 12.2 It was noted that it was very important to ensure that senior officers investigate any complaints.

The guidance issued by Mary Ney review suggested that the officer for issues to be reported to should be the Chief Executive Officer or the Chief Finance Officer.

The Committee agreed that a lays statement should be produced and added to the website for staff to understand more clearly where to report concerns to.

- 12.3 The Committee commented and noted the proposed whistleblowing policy and the confidential reporting of complaints policy for third parties.

The Committee agreed that the combined authority board approve and adopt the whistleblowing and confidential reporting of complaints policy and that a lays statement should be produced and added to the website for staff to understand more clearly where to report concerns to.

13. Work Programme

- 13.1 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.

- 13.2 The Committee agreed to add the following to the work programme:

Annual Review of effectiveness of committee – Annual Report to the Board which would cover the business and effectiveness and review the Terms of Reference for the Committee to be added to the programme for July.

Election of Vice Chair would be added to the July programme.

14. Date and Location of the Next Meeting

- 14.1 The Committee agreed the next public meeting shall be on July 20th - venue to be confirmed.

The Committee would meet informally on the 22nd May to view the draft accounts at Huntingdonshire District Council.

Meeting Closed: 11:53am.



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 5
20th July 2018	PUBLIC REPORT

INFORMAL AUDIT AND GOVERNANCE COMMITTEE MEETING UPDATE

1.0 PURPOSE

- 1.1 At the Audit and Governance Committee meeting held on the 18th December the Committee agreed that an informal workshop should be held in May 2018 to review and provide comment on the draft statement of accounts for the year.
- 1.2 This report provides an update on the items that were discussed at the informal workshop.

<u>DECISION REQUIRED</u>
Lead Officer: Kim Sawyer
The Audit and Governance Committee is recommended to note that the draft statement of accounts were reviewed at an informal meeting held on the 22 nd May 2018, and to note the comments made.

2.0 BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts would be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
- 2.2 As a result of this change the Audit and Governance Committee agreed that they would meet informally before the end of May 2018 to review the draft

statement of accounts so these could be finalised within the required deadline.

- 2.3 The Committee would then meet again in July to receive and formally approve the Statement of Accounts and to receive the external auditor's report.
- 2.4 The Audit and Governance members were invited to attend the informal workshop on the 22nd May 2018; the Interim Chief Finance Officer and Internal Auditor for the Combined Authority were also in attendance.
- 2.5 The committee members also received an update on the governance review from the Internal Auditor.

3.0 STATEMENT OF ACCOUNTS

- 3.1 The Committee reviewed the draft statement of accounts and raised a concern within the narrative section of the report, the section outlined 'key achievements' for the authority, members requested that this should be more fully explained and evidenced.
- 3.2 Subject to this section within the report being amended the committee members were happy for the draft statement of accounts to be finalised by officers in line with the statutory deadline at the end of the month.

4.0 GOVERNANCE REVIEW

- 4.1 The Committee received the presentation from the Internal Auditor for the Combined Authority which outlined the areas of activity for the authority and the overall assurance rating.
- 4.2 The Committee members noted during their discussion that the governance profile for the Combined Authority was high and it was important to monitor this. With the introduction of the Business Board to the organisation it would be useful for the committee to receive a governance review on the work of the Business Board in future.

5.0 FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications.

6.0 LEGAL IMPLICATION

- 6.1 There are no legal implications.

7.0 APPENDICES

- 7.1 None

<u>Source Documents</u>	<u>Location</u>
Audit and Governance Committee - Minutes and Agenda – December 18th 2017	http://cambridgeshirepet-erborough-ca.gov.uk/meetings/audit-and-governance-committee-18-december-2017/?date=2017-12-18



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 6
20th July 2018	PUBLIC REPORT

DRAFT ANNUAL AUDIT REPORT & SELF ASSESSMENT

1.0 PURPOSE

- 1.1 The Audit and Governance Committee has been in operation since the Combined Authority Board approved the membership and appointment of the Independent Person in May 2017. The committee held its first meeting in June 2017 and has met four times over the 2017/18 municipal year.
- 1.2 The Committee has a wide-ranging remit that underpins the Combined Authority's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including internal audit, anti-fraud and the financial reporting framework. These are detailed in its terms of reference.
- 1.3 It is important for the Audit and Governance Committee to review annually the work undertaken by the committee to ensure best practice and effectiveness for the Combined Authority is being achieved.
- 1.4 The attached Draft Annual Report has been produced (Appendix 1) to show the work carried out by the committee over the municipal year 2017/18 and is for the committee to approve to the Combined Authority Board.
- 1.5 In the interests of good governance, the committee have chosen to conduct a self-assessment exercise to ensure that it is performing in line with its terms of reference, gain feedback from relevant sources and to ensure that the committee will continue to progress and develop in the future. (Appendix 2)

<u>RECOMMENDATIONS</u>
Lead Officer: Kim Sawyer, Legal Counsel and Monitoring Officer
<p>The Audit and Governance Committee are recommended to:</p> <p>a) Comment on the draft annual report (Appendix 1)</p> <p>b) Comment on the self assessment form (Appendix 2)</p> <p>c) Approve the draft Annual Audit and Governance Committee Report for submission to the Combined Authority Board as shown in Appendix 1.</p>

2.0 BACKGROUND

- 2.1 It is recommended by relevant professional bodies that audit and governance committees should produce an annual report which details the work of the Committee for the Municipal Year. A draft annual report has been prepared for the committee's first year of operation. (Appendix 1)
- 2.2 The draft annual report shows:
- Background to the Committee, its roles, responsibilities and membership;
 - An overview and coverage of its remit including Internal Audit, Accounts and Financial Management, External Audit, Risk Management, Control Assurance, Corporate Governance, and Fraud and Irregularities;
 - Training provided to ensure that suitable challenge and scrutiny is adopted.
 - Records of complaints, Freedom of Information requests and attendance levels for the committee to consider.
- 2.3 The Committee are asked to comment on and agree the report. The report will then be submitted to the Board in September.
- 2.4 The Chairman, in agreement with committee members requested that in addition to the annual report, that a self-assessment exercise be carried out 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.

- 2.5 The self-assessment form will be discussed by the committee to provide a well-rounded review and gain valuable feedback to be included in the annual report and help the committee develop its work in the future.

3.0 RECOMMENDATION

- 3.1 Subject to approval by Audit and Governance Committee, it is intended to present the report to the Combined Authority Board for noting as part of the Committee's annual update in order to demonstrate the work carried out to improve the governance arrangements across the Combined Authority.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are no financial implications arising from this report.

5.0 LEGAL IMPLICATION

- 5.1 There are no legal implications arising from this report.

7.0 APPENDICES

- 7.1 Appendix 1 – Draft Annual Audit and Governance Committee Report
7.2 Appendix 2 – Audit and Governance Committee - Self Assessment Form

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



**CAMBRIDGESHIRE
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**(DRAFT) ANNUAL REPORT FROM
THE CHAIRMAN OF AUDIT & GOVERNANCE
COMMITTEE FOR THE COMBINED AUTHORITY
OF CAMBRIDGESHIRE AND PETERBOROUGH
2017 / 2018**

AUDIT AND GOVERNANCE COMMITTEE: ANNUAL REPORT 2017 / 2018

INTRODUCTION

MEMBERSHIP AND MEETINGS

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

PLANS FOR 2018 / 2019

FOREWORD FROM THE CHAIRMAN OF THE AUDIT & GOVERNANCE COMMITTEE

I am pleased to provide the Audit and Governance Committee's (A&G) Committee Annual Report for the municipal year 2017 / 2018. The Board is requested to:

Note the work carried out by the Audit and Governance Committee in scrutinizing the governance arrangements across the Combined Authority.

Provide any feedback to the Committee.

The report describes the A&G Committee's contribution to the development of the Combined Authority's governance and control framework in this first year. Establishing the elements of good governance in a new organisation is a challenge, and takes time to mature. The A&G Committee has taken that into account in its work.

I would like to thank Committee Members and Officers for their support of the A&G Committee work during the year. Members have supported and challenged officers to help in the development of effective and transparent risk, internal control and governance processes.

INTRODUCTION

This is the A&G Committee's first annual report. It is produced in accordance with latest best practice¹.

The A&G Committee was established by the Combined Authority at its meeting in May 2017. The membership comprises 7 elected members representing each of the Combined Authority's constituent councils, together with an Independent Person. The Combined Authority Board agreed at its annual general meeting in May 2017 that the Independent Person should act as the A&G Committee's Chair.

The purpose of the A&G Committee is to provide: independent assurance of the adequacy of the risk management framework and the associated control environment; independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risks and weaknesses; and to oversee the financial reporting process.

The key benefits of an Audit and Governance Committee can be seen as:

- Raising greater awareness of the need for internal control and the implementation of both internal and external audit recommendations;
- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes; and
- Providing additional assurance through a process of independent and objective review.

The A&G Committee's Terms of Reference are at **Annex A** of this report.

This report sets out the work undertaken by the A & G Committee for 2017 / 2018. The A&G Committee has seen good progress in all areas under its remit, whilst recognising that key elements such as the risk register are subject to ongoing development. The Treasury Management Strategy was scrutinised at three A&G Committee meetings, and the Committee welcomed the Combined Authority's initiation of an in-

¹ Best practice as contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) document "A Toolkit for Local Authority Audit Committees"

depth review of the strategy.

A&G Committee members have had the opportunity to attend the Ernst & Young training conferences offered to Audit Committee Members across the East of England region.

MEMBERSHIP AND MEETINGS

During 2017/2018, the Audit and Governance Committee met on the following dates:

- 26 June 2017
- 21 September 2017
- 18 December 2017
- 26 March 2018
- 22 May 2018 (informal meeting)

There is a cross representation of all parties in accordance with the make-up of the constituent councils across the Combined Authority area. The members for 2017 / 2018 were (excluding substitutes):

Table 1: Councillor Audit Committee Membership 2017 / 2018 as at 26 March 2018:

Conservative	Independent	Liberal Democrats	Labour
Cllr Chris Morris Cllr Anne Hay Cllr David Seaton Cllr Andrew Fraser	Cllr Barry Chapman	Cllr Nichola Harrison	Cllr Richard Robertson

Senior officers from the Combined Authority are also present at the A&GC meetings, including the Interim Chief Finance Officer, Legal Counsel and Monitoring Officer, Chief Executive Officer and Chief Internal Auditor. The Mayor for the Combined Authority attended one meeting to provide an update on Combined Authority activities. Dependent on the agenda, other officers attend as do the External Auditors, Ernst & Young. The A&G Committee was well supported by the Combined Authority's senior officers throughout the year.

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

Background

The Audit and Governance Committee's terms of reference cover 6 main areas:

- Annual Accounts
- Review Corporate Governance
- Internal Audit
- External Audit
- Financial Reporting
- Code of Conduct

The work of the AG&C to fulfil its terms of reference is summarised below.

Annual Accounts

3. Terms of Reference

3.2 Approve the annual statement of accounts.

Audit & Governance Committee Actions:

26 June 2017

- *Draft Statement of Accounts:* The Combined Authority is required to prepare a Statement of Accounts each financial year, and it must be prepared in accordance with statutory timelines and accounting practices. The purpose of the report was for members to review and comment on the draft Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2017.

21 September 2017

- *Statement of Accounts:* The Committee received and approved the report from the Interim Chief Finance Officer which outlined the Statement of Accounts 2016/17 and the Annual Governance Statement 2016/17 including the appointment of Ernst & Young as external auditors for a five-year period.

22 May 2018 (Informal meeting)

- *Review of Draft Accounts:* The Committee met at an informal meeting to review the draft accounts from the Interim Chief Finance Officer.

Governance

Terms of Reference

- 3.3 Review corporate governance arrangements against the Code of Corporate Governance and the good governance framework;
- 3.4 Review the Annual Governance Statement prior to approval to ensure it properly reflects the risk environment and supporting assurances;
- 3.5 Annually review the assurance framework to ensure it adequately addresses risks and priorities including governance arrangements of significant partnerships;
- 3.6 Monitor the Authority's risk and performance management arrangements including reviewing the risk register, progress with mitigating actions and assurances;
- 3.7 Monitor the anti-fraud and whistle blowing policies and the complaint process;

Audit & Governance Committee Actions:

21 September 2017

- *Assurance Framework:* The Committee received a report which outlined the progress on the implementation of measures to ensure compliance with the Assurance and the Monitoring & Evaluation Frameworks.

18 December 2017

- *Complaints Procedure*: The Committee received a report on proposals to introduce a corporate complaints procedure for the combined authority, and recommended a complaints procedure to the Combined Authority Board.
- *FOI and Data Protection Policy*: The Committee received a report on proposals to introduce a freedom of information scheme, a publication scheme and a data protection policy. The Committee recommended these for approval by the Combined Authority Board.
- *Assurance Framework*: The Committee received and noted the progress on the review of the implementation of structures and systems for the procurement and project management of capital projects in accordance with the requirements of the Assurance and the Monitoring and Evaluation Frameworks.

26 March 2018

- *Risk Management Strategy & Corporate Risk Register*: The Committee received a report outlining the corporate risk strategy and the corporate risk register and recommended adoption of these by the Combined Authority Board.
- *Anti-Fraud, Bribery & Corruption Policy*: The Committee received a report which set out the Anti-fraud, Bribery and Corruption Policy and Strategy Statement and recommended adoption of these by the Combined Authority Board.
- *Code of Corporate Governance*: The Committee received and noted the Corporate Governance Code and Framework and recommended that the Combined Authority Board approve and adopt the Corporate Governance Code and Framework.
- *Whistleblowing Policy*: The Committee received the Combined Authority's Whistleblowing Policy and recommended the adoption of the whistleblowing and confidential reporting of complaints policy to the Combined Authority Board.

22 May 2018 (Informal meeting)

- *Governance Review*: At an informal meeting the committee members received an update from the Internal Auditor on the governance process for the Combined Authority.

Internal Audit

Terms of Reference

- 3.8 Provide assurances over the effectiveness of internal audit functions and assuring the internal control environments of key partners;
- 3.9 Review internal audit requirements undertaken by the Combined Authority;
- 3.10 Approve the internal audit plan;
- 3.11 Consider reports and assurances from the Chief Finance Officer in relation to:

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

Audit & Governance Committee Actions:

26 June 2017

- *Internal Audit Plan – Overview and Future Plans:* The Committee received and noted the development of the internal audit plan for 2017/18.

21 September 2017

- *Internal Audit: Corporate Governance Scoping Document:* The Committee received the scoping document for the Internal Audit review of the governance arrangements within the Combined Authority.

18 December 2017

- *Internal Audit Update:* The Committee received the report from the Chief Internal Auditor which outlined the ongoing review of the governance arrangements within the Combined Authority.

26 March 2018

- *Internal Audit Plan 2018/19:* The Committee received the report from the Internal Auditor which set out how Internal Audit will look to support the Committee and the resources available.
- *Internal Audit – Progress Report:* The Committee received the report from the Internal Auditor which provided assurance to the Audit and Governance Committee that activities undertaken across the Combined Authority were appropriately managed, monitored and delivered in accordance with set governance, controls and risk management frameworks.

External Audit

Terms of Reference

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

Audit & Governance Committee Actions:

26 June 2017

- *External Audit Plan 2016/17:* The Committee received and agreed the Audit Plan for the external

audit of the Statement of Accounts for the period ended 31 March 2017, as presented by Ernst & Young.

21 September 2017

- *External Audit – Audit Results Report (ISA 260):* The Committee received and noted the report from the External Auditors Ernst & Young which summarised the findings from the audit and detailed their audit opinion that they had confidence in the financial team in place for the Combined Authority.

18 December 2017

- *External Audit 2016-17 Annual Audit Letter:* The Committee received and noted the report which asked the committee to note the Annual Audit Letter, as prepared by Ernst and Young following the completion of their 2016/17 audit.
- *Audit Plan 2017/18:* The Committee received the report which asked for the approval of the 2017/18 Audit Plan as prepared by Ernst & Young LLP and agreed to hold an informal meeting in May to review the draft statement of accounts.

26 March 2018

- *External Audit – Final Audit Plan 2017/18:* The Committee received and agreed that the final version of the External Audit Plan for 2017/18 was aligned with the Committee's expectations.

Financial Reporting

Terms of Reference

- 3.14 Consider whether accounting policies were appropriately followed and any need to report concerns to the Combined Authority Board;
- 3.15 Consider any issues arising from External Auditor's audit of the account;
- 3.16 Ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice;
- 3.17 Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and standards of conduct and make recommendations to the Chief Finance Officer and Monitoring Officer where necessary;

Audit & Governance Committee Actions:

21 September 2017

- *Treasury Management Mid-Year Update:* The Committee received the report from the Interim Chief Finance Officer which outlined the current performance against the prudential indicators included within the Treasury Management Strategy.

18 December 2017

- *Treasury Management Strategy:* The Committee received and approved the Combined Authority's

draft Treasury Management Strategy for 2018/19 and noted that an updated version would be brought back to the next Committee meeting to take account of any changes prompted by the DCLG November 2017 consultation.

26 March 2018

- *Treasury Management Strategy Review:* The Committee received the report from the Interim Project Accountant which asked the committee to review and comment on the Combined Authority's draft Treasury Management Strategy for 2018/19.

Code of Conduct

Terms of Reference

- 3.18 Ensure the Combined Authority has effective policies and processes in place to ensure high standards of conduct by its Members and Co-opted Members;
- 3.19 Assisting the Members and Co-opted Members to observe the Code of Conduct;
- 3.20 Advising the Combined Authority on the adoption or revision of the Code of Conduct and monitor its operation;
- 3.21 Advising on training and overseeing the effectiveness of any training for Members and Co-opted Members on matters relating to the Code of Conduct;

Audit & Governance Committee Actions:

18 December 2017

- *Members Code of Conduct: Procedure for Hearings by the Audit Committee:* The Committee received a report which outlined a process for dealing with complaints about the Mayor, members of the combined authority, or members of combined authority committees. The committee recommended the procedure to the Combined Authority Board/

Code of Conduct Complaints

The Combined Authority received no complaints during the year 2017/18.

FOI Requests Received

During the year 2017/18 the Combined Authority has received six Freedom of Information requests.

Month	Number of FOI Requests Received	Responded within deadline	Review Undertaken
May 2017	None		
June 2017	None		
July 2017	None		
Aug 2017	None		
Sept 2017	None		
Oct 2017	1	Yes	
Nov 2017	None		
Dec 2017	None		

Jan 2018	1	Yes	
Feb 2018	2	1 – Yes 1 – No	Yes
March 2018	None		
Apr 2018	1	Yes	
May 2018	1	Yes	

Members' Development

Throughout the year, the provision of ongoing Members' development has been the cornerstone of collective skills of the Committee. During the year, officers provided presentations on:

- Risk management
- Monitoring and Evaluation - Summary of Key Information Arising from BEIS Workshop on 17th October 2017
- Evolving the Treasury Management Strategy – Camdor Global Advisors

A self-assessment of the A&G Committee's performance has been undertaken and there will be a further audit of Members' skills to inform future development needs.

Attendance

Date of Meeting	Number of members attended	Substitutes sent	Meeting Quorate
June 26 th 2017	6	1	Yes
September 21 st 2017	7	0	Yes
December 18 th 2017	6	0	Yes
March 26 th 2017	5	1	Yes

FUTURE DEVELOPMENTS AND PLANS FOR 2018 / 2019

Overall, the Audit and Governance Committee want to continue to develop and build on our current achievements. For 2018 / 2019 and this will involve:

- Continuing to monitor and drive up standards of corporate governance;
- Continuing to equip existing and any new Members with the skills needed to fulfil the A&G Committee's responsibilities by providing or facilitating development sessions on all aspects of the Committee's remit;
- Assisting and supporting officers to promote the work of the A&G Committee and the roles of internal audit, external audit and risk management;
- Supporting the continued production of high quality and compliant statutory accounts;
- Helping to further increase awareness within the Combined Authority of its governance arrangements, with particular emphasis on information and tackling fraud and corruption; and
- Providing effective challenge to officers, raising awareness for sound internal control arrangements and giving assurance to the Authority that its control arrangements are sound.

John Pye
Chair
Audit and Governance Committee

Chapter 9 – Audit and Governance Committee

Chapter 9 – Audit and Governance Committee

Part 1 – Functions

1. Governance

- 1.1. The Combined Authority has appointed an Audit and Governance Committee.

2. Functions

- 2.1. The Audit and Governance Committee shall have the following statutory powers to:
- (a) review and scrutinise the authority's financial affairs;
 - (b) review and assess the authority's risk management, internal control and corporate governance arrangements;
 - (c) review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
 - (d) make reports and recommendations to the Combined Authority in relation to reviews conducted under paragraphs (a) (b) and (c);
 - (e) Implement the obligation to ensure high standards of conduct amongst Members.

3. Terms of Reference

- 3.1. The Audit and Governance Committee shall:

Accounts

- 3.2. Approve the annual statement of accounts;

Governance

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

Chapter 9 – Audit and Governance Committee

- 3.4. Review the Annual Governance Statement prior to approval to ensure it properly reflects the risk environment and supporting assurances;
- 3.5. Annually review the assurance framework to ensure it adequately addresses risks and priorities including governance arrangements of significant partnerships;
- 3.6. Monitor the Authority's risk and performance management arrangements including reviewing the risk register, progress with mitigating actions and assurances;
- 3.7. Monitor the anti-fraud and whistle blowing policies and the complaint process;

Internal Audit

- 3.8. Provide assurances over the effectiveness of internal audit functions and assuring the internal control environments of key partners;
- 3.9. Review internal audit requirements undertaken by the Combined Authority;
- 3.10. Approve the internal audit plan;
- 3.11. Consider reports and assurances from the Chief Finance Officer in relation to:
 - (a) Internal Audit performance;
 - (b) Annual Assurance Opinion on the adequacy and effectiveness of the framework of governance, risk management and control;
 - (c) Risk management and assurance mapping arrangement;
 - (d) Progress to implement recommendations including concerns or where managers have accepted risks that the Authority may find unacceptable.

External Audit

- 3.12. Review the annual accounts;

Chapter 9 – Audit and Governance Committee

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

Financial Reporting

- 3.14. Consider whether accounting policies were appropriately followed and any need to report concerns to the Combined Authority Board;
- 3.15. Consider any issues arising from External Auditor's audit of the account;
- 3.16. Ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice;
- 3.17. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and standards of conduct and make recommendations to the Chief Finance Officer and Monitoring Officer where necessary;

Code of Conduct

- 3.18. Ensure the Combined Authority has effective policies and processes in place to ensure high standards of conduct by its Members and Co-opted Members;
- 3.19. Assisting the Members and Co-opted Members to observe the Code of Conduct;
- 3.20. Advising the Combined Authority on the adoption or revision of the Code of Conduct and monitor its operation;
- 3.21. Advising on training and overseeing the effectiveness of any training for Members and Co-opted Members on matters relating to the Code of Conduct;

General

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

Chapter 9 – Audit and Governance Committee

4. Membership

- 4.1. The Combined Authority Board shall decide the size and membership of the Audit and Governance Committee and shall include one Independent Person.
- 4.2. In appointing Members to the Committee, the Combined Authority Board must ensure that the Members of the Committee taken as a whole reflect so far as reasonably practicable the balance of political parties for the time being prevailing among Members of the Constituent Councils when taken together.
- 4.3. The Committee may not include any Officer of the Combined Authority or of a Constituent Council.
- 4.4. The Combined Authority Board shall appoint at least one Substitute Member from each Constituent Council.
- 4.5. The Monitoring Officer has delegated authority to accept changes to membership of committees notified by constituent councils during the municipal year to ensure there is a full complement of members or substitute members at committee meetings.

5. Chair and Vice-Chair

- 5.1. The Combined Authority Board shall appoint the Chair and Vice-Chair.

6. Sub-Committees

- 6.1. The Committee may appoint one or more sub-committees and arrange for the discharge of any of its functions by any such sub-committee.
- 6.2. The Committee shall appoint hearings panel to hear any complaints where the Member is alleged to have breached to Code of Conduct.

7. Hearing Panel (Sub-Committee to the Audit and Governance Committee)

- 7.1. The Hearings Panel is a Sub-Committee of the Audit and Governance Committee.
- 7.2. The Panel has the following functions:

Chapter 9 – Audit and Governance Committee

- 7.2.1. When matters are referred by the Monitoring Officer granting dispensations to Members and Co-opted Members allowing them to:
 - (a) participate in the debate; and/or
 - (b) (vote on any matter in which they have a disclosable pecuniary interest;
- 7.2.2. On matters being referred by the Monitoring Officer deciding whether complaints concerning Members should be investigated;
- 7.2.3. Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure;
- 7.2.4. The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution.

Part 2 – Procedure Rules

1. Access to Meetings

- 1.1 The public may attend meetings and have access to agenda, reports and minutes in accordance with the Transparency Rules, Forward Plan and Key Decisions in [chapter 6](#).

2. Meetings

- 2.1 The Committee will meet at least once a year.
- 2.2 An extraordinary meeting of an Audit and Governance Committee may be called by:
 - (a) the Chair of the Committee; or
 - (b) the Head of Paid Service.

3. Quorum

- 3.1 No business is to be transacted at a meeting of the Committee unless at least two-thirds of the total number of Members on the Committee are present.

Chapter 9 – Audit and Governance Committee

4. Voting

- 4.1 Each Member of the Committee appointed from the Constituent Councils is to have one vote and no Member (including the Chair) is to have a casting vote.
- 4.2 Members of the Committee who are appointed other than from the Constituent Councils shall be non-voting Members of the Committee but may be given voting rights by resolution of the Combined Authority.
- 4.3 Any questions that are to be decided by the Committee are to be decided by a simple majority of the Members present and voting. If a vote is tied on any matter it is deemed not to have been carried.

5. Conflicts of Interest

- 5.1 Members must comply with the Member Code of Conduct.
- 5.2 No Member of the Committee may scrutinise a decision (whether or not implemented) in which they were directly involved as a Member of the decision making body which made that decision.
- 5.3 Such a Member may only attend the Committee to:
 - (a) make representations;
 - (b) answer questions; or
 - (c) give evidence about the decision.

6. Appointment of Independent Person

- 6.1 The Committee must have at least one independent person. The appointment must be made by the Combined Authority Board.
- 6.2 A person is independent if the person:
 - (a) is not a Member, Co-opted Member or Officer of the authority;
 - (b) is not a Member, Co-opted Member or Officer of a parish council for which the authority is the principal authority;
 - (c) is not a **relative**, or close friend, of a person within sub-paragraph (a) or; and

Chapter 9 – Audit and Governance Committee

- (d) was not at any time during the past 5 years been:
 - (i) a Member, Co-opted Member or Officer of the authority; or
 - (ii) a Member, Co-opted Member or Officer of a parish council for which the Authority is the principal Authority.

Term of Office

- 6.3 Each independent person will serve a term of four years, which may be renewed up to a maximum of one further term (i.e. total maximum 8 years).

Appointments Process:

- 6.4 The vacancy for the Independent Person must be advertised in such manner as the Combined Authority considers is likely to bring it to the attention of the public. The person must submit to the Combined Authority an application to fill the vacancy, and the person's appointment has been approved by a majority of the Members of the Combined Authority Board.
- 6.5 The position of Independent Person shall be advertised on the Combined Authority's website, along with the website of each constituent authority.

7. Procedures at meetings

- 7.1 The Combined Authority Transparency Rules, Forward Plan and Key Decisions in [chapter 6](#) will apply.

Annex 1

The current membership of the Audit and Governance Committee is one members from each constituent Council and one independent person. (8 Members). The quorum is 6 members.

CPCA Self-Assessment Checklist – 2017/18

Principle 1:

Membership, independence, objectivity and understanding

The Audit and Governance Committee should be independent and objective; in addition 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.

Question	Yes/No	Comments
Do the Monitoring Officer, Director of Finance, the Head of Internal Audit and the External Auditor routinely attend A&GC meetings?	Yes	Mayor and Chief Executive also attend from time to time
Are we satisfied with the range, frequency and numbers of participants attending the meeting?	? (Ongoing, as Committee establishes itself)	Currently 4 public meetings held per year plus 1 informal. Frequency still under review. 1 st year more than quorate, but need to keep an eye on Membership turnover.
Are conflicts of interest recorded and declared at the start of every meeting, and is appropriate action taken when relevant matters are discussed?	Yes	
Do we have a clear understanding of our terms of appointment, including what is expected of us, how our individual performance will be appraised, the duration of our appointment, training required and how this will be provided?	?	Ongoing. Development sessions held prior to most meetings.
Conclusion*: Are we performing effectively in this area?	Reasonable	
Are there any actions we want to take to build our effectiveness?		Improve attendance at Development sessions

* Conclusion: Levels of confidence = 'Substantial', 'Reasonable', 'Limited', 'No'.

Principle 2: Skills

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

<u>Question</u>	<u>Yes/No</u>	<u>Comments</u>
Are we satisfied that, collectively, we have the range of skills we need to ensure that the Board gains the assurance it needs on governance, risk management, the control environment and on the integrity of all elements of the Annual Report and Accounts?	?	Need to repeat the skills audit following change in membership to re-assess strengths and weaknesses, and to provide access to member training and development sessions materials
Do we possess the wider skills necessary to be fully effective (e.g. in relation to the core business of the organisation, change management, digital strategy, the wider political landscape and other strategically relevant issues)?	?	See above. To be captured in skills audit. There is a 'CPCA update' item on the agenda of every meeting
Does at least one member have recent and relevant financial experience sufficient to allow them to competently analyse the financial statements and understand good financial management discipline?	Yes	
Where we need additional skills are we empowered to co-opt additional members or procure specialist advice?	Yes	Through Officers.
Do we have effective induction and training arrangements for new members and does the Chair ensure that all members have an appropriate programme of engagement with the organisation to help build sufficient understanding?	No	Induction pack to be developed along lines of Overview and Scrutiny Committee version. Chair will hold annual 1:1s with Members to capture concerns etc.
Conclusion: Are we performing effectively in this area?	Reasonable	
Are there any actions we want to take to build our effectiveness		Skills Audit Induction pack

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.

The scope of the Audit and Governance Committee's work should be defined in its terms of reference and should encompass all the assurance needs of the Board and Accounting Officer. Within this the Audit and Governance Committee should have particular engagement with the work of Internal Audit, risk management, the External Auditor and financial management and reporting issues.

Question	Yes/No	Comments
Do we have a clear understanding of the role and responsibilities of the A&GC?	Yes	Terms of reference reviewed annually
Does our work programme cover the assurance needs of the Board and through a balance of agenda items?	Yes	Work Programme reflects the Committee Terms of reference, as set out in the CPCA Constitution
Do we provide insight and strong, constructive challenge to the organisation where required?	?	Will be better able to provide in the 2 nd year
Do we have sufficient understanding of the organisation's overall control environment, including its governance and any outsourcing arrangements, and review its effectiveness regularly to provide assurance that arrangements are responding to risks within the organisation?	?	A continuing challenge as CPCA continues to develop its role.
Are we proactive in commissioning additional assurance work where we have identified a risk or control issue which is not subject to sufficient review?	Yes	e.g. Treasury Management Strategy
Do we draw the Board's attention to the results of our work on risk?	?	Ongoing, as the risk register is developed
Do we lead on the assessment of the annual Governance Statement for the Board, including the provision of advice on its preparation and scope?	No	Rests with Officers
Do we give sufficient and timely attention to financial management and reporting issues, including the consideration of key accounting policies, estimates and judgements and the quality of the year-end financial statements?	Yes	Separate dedicated workshop held to consider the draft financial statements

Do we sufficiently consider and challenge the work of internal audit and external audit?	Yes	
Do we track all audit recommendations (internal and external, including any arising from VFM work) and hold the organisation to account for their implementation?	Yes	Through regular reports to the Committee
Do we regularly review anti-fraud and corruption arrangements?	Yes	Internal audit to provide a report early in 2019 new year
Do we regularly review our Terms of Reference	Yes	Reviewed annually
Conclusion: Are we performing effectively in this area?	Reasonable	
Are there any actions we want to take to build our effectiveness		Ongoing, as listed above

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.

<u>Question</u>	<u>Yes/No</u>	<u>Comments</u>
Is our work effectively and promptly reported to the Board after each meeting and are these reports copied to the Head of Internal Audit and the External Auditor?	Yes	Minutes published. Recommendations go to the next meeting of the Board
Are our relationships and communications sufficiently well developed with those we seek briefings from and those we provide assurance to, including where risks cross organisational boundaries?	Yes	
Do we provide an Annual Report to the Board, timed to support the Governance Statement; is our report open and honest in presenting our views and opinions from the work we have done during the year; and, is its content consistent with good practice?	Yes	
Does the A&GC Chair have regular bilaterals with the key attendees (eg Director of Finance, the Head of Internal Audit and the External Auditor)?	Yes	
<i>Conclusion: Are we performing effectively in this area?</i>	Substantial	
Are there any actions we want to take to build our effectiveness		In 2 nd year, Committee to hold informal private discussions with internal/external auditors – without Officers



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 7
20th July 2018	PUBLIC REPORT

CONSTITUTION REVIEW – AUDIT AND GOVERNANCE COMMITTEE

1.0 PURPOSE

- 1.1. In the interests of good governance, the Committee is requested to review its terms of reference within the Combined Authority constitution and suggest any changes they would like to put forward as a recommendation to the Board.

<u>RECOMMENDATION</u>	
Lead Officer:	Kim Sawyer, Legal Counsel and Monitoring Officer
<p>The Audit and Governance Committee is recommended to:</p> <p>(a) review the Audit and Governance constitutional arrangements set out in Chapter 9 of the Constitution. (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 Audit and Governance Committee's rules for its governance arrangements are set out in the Combined Authority constitution. The constitution has been prepared with a view to ensuring effective open and transparent decision making and to conform with legislation relating to combined authorities and the Order setting up this Authority.
- 2.2. The constitution was originally approved by the Board on 26 April 2017 when it was first established. It has been kept up to date to take account of changes to the constitution agreed by the Board throughout the year. In accordance with

good governance, the Board reviewed its constitution at its annual meeting on 30 May. Any recommended changes by the committee will be reported to the September meeting of the Board. The latest version is available on the Combined Authority website.

- 2.3. The Committee are asked to review the constitution in relation to the Audit and Governance Committee at Appendix 1.

3.0 APPENDICES

- 3.1. Appendix 1 – Audit and Governance Committee - Terms of Reference

<u>Source Documents</u>	<u>Location</u>
Combined Authority Board AGM May 30 th 2018 Papers	http://cambridgeshirepeterborough-ca.gov.uk/meetings/cambridgeshire-and-peterborough-combined-authority-board-11/?date=2018-05-30
Combined Authority Constitution	http://cambridgeshirepeterborough-ca.gov.uk/assets/Uploads/Combined-Authority-Constitution-2018.pdf

Chapter 9 – Audit and Governance Committee

Part 1 – Functions

1. Governance

- 1.1. The Combined Authority has appointed an Audit and Governance Committee.

2. Functions

- 2.1. The Audit and Governance Committee shall have the following statutory powers to:
- (a) review and scrutinise the authority's financial affairs;
 - (b) review and assess the authority's risk management, internal control and corporate governance arrangements;
 - (c) review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
 - (d) make reports and recommendations to the Combined Authority in relation to reviews conducted under paragraphs (a) (b) and (c);
 - (e) Implement the obligation to ensure high standards of conduct amongst Members.

3. Terms of Reference

- 3.1. The Audit and Governance Committee shall:

Accounts

- 3.2. Approve the annual statement of accounts;

Governance

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

Chapter 9 – Audit and Governance Committee

- 3.4. Review the Annual Governance Statement prior to approval to ensure it properly reflects the risk environment and supporting assurances;
- 3.5. Annually review the assurance framework to ensure it adequately addresses risks and priorities including governance arrangements of significant partnerships;
- 3.6. Monitor the Authority's risk and performance management arrangements including reviewing the risk register, progress with mitigating actions and assurances;
- 3.7. Monitor the anti-fraud and whistle blowing policies and the complaint process;

Internal Audit

- 3.8. Provide assurances over the effectiveness of internal audit functions and assuring the internal control environments of key partners;
- 3.9. Review internal audit requirements undertaken by the Combined Authority;
- 3.10. Approve the internal audit plan;
- 3.11. Consider reports and assurances from the Chief Finance Officer in relation to:
 - (a) Internal Audit performance;
 - (b) Annual Assurance Opinion on the adequacy and effectiveness of the framework of governance, risk management and control;
 - (c) Risk management and assurance mapping arrangement;
 - (d) Progress to implement recommendations including concerns or where managers have accepted risks that the Authority may find unacceptable.

External Audit

- 3.12. Review the annual accounts;

Chapter 9 – Audit and Governance Committee

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

Financial Reporting

- 3.14. Consider whether accounting policies were appropriately followed and any need to report concerns to the Combined Authority Board;
- 3.15. Consider any issues arising from External Auditor's audit of the account;
- 3.16. Ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice;
- 3.17. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and standards of conduct and make recommendations to the Chief Finance Officer and Monitoring Officer where necessary;

Code of Conduct

- 3.18. Ensure the Combined Authority has effective policies and processes in place to ensure high standards of conduct by its Members and Co-opted Members;
- 3.19. Assisting the Members and Co-opted Members to observe the Code of Conduct;
- 3.20. Advising the Combined Authority on the adoption or revision of the Code of Conduct and monitor its operation;
- 3.21. Advising on training and overseeing the effectiveness of any training for Members and Co-opted Members on matters relating to the Code of Conduct;

General

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

Chapter 9 – Audit and Governance Committee

4. Membership

- 4.1. The Combined Authority Board shall decide the size and membership of the Audit and Governance Committee and shall include one Independent Person.
- 4.2. In appointing Members to the Committee, the Combined Authority Board must ensure that the Members of the Committee taken as a whole reflect so far as reasonably practicable the balance of political parties for the time being prevailing among Members of the Constituent Councils when taken together.
- 4.3. The Committee may not include any Officer of the Combined Authority or of a Constituent Council.
- 4.4. The Combined Authority Board shall appoint at least one Substitute Member from each Constituent Council.
- 4.5. The Monitoring Officer has delegated authority to accept changes to membership of committees notified by constituent councils during the municipal year to ensure there is a full complement of members or substitute members at committee meetings.

5. Chair and Vice-Chair

- 5.1. The Combined Authority Board shall appoint the Chair and Vice-Chair.

6. Sub-Committees

- 6.1. The Committee may appoint one or more sub-committees and arrange for the discharge of any of its functions by any such sub-committee.
- 6.2. The Committee shall appoint hearings panel to hear any complaints where the Member is alleged to have breached to Code of Conduct.

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- 7.1. The Hearings Panel is a Sub-Committee of the Audit and Governance Committee.
- 7.2. The Panel has the following functions:

Chapter 9 – Audit and Governance Committee

- 7.2.1. When matters are referred by the Monitoring Officer granting dispensations to Members and Co-opted Members allowing them to:
 - (a) participate in the debate; and/or
 - (b) (vote on any matter in which they have a disclosable pecuniary interest;
- 7.2.2. On matters being referred by the Monitoring Officer deciding whether complaints concerning Members should be investigated;
- 7.2.3. Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure;
- 7.2.4. The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution.

Part 2 – Procedure Rules

1. Access to Meetings

- 1.1 The public may attend meetings and have access to agenda, reports and minutes in accordance with the Transparency Rules, Forward Plan and Key Decisions in [chapter 6](#).

2. Meetings

- 2.1 The Committee will meet at least once a year.
- 2.2 An extraordinary meeting of an Audit and Governance Committee may be called by:
 - (a) the Chair of the Committee; or
 - (b) the Head of Paid Service.

3. Quorum

- 3.1 No business is to be transacted at a meeting of the Committee unless at least two-thirds of the total number of Members on the Committee are present.

Chapter 9 – Audit and Governance Committee

4. Voting

- 4.1 Each Member of the Committee appointed from the Constituent Councils is to have one vote and no Member (including the Chair) is to have a casting vote.
- 4.2 Members of the Committee who are appointed other than from the Constituent Councils shall be non-voting Members of the Committee but may be given voting rights by resolution of the Combined Authority.
- 4.3 Any questions that are to be decided by the Committee are to be decided by a simple majority of the Members present and voting. If a vote is tied on any matter it is deemed not to have been carried.

5. Conflicts of Interest

- 5.1 Members must comply with the Member Code of Conduct.
- 5.2 No Member of the Committee may scrutinise a decision (whether or not implemented) in which they were directly involved as a Member of the decision making body which made that decision.
- 5.3 Such a Member may only attend the Committee to:
 - (a) make representations;
 - (b) answer questions; or
 - (c) give evidence about the decision.

6. Appointment of Independent Person

- 6.1 The Committee must have at least one independent person. The appointment must be made by the Combined Authority Board.
- 6.2 A person is independent if the person:
 - (a) is not a Member, Co-opted Member or Officer of the authority;
 - (b) is not a Member, Co-opted Member or Officer of a parish council for which the authority is the principal authority;
 - (c) is not a **relative**, or close friend, of a person within sub-paragraph (a) or; and

Chapter 9 – Audit and Governance Committee

- (d) was not at any time during the past 5 years been:
 - (i) a Member, Co-opted Member or Officer of the authority; or
 - (ii) a Member, Co-opted Member or Officer of a parish council for which the Authority is the principal Authority.

Term of Office

- 6.3 Each independent person will serve a term of four years, which may be renewed up to a maximum of one further term (i.e. total maximum 8 years).

Appointments Process:

- 6.4 The vacancy for the Independent Person must be advertised in such manner as the Combined Authority considers is likely to bring it to the attention of the public. The person must submit to the Combined Authority an application to fill the vacancy, and the person's appointment has been approved by a majority of the Members of the Combined Authority Board.
- 6.5 The position of Independent Person shall be advertised on the Combined Authority's website, along with the website of each constituent authority.

7. Procedures at meetings

- 7.1 The Combined Authority Transparency Rules, Forward Plan and Key Decisions in [chapter 6](#) will apply.

Annex 1

The current membership of the Audit and Governance Committee is one members from each constituent Council and one independent person. (8 Members). The quorum is 6 members.



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 8
20 JULY 2018	PUBLIC REPORT

STATEMENT OF ACCOUNTS

1.0 PURPOSE

- 1.1. The purpose of the report is for the Audit and Governance Committee to:
- (a) Receive and approve the audited Statement of Accounts 2017/18
 - (b) Receive and approve the Annual Governance Statement 2017/18

<u>DECISION REQUIRED</u>	
Lead Officer:	Rachel Musson – Interim S151 Officer and Chief Finance Officer
<p>The Audit and Governance Committee is recommended to:</p> <ul style="list-style-type: none">(a) Receive and approve the audited Statement of Accounts 2017/18(b) Receive and approve the Annual Governance Statement 2017/18 as included within the Statement of Accounts.	

2.0 BACKGROUND

Approval of the Statement of Accounts 2017/18

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

No. 3.2 - Approve the annual statement of accounts.

No. 3.4 - Review the Annual Governance Statement prior to approval to ensure it properly reflects the risk environment and supporting assurances.

No. 3.12 – Review the annual accounts.

No. 3.13 - Consider the annual external audit of the Combined Authority's accounts, including the Annual Audit Letter, assessing the implications and monitoring managers' responses to concerns.

No. 3.14 – Consider whether accounting policies were appropriately followed and any need to report concerns to the Combined Authority Board.

No. 3.15 - Consider any issues arising from the External Auditor's audit of the accounts.

- 2.2. At its meeting held on 26 March 2018, the Audit and Governance Committee agreed the Audit plan as presented to it by Ernst and Young LLP (EY). The plan outlined the proposed audit approach and scope for the 2017/18 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 (PSAA) Ltd, auditing standards and other professional requirements.
- 2.3. The draft Statement of Accounts for the year ended 31 March 2018 were then presented to the Audit and Governance Committee at an informal workshop on 22 May 2018.
- 2.4. The draft Statement of Accounts, together with the draft Narrative Report and draft Annual Governance Statement were then signed by Rachel Musson, the Interim Chief Finance Officer on 30 May, and published in draft form on the Combined Authority's website together with the notice of the exercise of public rights by the due date.
- 2.5. The notice of the exercise of public rights states that the documents are unaudited and subject to change, and sets out the rights of members of the public and local government electors in the audit process.
- 2.6. Ernst & Young LLP have now audited the draft Statement of Accounts, and will present their findings to the Audit and Governance Committee.
- 2.7. The final audited version of the Statement of Accounts needs to be signed and published on the Combined Authority's website by 31 July 2018.

Management Letter of Representation

- 2.8. The Chief Finance Officer (S151) is required to make representations on behalf of the Combined Authority in a number of areas in relation to the preparation of the Statement of Accounts. EY also require this letter to be signed by the Chair of the Audit and Governance Committee. The draft letter is attached at Appendix 1 for review by the Audit and Governance Committee.

Statement of Accounts 2017/18

- 2.9. The draft Statement of Accounts were presented to an informal workshop of the Audit and Governance Committee for discussion and comment prior to the draft Accounts being published by the due date of 31 May 2018. The accounts have since been the subject of external audit.

2.10. As a result of comments made at the workshop and of subsequent checking and audit work, some minor amendments have been made to the draft Statement of Accounts. An updated version is attached at Appendix 2 for formal approval by the Audit and Governance Committee.

Consultation

2.11. Between 31 May 2018 and 11 July 2018, the Combined Authority's accounts have been subject to a statutory period for the exercise of public rights, where any person may inspect and take copies of the accounts and certain related documents. During this period the Cambridgeshire and Peterborough Combined Authority electors have been able to ask the external auditor questions on the accounts, and are able to object to the accounts. None of these rights were exercised.

2.12. 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, assessing the implications and monitoring managers' response to concerns.

2.13. The Audit and Governance Committee are now recommended to receive and approve the Annual Governance Statement and the Statement of Accounts.

3.0 FINANCIAL IMPLICATIONS

3.1. The planned fee for the audit is £35,000.

4.0 LEGAL IMPLICATIONS

4.1. None.

5.0 SIGNIFICANT IMPLICATIONS

5.1. None.

6.0 APPENDICES

6.1. The Appendix 1 – Management representation letter

6.2. Appendix 2 – Statement of Accounts 2017/18 including the Annual Governance Statement.

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



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

Suresh Patel
Executive Director
Ernst & Young LLP
1 More London Place
London
SE1 1AF

Dear Suresh

This letter of representations is provided in connection with your audit of the financial statements of Cambridgeshire & Peterborough Combined Authority ("the Authority") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Authority financial position of Cambridgeshire & Peterborough Combined Authority as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with [CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].
2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18]. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18], that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority and Audit and Overview and Scrutiny committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 June 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties

and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than the transfer of the LEP business to the Combined Authority on 1 April 2018, described in Note 20 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31 March 2017, we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the financial statements for the year ended 31 March 2017 which are shown as comparative amounts in the financial statements for the year ended 31 March 2018. Any differences in the comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes

Yours faithfully,

.....

Interim Chief Finance Officer

Date

.....

Chair of the Audit and Governance Committee

Date



Statement of Accounts

2017/18

Cambridgeshire and Peterborough Combined Authority

Statement of Accounts 2017/18

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Narrative Report

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom affirms the need for a Narrative Report to be published by local authorities in England, Northern Ireland and Wales with their financial statements. The purpose of the narrative report is to provide information on the authority, its main objectives and strategies and to provide a commentary on how the authority has used its resources to achieve its desired outcomes in line with its objectives and strategies, and to demonstrate how the Authority is equipped to deal with the challenges ahead.

The Narrative Report is to be read alongside the financial statements.

2. Organisational Overview and External Environment

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

Cambridge City Council
Cambridgeshire County Council

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

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

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

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

Vision

Through the devolution deal the Combined Authority committed to:

- Double the size of the local economy
- Accelerate house building rates to meet local and UK need

- Deliver outstanding and much needed connectivity in terms of transport and digital
- Provide the UK's most technically skilled workforce
- Transform public service delivery to be much more seamless and responsive to local need
- Grow international recognition for the area's knowledge-based economy
- Improve the quality of life by tackling areas suffering from deprivation.

Following his election in May 2017, the Mayor published a 100-day plan outlining the actions to deliver on this agenda. The 100-day plan kick-started the work to progress the devolution deal commitments. It included initiating work to develop the area's core strategies (e.g. local industrial strategy, housing strategy, skills strategy, local transport plan, strategic spatial framework etc) alongside projects to advance key transport and infrastructure, housing, skills and economic development projects (e.g. Cambridge Automated Metro options appraisal, Wisbech Garden Town Feasibility Study, Dualling A47 Business Case, University of Peterborough Business Case).

The vision of the Combined Authority is now being developed into a four year plan and an ambition for the year 2030.

Ambitions

The overarching ambition of the Combined Authority is to establish Cambridgeshire and Peterborough as **a leading place in the world to live, learn and work**. This is

underpinned by five core ambitions for the area's future development:

- Access to a good job within easy reach of home,
- Healthy, thriving and prosperous communities,
- A workforce for the modern world founded on investment in skills and education,
- A high quality sustainable environment, and
- UK's capital of innovation and productivity

Cambridgeshire & Peterborough 2030 Ambition

**A leading place in the world to live,
learn and work**



In developing the Four Year Plan, the Mayor and Chief Executive were mindful that the economic success that has been achieved to date has been facilitated by a long tradition

of collaborative working and a strong track record of delivery. The Four Year Plan has been developed through working closely with Leaders, Chief Officers and partners. A number of forums have also contributed including the Cambridgeshire and Peterborough Public Service Board (CPSB), the Cambridgeshire and Peterborough STP Board, Public Health England and wider stakeholders and partners.

3. Governance

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

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

The Annual Governance Statement explains how the Combined Authority has complied with the Local Code of Governance and meets the requirements of the Accounts and

Audit (England) Regulations 2015 Regulation 6.1 (b) in relation to the publication of an Annual Governance Statement.

4. Operational Model

The Combined Authority receives funding from Central Government as part of the Devolution Deal including £170m to deliver new homes over a five year period in Peterborough and Cambridgeshire to include affordable, rented and shared ownership housing. £70m of this is specific to Cambridge. It also receives £20m a year, for 30 years to boost growth in the region.

The Combined Authority also received funds during the year for the Local Transport Plan, for pothole and drought damaged roads and towards the implementation of the devolution of Adult Education Budgets.

Funds have been used to develop core strategies including the local industrial strategy, housing strategy, skills strategy, local transport plan, strategic spatial planning framework and market towns masterplans.

The Combined Authority has progressed key investment decisions in a range of transport and infrastructure, skills, housing and economic development initiatives.

These include:

- The establishment of the Economic Commission which will bring forward independent advice and evidence on the local economy which will enable political and business leaders to agree on economic priorities and to come together more effectively in pursuing them;
- Investment in core transport and infrastructure work such as the Cambridge Automated Metro, A10, M11, A47;
- Investment in specific local interventions across the Combined Authority geography;
- Securing additional government funding for a Skills and Innovation Pay and Progression Pilot to up-skill 2000 people on universal credit into higher skilled health and care jobs;
- Attracting additional government investment into the region, for example the Chancellor's Autumn budget saw an additional £81m invested in the future prosperity of the region and the area has been successful in bidding for National Productivity Improvement Funds, Housing Infrastructure Funds and Local Full Fibre Network funds.

5. Risks and Opportunities

The Combined Authority Board, with the support of Government, agreed to form a new model of strategic leadership through the business transfer of the Greater Cambridgeshire Greater Peterborough Local Enterprise Partnership to the Combined Authority, and the creation of a

new Business Board. This new Business Board would be more closely aligned to the Combined Authority through a unified strategic framework and a single staffing structure.

The core purpose of the Business Board will be to ensure that the Combined Authority, and all those with an interest in our region, are working within a single strategic framework and plan for the future economic growth of the area. In line with Government policy this means that the Business Board will be the custodians of the Local Industrial Strategy, along with the key strategies and plans which directly support it.

By taking lead responsibility for place-based growth plans within the context of our Local Industrial Strategy, the Business Board will have a clear and effective role in working alongside and bringing proposals forward to the Combined Authority to shape programmes that achieve the ambitions for the area.

The Business Board will build upon the strengths of established LEP services to create a stronger new model and will focus on:

- Local Industrial Strategy – strategy development, implementation oversight, and monitoring of key objectives
- Place-based growth plans – including master plan development for our market towns, oversight of implementation, making investment recommendations,

strategically managing business growth zones (including Enterprise Zones)

- Key sectors – determining our priority sectors, agreeing plans for their growth, overseeing the products and services that directly stimulate sector growth
- International trade and exports – import and export strategies, fostering key places in the world for trade accords, with particular focus on post-Brexit trade and export planning
- Skills – strategy and delivery plans to achieve a pipeline of people with skills required by business
- Major investment opportunities – maintaining an overview and management of the pipeline of the single most direct investment opportunities facing the area
- Devolution – employment improvement and increased exporting impacting on GVA

The Business Board will lead the development of these areas and will provide strategic advice and recommendations to the Combined Authority Board for decision-making and investment.

6. Strategy and Resource Allocation

The Combined Authority is developing core strategies and has progressed key investment decisions in a range of transport and infrastructure, skills, housing and economic development initiatives.

In November 2017 the Government released the 'Industrial Strategy'. It has direct relevance to the Business Board and the Combined Authority as its key message is that we will work with Government to support the development and growth of new industries and address the challenges the UK faces in the 21st Century.

The Combined Authority has commissioned an independent Economic Commission who will play an important role in developing our local Industrial strategy. The Commission consists of experts in the field who will bring forward independent advice and evidence on the local economy which will enable political and business leaders to agree on economic priorities and to come together more effectively in pursuing them

7. Performance

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

Balances

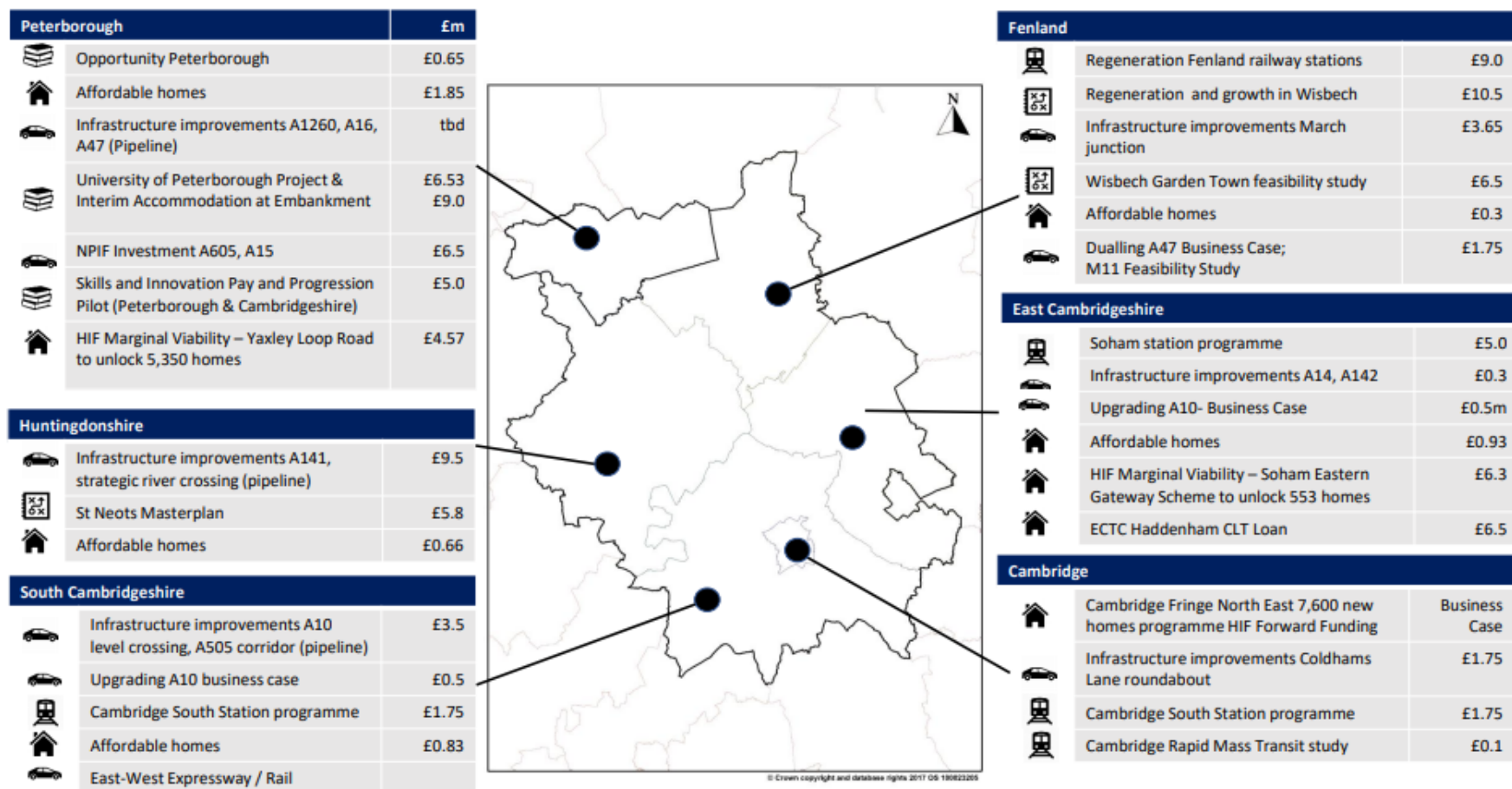
As at 31 March 2018, the balance on the Authority's Reserves was £91.4m.

Movement in Reserves during the period was as follows:

	Funding Source					
<u>Cambridgeshire and Peterborough Combined Authority Outturn 2017/18 - Movement in Reserves</u>	<u>Gain Share Revenue (£k)</u>	<u>Gain Share Capital (£k)</u>	<u>Housing - General (£k)</u>	<u>Housing - Cambridge (£k)</u>	<u>Other (£k)</u>	<u>Total (£k)</u>
Reserves Funding Brought Forward from 1 April 2017	7,057.0	12,000.0	10,000.0	10,500.0	446.0	40,003.0
2017/18 Funding Received	8,000.0	12,000.0	30,000.0	10,500.0	31,724.0	92,224.0
CPCA Costs	4,953.5	945.2	2,389.8	594.2	31,724.0	40,606.7
Mayoral Costs	156.6					156.6
Reserves Balance Carried Forward as at 31 March 2018	9,946.9	23,054.8	37,610.2	20,405.8	446.0	91,463.7
Movement between reserves	-54.0				54.0	
Reserves carried forward as at 31 March 2018	9,892.9	23,054.8	37,610.2	20,405.8	500.0	91,463.7

Of the £91.4m reserves held as at 31 March 2018, £81.3m are unapplied capital grants which will be used to progress key investment decisions in specific local interventions with partner organisations across the Combined Authority geography as illustrated below.

Investment in Cambridgeshire and Peterborough 2017/18



8. Outlook

As set out within section 5 above, the business activities of the Local Enterprise Partnership will transfer to the Combined Authority with effect from 1 April 2018 along with the transfer of the rights and responsibilities of the accountable body from Cambridgeshire County Council.

Looking forward to 2030, the overarching ambition is to establish Cambridgeshire and Peterborough as **a leading place in the world to live, learn and work**.

The Combined Authority has been working to articulate its longer term ambition and aspirations for Cambridgeshire and Peterborough. These are described in the 2030 prospectus supported by a short digital version showcasing the imagined life and experience of five residents in 2030.

The prospectus describes some of the characteristics and outcomes for the people and places of Cambridgeshire and Peterborough in the future. It sets out what the region will be like, how it wants to be known and how it will be experienced by residents, communities, business people and visitors. The prospectus is also illustrated by examples of the projects and initiatives that will bring the ambition into fruition.

It is proposed that a programme of engagement with stakeholders across the area, including member local authorities and partners, communities, businesses, schools and universities and others alongside a media strategy will

launch and promote the 2030 ambition. This will include a conversation with a representative sample of residents across the region to translate the 2030 ambitions into the four year plan and understand the different priorities between areas. The Combined Authority is working with each partner Local Authority on the launch and engagement plans.

9. The Accounts

This Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2015 and The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

The Statement of Accounts brings together the major financial statements for the Authority for the financial year 2017/18. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Cambridgeshire and Peterborough Combined Authority. The key contents of the various sections are as follows:

- Statement of Responsibilities – sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the Statement of Accounts.
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the

year of providing services in accordance with generally accepted accounting practices.

- Movement in Reserves Statement – this statement shows the movement in the year on the reserves held by the Authority.
- Balance Sheet – shows the value of the assets and liabilities recognised by the Authority as at 31 March 2018.
- Cash Flow Statement – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties.
- Notes to the Financial Accounts - the various statements are supported by technical notes and by the Statement of Accounting Policies.
- Statement of Accounting Policies – outlines the accounting policies adopted by the Authority.

10. Summary

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

Rachel Musson
Interim CFO and S151 Officer

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

To be added following conclusion of audit July 2018

To be added following conclusion of audit July 2018

To be added following conclusion of audit July 2018

Statement of Responsibilities for the Statement of Accounts

The Combined Authority's Responsibilities

The Combined Authority is required to:

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

The Interim Chief Finance Officer's Responsibilities

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

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Interim Chief Finance Officer has also:

- kept proper accounting records which were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Interim Chief Finance Officer's Certificate

I certify that the accounts set out on pages 15 to 35 present a true and fair view of the financial position of the Combined Authority at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Interim Chief Finance
Officer:

Date:

Rachel Musson
20 July 2018

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 20 July 2018.

Chair of the Audit
Committee:

Date:

*NOT TO BE SIGNED UNTIL 20
JULY 2018*
John Pye
20 July 2018

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Combined Authorities can raise taxation to cover expenditure in accordance with statutory requirements; this

may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Restated 2017*			Comprehensive Income & Expenditure Statement (CIES)		Notes (From Page 19)	2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000				Gross Expenditure £000	Gross Income £000	Net Expenditure £000
-	-	-	Governance			1,038	-	1,038
429	-	429	Operational Costs			1,726	-	1,726
-	-	-	Economic Strategy			231	-	231
-	-	-	Fiscal			878	-	878
-	-	-	Mayor's Office			163	(7)	156
56	-	56	New Homes & Communities			2,985	(2,985)	0
-	-	-	Transport & Infrastructure			31,468	(31,323)	145
-	-	-	Strategic Planning			21	-	21
14	-	14	Employment & Skills			2,546	(1,346)	1,200
499	-	499	Cost of Services			41,056	(35,661)	5,395
	(2)	(2)	Financing & Investment Income & Expenditure	4		-	(287)	(287)
	(40,500)	(40,500)	Non-Specific Grant Income & Expenditure	5		-	(56,569)	(56,569)
499	(40,502)	(40,003)	Surplus on Provision of Services			41,056	(92,517)	(51,461)
		-	Other Comprehensive Income & Expenditure					-
		(40,003)	Total Comprehensive Income & Expenditure					(51,461)

* Restated to take account of changes in organisation structure during 2017/18 in order to present figures on like for like basis.

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Combined Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Combined Authority's reserves are broken down between

gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

Movement in Reserves	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves* £000	Total Combined Authority Reserves £000
<i>Balance at 3 March 2017</i>		-	-	-	-	-	-
<i>Total Comprehensive Income & Expenditure</i>		(40,003)	-	-	(40,003)	-	(40,003)
<i>Adjustments between accounting basis & funding basis under regulations- Capital grants & contributions unapplied from the CIES*</i>		32,500	-	(32,500)	-	-	-
<i>Net Increase / Decrease before Transfers to Earmarked Reserves</i>		(7,503)	-	(32,500)	(40,003)	-	(40,003)
<i>Transfers to / (from) Earmarked Reserves</i>		446	(446)	-	-	-	-
<i>Increase /(Decrease) in 2017</i>		(7,057)	(446)	(32,500)	(40,003)	-	(40,003)
<i>Restated Balance at 31 March 2017 Carried Forward</i>		(7,057)	(446)	(32,500)	(40,003)	-	(40,003)
Balance at 1 April 2017		(7,057)	(446)	(32,500)	(40,003)	-	(40,003)
Total Comprehensive Income & Expenditure		(51,461)	-	-	(51,461)	-	(51,461)
<i>Adjustments between accounting basis & funding basis under regulations- Capital grants & contributions unapplied from the CIES</i>	10	48,569	-	(48,569)	-	-	-
<i>Net Increase before Transfers to Earmarked Reserves</i>		(2,892)	-	(48,569)	(51,461)	-	(51,461)
<i>Transfers to / (from) Reserves</i>		54	(54)	-	-	-	-
Increase / (Decrease) in 2017/18		(2,838)	(54)	(48,569)	(51,461)	-	(51,461)
Balance at 31 March 2018 Carried Forward		(9,895)	(500)	(81,069)	(91,464)	-	(91,464)

*Unusable Reserves represents the Capital Adjustment Account (CAA), there are movements between the General Fund Balance and CAA for REFCUS and associated grant funding which net to nil, see Note 1.

Balance Sheet

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

31 March 2017	Balance Sheet	Notes	31 March 2018
			£000
2	Short Term Debtors	14, 16	858
-	Short Term Investments	18	25,049
40,500	Cash & Cash Equivalents	14, 19	73,994
40,502	Current Assets		99,901
(499)	Short Term Creditors	17	(6,216)
-	Provisions	20	(777)
(499)	Current Liabilities		(6,993)
-	Capital Grants Receipts in Advance (DfT Local Transport Grant)		(1,444)
-	Long Term Liabilities		(1,444)
40,003	Net (Liabilities) / Assets		91,464
(40,003)	Usable Reserves		(91,464)
-	Unusable Reserves		-
(40,003)	Total Reserves		(91,464)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Combined Authority are funded by way of taxation and grant income or from the recipients of services

provided by the Combined Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Combined Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Combined Authority.

2017 £000	Cash Flow Statement	Notes	2017/18 £000
(40,003)	Net (Surplus) / Deficit on the Provision of Services		(51,461)
(497)	Adjust net (Surplus) / Deficit on the Provision of Services for Non Cash Movements		(7,083)
-	Adjust for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		-
(40,500)	Net Cash Flows from Operating Activities		(58,544)
-	Investing Activities	18	25,049
-	Financing Activities		-
(40,500)	Net (Increase) / Decrease in Cash & Cash Equivalents		(33,495)
-	Cash & Cash Equivalents at the Beginning of the Reporting Period		40,500
40,500	Increase / (Decrease) in Cash and Cash Equivalents		33,494
40,500	Cash & Cash Equivalents at the end of the Reporting Period	19	73,994

Notes to the Accounts

1 External Audit Costs

The Combined Authority has incurred the following cost in relation to the audit of the Statement of Accounts provided by the Combined Authority's external auditors, Ernst & Young LLP (EY).

2017 £000	External Audit Costs	2017/18 £000
18	Fees payable with regard to external audit services carried out by the appointed auditor	35
18	Total	35

2 Mayor's and Member's Allowances

James Palmer was elected as the first Mayor for Cambridgeshire and Peterborough on Thursday 4 May 2017 and was paid a mayor's allowance of £76k (2017 – nil).

3 Officers' Remuneration

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

These requirements only apply to directly employed staff.

During 2017/18 Combined Authority staff were contractually employed by Peterborough City Council so the Authority itself did not have any directly employed staff. Martin Whiteley was Interim Chief Executive until he was appointed to the permanent role by the Board on 27th June 2017. Kim Sawyer was part time interim Monitoring Officer until June, then became full time

interim from July 2017 and was appointed to the permanent position by the Board on 29th November 2017. There were four Interim Chief Finance Officers in post during the course of the year. These were John Harrison, Marion Kelly, Alex Colyer working 2 or 3 days per week for the Combined Authority, and Rachel Musson. Rachel Musson was appointed Interim Statutory Finance Officer and S151 Officer by the Board on 31st January 2018.

Costs of the three Chief Officers posts for the year to 31 March 2018 are as set out below. These are the full costs to the Combined Authority including salary oncosts.

Post	Employing Body	2017/18 £000
Chief Executive (Head of Paid Service)	Peterborough City Council	230
Interim Chief Finance Officer	Peterborough City Council	95
Monitoring Officer and Legal Counsel	Peterborough City Council	127

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

2017 £000	Financing & Investment Income & Expenditure	2017/18 £000
(2)	Interest Receivable & Similar Income (Note 13)	(287)
(2)	Total	(287)

5 Comprehensive Income & Expenditure Statement –Non Specific Grant Income

2017 £000	Non-Specific Grant Income	2017/18 £000
	Non-Specific Government Grants	
(8,000)	Gain Share - Revenue	(8,000)
(8,000)	Total Non-Specific Grants	(8,000)
	Capital Grants & Contributions	
(12,000)	Gain Share - Capital	(11,055)
(10,000)	Housing Grant - General	(27,608)
(10,500)	Housing Grant - Cambridge	(9,906)
(32,500)	Total Capital Grants & Contributions	(48,569)
(40,500)	Total Income	(56,569)

6 Related Parties

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

a) Central Government

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

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

	2017/18 £000
Income	
CLG – revenue grants	(8,000)
CLG – capital grants	(52,500)
DfT – capital grants*	(30,378)
DWP – career and pay progression	(1,300)
DfE – adult education budget	(46)
	(92,224)

b) Cambridgeshire and Peterborough Constituent Councils

The Leaders of the district councils, county council and unitary authority also serve as members of the Combined Authority.

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

	2017/18 £000
Expenditure	
Expenditure with councils	35,259
Creditors	
General creditors with councils	2,573

c) Members

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

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

d) Officers

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

During the period no works or services were commissioned from companies in which the officers had an interest. However, key management personnel and officers of Peterborough City Council and South Cambs District Council also served as interim statutory officers of the Combined Authority during the year.

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

7 Expenditure and Income Analysed by Nature

2017	Expenditure and Income Analysed by Nature	2017/18
£000		£000
	Expenditure	
-	Capital Grants made treated as REFCUS	34,309
499	Other Service Expenses	6,747
499	Total Expenditure	41,056
	Income	
(2)	Interest & Investment Income	(287)
(40,500)	Government Grants & Contributions	(92,224)
-	Other Income	(6)
(40,502)	Total Income	(92,517)
(40,003)	Deficit / (Surplus) on the Provision of Services	(51,461)

8 Expenditure and Funding Analysis

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

<i>Expenditure Chargeable to the General Fund</i> £000	<i>Restated 2017* Adjustments between the Funding and Accounting Basis*</i> £000	<i>Net Expenditure in the CIES</i> £000	Expenditure and Funding Analysis (EFA)	Notes	Net Expenditure Chargeable to the General Fund £000	2017/18 Adjustments between the Funding and Accounting Basis¹ £000	Net Expenditure in the CIES £000
-	-	-	Governance		1,038	-	1,038
429	-	429	Operational Costs		1,726	-	1,726
-	-	-	Economic Strategy		231	-	231
-	-	-	Fiscal		878	-	878
-	-	-	Mayor's Office		156	-	156
56	-	56	New Homes & Communities		-	-	0
-	-	-	Transport & Infrastructure		145	-	145
-	-	-	Strategic Planning		21	-	21
14	-	14	Employment & Skills		1,200	-	1,200
499	-	499	Cost of Services		5,395	-	5,395
(8,002)	(32,500)	(40,502)	Other Income & Expenditure	4, 5	(8,287)	(48,569)	(56,856)
(7,503)	(32,500)	(40,003)	Surplus on Provision of Services		(2,892)	(48,569)	(51,461)
-			Opening General Fund Balance		(7,503)		
(7,503)			Surplus on General Fund Balance in Year		(2,892)		
(7,503)			Closing General Fund Balance		(10,395)		

* Restated to take account of changes in organisation structure during 2017/18 in order to present figures on like for like basis.

1 When accounting on a statutory basis, unspent capital grants without conditions are unapplied from the net Expenditure Chargeable to the General Fund, under generally accepted accounting practices these are credited to the CIES. Also REFCUS and its associated capital grants, which net to nil are, are removed from the Costs of Services, see Note 11.

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

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

General Fund Earmarked Reserves	31 March 2017 £000	Transfers Out £000	Transfers In £000	Movement between Reserves £000	31 March 2018 £000	Purpose of the Earmarked Reserve
Revenue Reserve	419	-	81		500	This reserve provides a working balance to cover risks to the revenue budget. The transfer in was to return the reserve to the planned level following a drawdown in 2017 to fund VAT on expenditure which was irrecoverable at that point.
Departmental Reserves	27	27		-	-	These represent funding for items approved in the 2017 budget where due to timing differences expenditure was incurred during 2017/18.
Total Reserves	446	27	81	-	500	

10 Capital Grants Unapplied Reserve

Capital Grants Unapplied Reserve Reserves	31 March 2017 £000	Transfers In £000	31 March 2018 £000
Gain Share - Capital	12,000	11,054	23,054
Housing Grant - General	10,000	27,610	37,610
Housing Grant - Cambridge	10,500	9,905	20,405
Total Reserves	32,500	48,569	81,069

11 Capital Adjustment Account

2016/17 £000	Capital Adjustment Account:	2017/18 £000
-	Balance at start of year	-
-	Capital Grants & Contributions that have been applied to Capital Financing	(34,309)
-	Revenue Expenditure Funded from Capital under Statue (REFCUS)	34,309
-	Balance at end of the year	-

12 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance the expenditure.

2017 £000	2017/18 £000
- Opening Capital Financing Requirement	-
- Revenue Expenditure Funded from Capital under Statute (REFCUS)	34,309
Sources of Finance	
- Capital Grants & Contributions	(34,309)
- Closing Capital Financing Requirement	-

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure incurred during the year that may be classified as capital for funding purposes. As this expenditure does not form an asset to be carried on the Combined Authority's balance sheet it is charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

2017 £000	Reconciliation of Grant Funding Applied to Capital Financing	2017/18 £000
	Grants used to Fund Revenue Expenditure Funded from Capital under Statute:	
-	In Year	34,309
-	Total Grants & Contributions applied	34,309

2017 £000	Body of Grant Funding Applied	2017/18 £000
-	Department for Transport – Local Transport Grant	28,628
-	Department for Transport – Highways Challenge Fund	1,750
-	C&P Housing Capital Grant	2,392
-	Cambridge Housing Grant	594
-	Gainshare Funding - Capital	945
-	Total Grants Applied	34,309

13 Financial Instruments

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

2017 £000	Financial Assets	2017/18 £000
(2)	Interest income	(287)
(2)	Total for Financial Assets	(287)
-	Total for Financial Liabilities	-
(2)	Net expenditure for the year	(287)

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

2017 Long Term £000	2017 Current £000	Financial Instruments Balances	2018 Long Term £000	2018 Current £000
-	-	Investments - Loans and receivables	-	25,049
-	27,000	Investments – Short term classified as Cash & Cash Equivalents	-	73,994
-	2	Debtors – Loans & Receivables	-	-
-	-	Debtors – Other	-	858
-	-	Creditors	-	(6,216)

14 Fair Value of Financial Assets and Financial Liabilities

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

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

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

All Financial Assets and Liabilities held by the Combined Authority are due to mature in less than 12 months so Fair Value

is assumed to be the carrying amount. The input level in the fair value hierarchy is Level 1 for all Financial Assets held.

The Fair Values calculated are as follows:

2017 Carrying Amount £000	Fair Value £000	Financial Liabilities	2017/18 Carrying Amount £000	Fair Value £000
-	-	Short term creditors	(6,216)	(6,216)
-	-	Total	(6,216)	(6,216)

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

2017 Carrying Amount £000	Fair Value £000	Financial Assets	2017/18 Carrying Amount £000	Fair Value £000
-	-	Temporary Investments Short Term	25,049	25,049
27,000	27,000	Investments classified as Cash & Cash Equivalents	73,781	73,781
13,500	13,500	Total Cash & Bank	213	213
2	2	Debtors	858	858
40,502	40,502	Total	99,901	99,901

15 Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Combined Authority.

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

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

Credit risk

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

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

The 2017/18 Annual Investment Policy sets out the credit criteria below although the Combined Authority actually minimised the risk further by only investing with the Debt Management Office,

its banking provider (Barclays), Bank of Scotland (part of the Lloyds Banking Group) and the CCLA money market fund.

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

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with

internal ratings in accordance with parameters set by the Combined Authority.

The Combined Authority had a total of £21.7m deposited with the Debt Management Office (DMO), UK banks and CCLA at 31 March 2018. As the DMO is within the scope of HM Treasury this reduces the overall credit risk. There is a specific risk attached to amounts deposited with the individual institutions based on their ability to make interest payments and repay the principal outstanding, it is however more difficult to assess the risk in general terms. Recent experience has shown that it is rare for such entities to not meet their commitments. Whilst there is a risk of recoverability with regard to these deposits, there was no evidence that this was likely at 31 March 2018.

Liquidity Risk

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

Market risk

Interest rate risk

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

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

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

Price Risk

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

Foreign Exchange Risk

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

16 Debtors

31 March 2017	Debtors	31 March 2018
£000		£000
-	Central government bodies	451
2	Other entities and individuals	407
2	Total Debtors	858

17 Creditors

31 March 2017	Creditors	31 March 2018
£000		£000
-	Central government bodies	(1,321)
(469)	Other local authorities	(2,631)
-	Public corporations and trading funds	(12)
(30)	Other entities and individuals	(2,252)
(499)	Total Creditors	(6,216)

18 Cash Flow Statement – Investing Activities

Short Term Investments are sums invested with a maturity of greater than three months but less than 12 months at the balance sheet date. Sums invested with a maturity of less than three months at the balance sheet date are classified as Cash and Cash Equivalents, see note 19. The cash flows for investing activities include the following items:

2017 £000	Cash Flow Statement – Investing Activities	2017/18 £000
-	Purchase of Short Term Investments	25,049
-	Net cash flows from investing activities	25,049

19 Cash Flow Statement – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is shown in the following table. The 'Bank Current Accounts' line includes payments that have not yet cleared in the actual bank accounts.

2017	Cash Flow Statement – Cash and Cash Equivalents	2017/18
£000		£000
27,000	Short Term Cash Investments	73,781
13,500	Bank Accounts	213
40,500	Total Cash & Cash Equivalents	73,994

20 Critical Judgement in Applying Accounting Policies

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

- The Combined Authority has received a number of capital grants, see note 5. A judgement has been required for each one, and although some of the grants have been ring fenced for specific purposes, not all of these have conditions in place that satisfy the requirements of the Code to treat the unspent elements of the grants as Capital Grant Receipts in Advance. Unspent capital grant funding in relation to these grants has been accounted for in the CIES and transferred to the Capital Grants Unapplied Reserve.
- The Chief Executive of the Combined Authority was also the Chief Executive of the Greater Cambridgeshire Greater Peterborough LEP and was appointed to the Board of the LEP on 19th Dec 2017. From 23rd March 2017 he was one of only two LEP Directors until the end of the financial year. Whilst there was a degree of Combined Authority control

over the LEP during this time, it has been decided not to consolidate Combined Authority and LEP balances as this would not enhance the reader's understanding of the accounts. The LEP business was transferred to the Combined Authority from 1 April 2018. Full provision of £776,912 has been made in these accounts to reflect the estimated net liabilities of the transfer.

21 Accounting Standards that have been Issued but have Not Yet Been Adopted

The standards which have been introduced by the 2018/19 Code and will be effective from 1 April 2018 are as follows:

- IFRS 9 Financial Instruments introduces a new model for financial assets including new classifications and a new expected credit loss impairment model. It will impact on the classifications used in the Financial Assets disclosure, but due to the high credit quality adopted by the Combined Authority for its investment counterparties is not expected to result in any material impairment charges.
- IFRS 15 Revenue from Contracts with Customers brings in new rules for the timing of the recognition of income from contracts with service recipients. This is not expected to

have a material impact on the Combined Authority's financial statements

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This will not have a material impact on the Combined Authority's financial statements.
- The amendments to IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses) clarify how to account for deferred tax assets related to debt instruments measured at fair value. This will not have an impact on the Combined Authority's financial statements as the Combined Authority does not produce group accounts which incorporate companies with relevant debt instruments.

22 Authorisation of the Accounts

The Interim Chief Finance Officer authorises these accounts to be issued by 31 May 2018.

Accounting Policies

General Principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2017/18 financial year and its position at the year-end 31 March 2018. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015.

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

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

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Combined Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;
- Revenue from the provision of services is recognised when the Combined Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential

associated with the transaction will flow to the Combined Authority;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

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

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

Events after the Reporting Period

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and do not have fixed or determinable payments.

Loans and Receivables

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

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

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

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

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

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

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

Assets are identified as impaired if there is a likelihood arising from a past event that payments due under the contract will not be made. The asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows. The calculation is made by discounting at the asset's original effective interest rate.

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

Assets are impaired if

- There is a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments). The impairment loss is the difference between the

carrying amount and the present value of the revised future cash flows. The calculation uses the asset's original effective interest rate.

- Fair value falls below cost. The impairment loss is the shortfall of fair value against the acquisition cost of the instrument. The acquisition cost is net of any principal repayment and amortisation.

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

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

Government Grants and Contributions

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

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

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

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

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

Overheads and Support Services

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Combined Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Combined Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Combined Authority has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to

settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Combined Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Combined Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Combined Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

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

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

The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement.

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the General Fund Balance.

Value Added Tax (VAT)

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

Glossary

Accounting Period - 1 April to 31 March is the local authority accounting period. It is also termed the financial year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Movement in Reserves Statement or MIRS – This statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' (ie those

that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

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

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

Precept – The Combined Authority is not empowered to bill council tax payers directly. Instead it may raise a precept on the billing authorities that are its members.

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

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

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

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

Index of Notes to the Core Financial Statements

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Annual Governance Statement

For the year ended 31 March 2018

Annual Governance Statement

The Annual Governance Statement will be discussed and approved by Audit and Governance Committee on 20 July 2018. The draft version is included here.

Scope of Responsibility

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

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

As the Authority was formally established on 3 March 2017, the organisation is at the start of its second year of operation and this is its second statement. The Authority has made good progress which is described in this statement and further progress will be made throughout the year. A copy of the Authority’s constitution is available on its website.

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

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

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

The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

As the organisation is now starting its second year, the governance framework is in its development stage.

The Governance Framework

Context

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

The Cities and Local Government Devolution Act 2016 came into force on 28 March 2016, making Cambridgeshire and Peterborough local authorities amongst the first to establish a combined authority for its area under these new provisions. Following the making of the order, the Authority's first directly elected Mayor was elected on 4 May 2017 for a four year term of office until May 2021.

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

- Control of a new additional £20 million a year funding allocation, over 30 years, to be invested to the Cambridgeshire and Peterborough Single Investment Fund, to boost growth.
- £170 million to deliver new homes over a five-year period in Cambridgeshire and Peterborough which includes affordable, rented and shared ownership housing
- Responsibility for chairing an area-based review of 16+ skills provision
- Responsibility to develop a more effective joint working with the Department for International Trade to boost trade and investment through agreement of a Joint Export Plan
- Powers devolved to the Mayor as part of the devolution plan include:

- Responsibility for a multi-year, consolidated and devolved transport budget
- Responsibility for an identified Key Route Network of local authority roads
- Powers over strategic planning and the responsibility to create a non-statutory spatial framework for Cambridgeshire and Peterborough and to develop with Government a Land Commission.

Further secondary legislation coming into force over the next year will increase its powers. This includes

- devolved powers for the Adult Education Budget and associated powers to deliver an adult education service that supports wider economic and social priorities;
- Mayoral powers to levy a business rate supplement to raise money for projects that will promote economic development
- The Combined Authority is small in size and strategic in nature. The Authority has adopted a commissioning model with delivery being undertaken by those best qualified to do so across the public and private sector.

Cambridgeshire and Peterborough Combined Authority Structure

The Authority is made up of a directly elected Mayor and the following seven local authorities (referred to as the Constituent Councils) and the Local Enterprise Partnership known as the Business Board:

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

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

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

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

Board

Each of the Constituent Councils appoints a nominated representative to be a Member of the Combined Authority and another Member to act in his or her absence. The Business Board (LEP) will nominate one of its Members, normally the Chair and a substitute member.

The Combined Authority Members comprise the Board. The Board's role and powers are set out in the constitution. Essentially, it provides strategic leadership for the Combined Authority area, approving strategies, policies and overseeing fiscal matters to ensure that the required outcomes are delivered. The Board meets monthly.

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

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

Mayor

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

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

Overview and Scrutiny Committee

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

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

A committee began work with the Centre for Public Scrutiny to explore areas for scrutiny. Members are keen to undertake other roles including pre-decision scrutiny where they can act as a “critical friend” to highlight key issues, and challenge policies at the developmental stage. The committee has set up a task and finish group to review the mass rapid transport project. The review will begin in June 2018. The Mayor and Chief Executive attends meetings at least quarterly to update the committee and to answer any questions. The committee also appointed lead members to key themes to enable them to better scrutinise the work of the Board.

Audit and Governance Committee

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

The committee has recommended a number of governance policies and procedures to the Combined Authority Board including a

- (a) member complaints procedure
- (b) corporate complaints procedure
- (c) whistleblowing and confidential reporting of complaint by third parties procedure
- (d) Data Protection policy
- (e) Freedom of Information policy and publication scheme
- (f) A Code of Corporate Governance in line with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government
- (g) Anti-fraud and corruptions policies and

(h) risk management strategy

This statement has been reviewed against the Code of Corporate Governance.

Business Board (Local Enterprise Partnership)

On 1 April 2018, the GCGP LEP was dissolved and a new Local Enterprise Partnership was created known as the Business Board. The Business Board is a voluntary partnership between constituent councils and non-constituent local authorities and the business community, playing a key role in determining local economic priorities and growth. The Partnership is a key interface with Centre Government and the region, and offers policy advice and strategic direction aligned to the Authority's objectives.

The Business Board will be more closely aligned to the Combined Authority through a unified strategic framework and has a single staffing structure under the Combined Authority's Chief Executive. The Combined Authority now the accountable body for the Business Board.

It is a key member of the Combined Authority. The Mayor and Deputy Mayor are members of the LEP recognising the importance of the LEP's role and the private sector in any growth strategies for delivery in the Combined Authority area. The Business Board met in shadow form before 1 April to develop its terms of reference and constitutional arrangements working closely with Government. The Business Board had its first public meeting on 30 April 2018.

Its constitutional arrangements comply with the Local Enterprise Partnership governance and transparency: best practice guidance issued by the Ministry of Housing, Communities & Local Government. The Guidance supports Local Enterprise Partnerships (LEPs) in meeting the recommendations made by a [review into Local Enterprise Partnership governance and transparency](#), commonly known as the Mary Ney review.

A recruitment campaign is underway to appoint representatives from the business community. The recognised two key concepts: (1) that the Business Board should be predominantly private sector led to provide the best possible platform for businesses within the area and that (2) the Board ought to be comprised of representatives of the those key sectors which are driving economic growth in the area.

Strategic Direction

Following his election in May 2017, the Mayor published 100-day plan outlining the actions to deliver on this agenda. The 100-day plan kick-started the work to progress the devolution deal commitments.

The Combined Authority has been working to articulate its longer term ambition and aspirations for Cambridgeshire and Peterborough. These are described in the 2030 prospectus to be agreed by the Board in May 2018. A programme of engagement has been planned with stakeholders across the area, including member local authorities and partners, communities, businesses, schools and universities and others alongside a media strategy to launch and promote the 2030 ambition. This will include a conversation with a representative sample of residents across the region to translate the 2030 ambitions into the four year plan and understand the different priorities between areas. The Combined Authority is working with each partner Local Authority on the launch and engagement plans.

In May, the board will also agree its Four Year Plan which sets out how the Combined Authority plans to deliver its strategic growth ambitions and priority programmes in the period 2018/19 – 2021/22. It brings together the plans to support delivery of the 2030 ambitions for the benefit of all our communities. The Four Year Plan has been developed through working closely with Leaders, Chief Officers and partners. A number of forums have also contributed including the Cambridgeshire and Peterborough Public Service Board (CPSB), the Cambridgeshire and Peterborough STP Board, Public Health England and wider stakeholders and partners.

The draft Medium Term Financial Plan (MTFP) provides an initial view of the anticipated costs associated with delivering the four-year plan. This document represents a key step in articulating the anticipated profile of costs and funding over the next four years, enabling resource allocation, monitoring and transparency which is essential for success.

Work is underway to develop core strategies including for example, the local industrial strategy, housing strategy, skills strategy, local transport plan, strategic spatial planning framework and market towns masterplans. The Combined Authority has progressed key investment decisions in a range of transport and infrastructure, skills, housing and economic development initiatives.

In November 2017 the Government released the 'Industrial Strategy'. It has direct relevance to the Business Board and the Combined Authority as its key message is that we will work with Government to support the development and growth of new industries and address the challenges the UK faces in the 21st Century.

The Combined Authority has commissioned an independent Economic Commission who will play an important role in developing our local Industrial strategy. The Commission consists of experts in the field who will bring forward independent advice and evidence on the local economy which will enable political and business leaders to agree on economic priorities and to come together more effectively in pursuing them.

The Authority has agreed with Government an assurance framework. Following the establishment of the Business Board, a single assurance framework is being developed.

The new framework will be developed to meet the criteria set out by Government, and recent best practice advice from the Mary Nye Review, and will be an example of best practice in the arena of compliance and governance.

Project Delivery

The Authority has agreed a monitoring and evaluation framework with Government. The Combined Authority's programme management and delivery assurance framework is being refreshed and will provide assurance to the Combined Authority Board and to Central Government through robust monitoring and evaluation arrangements for each of the commissioned projects.

Decision Making

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

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

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

Financial Management

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

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

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

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

Developing Capacity

The member structure is well defined, and following the appointment of the Chief Executive and the transfer of staff from the former LEP to the Combined Authority, a workforce plan has been developed to identify the resources required to ensure the organisation is best placed to deliver its objectives through a commissioning model. Recruitment to Chief Officer posts is currently taking place and a permanent staffing structure will be in place by the end of the year.

Internal Audit

Peterborough City Council provides the internal audit function. The Chief Internal Auditor presented the first audit plan to the first meeting of the Audit and Governance Committee and has provided the Committee with regular updates on it throughout the year.

External Audit

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

Risk Management

The Authority's Audit and Governance Committee is responsible for overseeing the Authority's risk management strategy and corporate risk register. As stated above the Risk Strategy has been agreed.

Corporate and project risk are identified, recorded and monitored by the Directors Management Team and the Audit and Governance Committee, and will be escalated to the Board where needed.

Managing Performance

Given the level of investment the combined authority will generate, it is vital that robust programme management processes are developed for its programmes, across distinct themes and for collective consideration of outputs and outcomes. An evaluation and performance framework has been agreed by the Board and Government. A Performance Management Framework will be developed to monitor and report on programme delivery (time, quality, cost) and the outcomes and impact of projects/programmes.

Review of Effectiveness

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

During the year, Internal Audit undertook a review of the Combined Authority's governance arrangements. The conclusion was that reasonable assurance can be placed on the systems and controls for the delivery of effective corporate governance. The report to the Audit and Governance Committee providing feedback to the review noted that as the organisation is 'in it's infancy', 'a number of processes are still to be developed or have not yet had the chance to embed across the organisation'. The Specific areas for attention with 'High' and 'Medium' ratings and the action plan to address the issues raised by the review are as follows:



Rating	Area For Attention	Agreed Proposed Action
High	Budget Management: Budget monitoring, while being managed, are only reported internally. In order to develop better engagement and transparency of the CPCA, there is a requirement for budget reports to be provided for scrutiny and challenge my members	Agreed - to be Implemented and established in 2018/2019
High	Financial Resilience: Treasury management strategy does not allow for better investment of funds A clear Treasury Management Strategy should be developed which embraces the unique nature of the Combined Authority whilst allowing for greater flexibility in its investment arrangements.	Agreed - Revised Treasury management Strategy has been reviewed by Audit & Governance committee and is due to go to the May CPCA Board which will include their recommendations to enable more creative investment opportunities subject to appropriate due diligence
High	Risk Management Strategy: At the time of the audit, a risk management strategy had not been developed	Agreed - Risk strategy including appetite for Risk is to be included in Leaders Strategy meeting. Process to review annually will be implemented and co-ordinated by Assurance Manager on behalf of the Directors



Medium	Budget Setting: Current budget setting arrangements only provide the Board with one year's budget.	Agreed - CPCA is currently developing a 4 year plan which is going to the May CPCA Board for discussion
Medium	Governance: CPCA can demonstrate that it has objectives in place aligned to its vision	Agreed - The objectives and the 2030 vision going to the board 30 May progress report will follow to Audit & Governance
Medium	Complaints Procedures: Procedures have been established for complaints but not whistleblowing	Agreed - Whistleblowing Policy agreed at Board and now published on CPCA website.
Medium	Risk Management Strategy: At the time of the audit, a risk management strategy had not been developed	Agreed. Now Completed.
Medium	Risk registers: Corporate risks need to be approved by the CPCA Once established, risk registers need to be approved and monitored through the Board and various committees.	Agreed - Risk register currently being reviewed and a new version produced. Due to go back to Audit Committee in July. In addition to the register being produced a process will be put in place to ensure risks are reviewed regularly and escalated where appropriate.



Medium	Risk Appetite It is unclear what appetite the Board has to risk Until the RMS has been approved, it will be unclear as to the risk appetite for the CPCA and whether any corporate or operational risks are above tolerance, requiring effective mitigation.	Agreed - Will seek a Full Board consultation.
Medium	Framework: An appropriate performance management framework is required	Agreed - to be Implemented and established in 2018/2019
Medium	Project Management: Standardised documentation has not been used for all projects	Agreed - to be Implemented and established in 2018/2019

Governance Issues

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

Issue	Action Required	Responsible Officer	Date of Completion
Risk Management	Establish risk management and reporting arrangements for corporate and individual projects.	Martin Whiteley, Chief Executive/Rachel Musson, Chief Finance Officer	
Communications Strategy	A strategy to be developed to include partnership frameworks and community engagement, and consultation principles	Tom Hunt, Chief of Staff, Mayor's Office	



Issue	Action Required	Responsible Officer	Date of Completion
Local Industrial Strategy	Strategy to identify evidence base	Martin Whiteley, Chief Executive	
Performance Management	Performance Management framework and systems to be developed	Martin Whiteley, Chief Executive	Dec 2018
Corporate Values and Staffing Policies	To establish its own staffing policies including appraisal process an equal opportunities policy and corporate values	Rachel Musson, Chief Finance Officer	
Data Retention Policy	To develop a data retention policy	Kim Sawyer, Monitoring Officer	

Conclusion

The Combined Authority recognises its responsibilities for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively, alongside a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised.

The Authority has made good progress during the year and is committed to making continued improvements during the course of the next year.

Certification

As Leader and Chair of the Audit and Governance Committee, we have been advised on the implications of the results of the review of effectiveness of the Combined Authority's governance framework, by the Audit & Governance Committee.

Our overall assessment is that the Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the Combined Authority to ensure effective internal control is maintained. We are also satisfied that there are appropriate plans in place to address any significant governance issues and will monitor their implementation and operations as part of our next annual review.

Signed:

To be signed by July 2018

Martin Whiteley, Chief Executive

Date:

Signed:

To be signed by July 2018

John Pye, Chair of the Audit and Governance Committee

Date:



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 9
20 JULY 2018	PUBLIC REPORT

EXTERNAL AUDIT – AUDIT RESULTS REPORT

1.0 PURPOSE

- 1.1 This report introduces the audit results report prepared for the Audit and Governance Committee by Ernst & Young LLP (EY). The audit results report summarises EYs preliminary audit conclusion in relation to the audit of the Combined Authority for 2017/18. A final report will be issued following the Audit and Governance Committee meeting.

<u>DECISION REQUIRED</u>	
Lead Officer:	Rachel Musson – Interim S151 Officer and Chief Finance Officer
<p>The Audit and Governance Committee is recommended to:</p> <p>(a) Consider and note the Annual results report for the year ended 31 March 2018</p>	

2.0 BACKGROUND

- 2.1. The External auditors have a statutory requirement to report to members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – "Communication of audit matters with those charged with governance". The report is known as the ISA260 and is attached at appendix 1.
- 2.2. EY would also like to bring to the Committee's attention their recently published 'Local Government Audit Committee Briefing' which is included at appendix 2. The briefing covers issues which may have an impact on the organisation, the local government sector and the audits that EY undertake.

3.0 FINANCIAL IMPLICATIONS

- 3.1. The planned fee for the audit is £35,000. The final fee is estimated to be £40,000. The estimated additional fee of £5,000 relates to additional work to address the Value for Money (VFM) risk, and additional work on the statement of accounts.

4.0 LEGAL IMPLICATIONS

- 4.1. None.

5.0 SIGNIFICANT IMPLICATIONS

- 5.1. None.

6.0 APPENDICES

- 6.1. Appendix 1 – The annual results report for the year ended 31 March 2018.
Appendix 2 – EY ‘Local Government Audit Committee Briefing’.

<u>Source Documents</u>	<u>Location</u>
Letter of Representation	Appendix 1 to agenda item 8
CPCA Statement of Accounts 2017/18	Appendix 2 to agenda item 8

Cambridgeshire & Peterborough Combined Authority

Audit results report
Year ended 31 March 2018

For Audit & Governance Committee
20 July 2018



4 July 2018

Dear Audit & Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Cambridgeshire & Peterborough Combined Authority (the Authority) for 2017/18. We will issue our final report following the Audit & Governance Committee meeting on 20 July 2018.

We have substantially completed our audit of the Authority for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the statement of accounts in the form at Section 4 of this report, before the statutory deadline of 31 July 2018. Whilst we have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources, due to the inherent challenges of establishing an entity of the Authority's nature we do include some specific commentary in Section 6.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 20 July 2018.

Yours faithfully

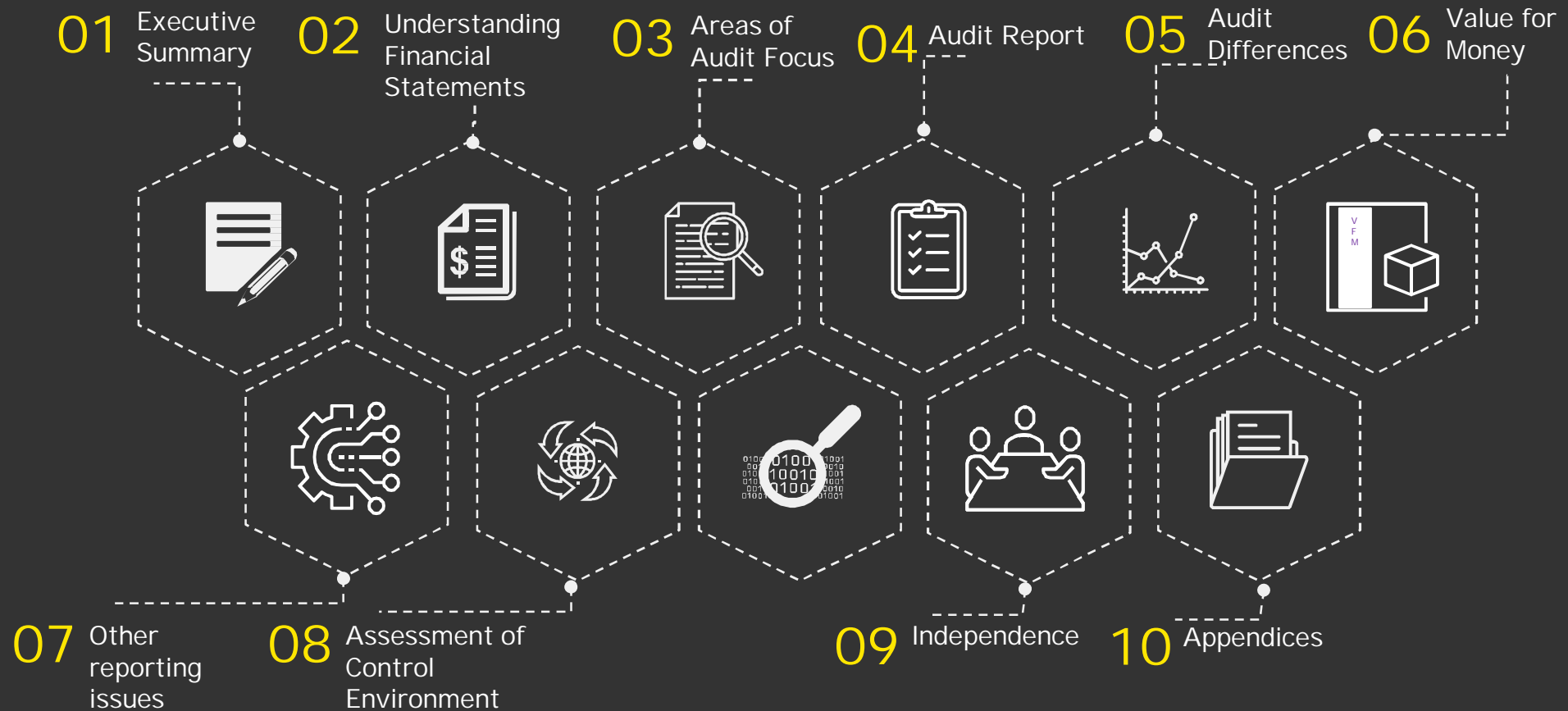
Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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). 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 February 2017)" 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 in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Cambridgeshire & Peterborough Combined Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Cambridgeshire & Peterborough Combined Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our Audit Plan presented to the 26 March 2018 Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the statement of accounts. We carried out our audit in accordance with this plan.

- **Changes in materiality:** In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £995,000. We recalculated a small change in materiality upon receipt of the unaudited accounts. The materiality used during the audit was £821,000. The basis of our assessment has remained consistent with the prior year at 2% of gross expenditure. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, and cash flow statement), is £40,000.
- **Significant risks:** Following completion of our interim audit and on receipt of the unaudited statement of accounts we have updated the focus and response to the significant risks we identified in our Audit Plan to the extent that we no longer recognise as significant risks management override of controls or the risk of fraud in revenue and expenditure recognition. Given the nature of the Authority's income streams, expenditure, assets and liabilities this has minimal impact on the extent of our audit testing but changes the way we report our work in these areas. This is set out more fully in Section 3 of the report.

Status of the audit

We have substantially completed our audit of the Authority's statement of accounts for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority's statement of accounts in the form which appears at Section 4. However until work is complete, further amendments may arise:

- completion of testing of journal entries (currently being completed)
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted or adjusted audit differences arising from our audit.

We identified some presentational and disclosure issues which have been adjusted by management, but are not detailed in this report.

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Authority's statement of accounts. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the course of our normal audit work, we have not identified any significant deficiencies in internal control or any other matters relating to internal controls which we believe should be brought to the attention of the Audit & Governance Committee.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority.

We have no matters to report as a result of this work.

We are not required to perform any procedures on the Whole of Government Accounts submission, as the Authority is below the threshold for audit.

Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 9 for our update on Independence.



Executive Summary

Value for money

The Authority held its first official meeting on 20 March 2017. Since then it has elected its Mayor in May 2017, appointed a Chief Executive at the end of June 2017 and appointed its most recent interim Section 151 officer in January 2018. It has also assigned portfolio holders to its various strands including Transport and Infrastructure, Housing, and Adult Education. In addition as part of the devolution agreement, transport authority powers were transferred to the Authority from Cambridgeshire County Council and Peterborough City Council. The Authority has a large, complex, high profile and important agenda.

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, while the Authority is making progress putting in place the building blocks to enable it to operate effectively, efficiently and economically we identified a risk that by the 31 March 2018 not all the expected proper arrangements would be in place.

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

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

We are satisfied that in respect of the auditor's value for money conclusion responsibilities the Authority has proper arrangements in place to secure the effective use of resources. However the Authority needs to continue formalising its arrangements to support the effective use of its resources, as recognised within the Annual Governance Statement. We have included in Section 6 the detailed work we carried out in response to this risk.

The background of the slide features a close-up, slightly blurred image of Euro currency. In the foreground, a 1 Euro coin is prominent, showing its intricate design and the word 'EURO'. Behind it, another coin is visible. To the left, a blue Euro banknote with a large '0' is partially visible. At the bottom, a green banknote is also partially visible. The overall composition suggests a theme of finance and economics.

02

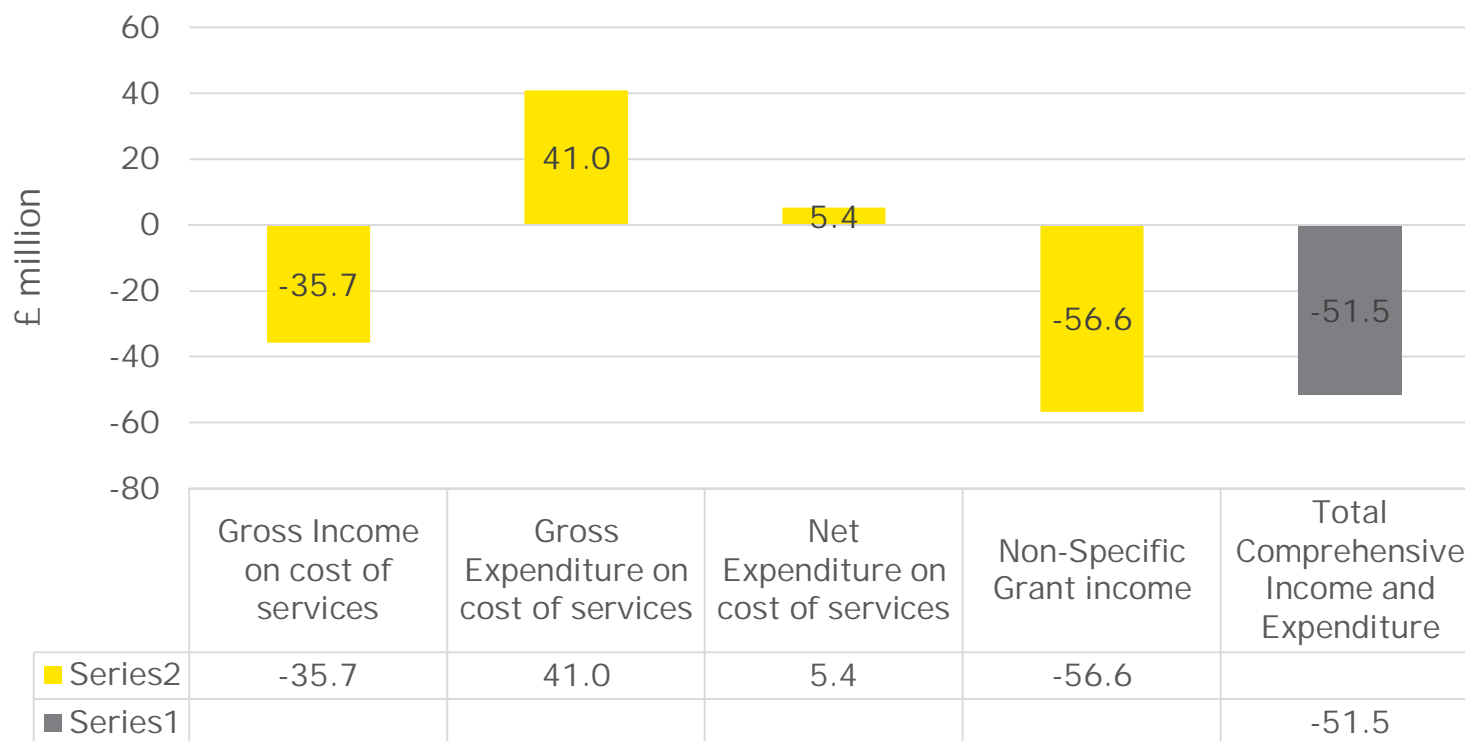
Understanding Financial Statements



Understanding the financial statements

Key components of net expenditure

The Authority's net cost of services for the year ended 31 March 2018 was £5.4 million, an increase of nearly £5 million from the prior year in line with the timing of the Authority's set-up. Similarly, net comprehensive income for the year ended 31 March 2018 was £51.5 million, an increase of £11.5 million from the prior year reflecting the first full year of operations.



The following provides an overview of the material items:

- Gross income of £35.7 million is comprised mainly of Transport Capital Grant of £32 million.
- Gross expenditure of £41 million relates largely to staff costs of £1 million, expenditure on Transport & Infrastructure of £31m, and Housing projects of £3 million.
- Non-Specific Grant income of £56.6 million, is comprised of Housing Capital Grant of £37.5 million and Gain Share Grant of £19 million.



03 Areas of Audit Focus



Areas of Audit Focus

Misstatements due to fraud or error – management override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What judgements are we focused on?

- Changes to accounting policies
- Significant estimates
- Manual Journals

What did we do?

- We reviewed changes to accounting policies for indications of management bias;
- We reviewed significant accounting estimates for evidence of management bias; and
- We are currently completing our testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.

What are our conclusions?

From our work to date, we have not identified any material weaknesses in controls or evidence of material management override.

From our work to date, we have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



Areas of Audit Focus



Other matters

Accounting for the Local Enterprise Partnership (LEP) – At the time of our Audit Plan, the Authority was expecting to become the accountable body for the LEP before 31 March, necessitating a need to account for and disclose the associated asset and liabilities and other relevant items in its 2017/18 accounts. Subsequently the Authority received confirmation that the transfer would be on 1 April 2018. The Authority's accounts include a provision of £776,912 to reflect the estimated net liabilities of the LEP falling due to the Authority.

Faster Close: The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the FY18 financial year. From this year the timetable for the preparation and approval of accounts was brought forward with draft accounts to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018.

We carried out early work where possible at our interim audit in January/February. We also planned to begin the final accounts audit earlier – on 14 May 2018. We have also used our EY Client Portal to streamline our communications with the finance team and provide them with access to the status of audit requests.

The Authority met the shortened deadline for production of its accounts, however we received the accounts the week after we had planned to start the audit. To a large extent the accounts and notes were supported by good quality working papers, except for in a few specific areas, where improvements could be made. We are confident that the audit deadline of 31 July 2018 will be met.

Issues requiring additional audit focus: the Authority has treated the majority (£34.3 million) of its expenditure on 'New Homes & Communities' and 'Transport & Infrastructure' as REFCUS expenditure. Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure incurred during the year that may be classified as capital for funding purposes. As this expenditure does not form an asset to be carried on the Combined Authority's balance sheet it is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. The grant income received in respect of this expenditure is credited to the same lines in the CIES.

As this was the first year the Authority had applied this funding, and because it is material, we sought further technical review of the accounting treatment. We concluded that the treatment and the disclosure in Note 12 to the accounts is appropriate.

IFRS 15 implementation: From 1 April 2018 IFRS 15 applies in relation to accounting for revenue from contracts. The Authority has yet to undertake an assessment of its impact but given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the financial statements of the Authority.



04 Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Opinion

We have audited the financial statements of Cambridgeshire & Peterborough Combined Authority for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 22, and
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridgeshire & Peterborough Combined Authority as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 2 to 55, other than the financial statements and our auditor's report thereon. The Interim Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Cambridgeshire & Peterborough Combined Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Interim Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 14, the Interim Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Interim Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

the Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Cambridgeshire & Peterborough Combined Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Cambridgeshire & Peterborough Combined Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its



Audit Report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Cambridgeshire & Peterborough Combined Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Cambridgeshire & Peterborough Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Cambridgeshire & Peterborough Combined Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
x July 2018



05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There are no adjusted differences, at the time of writing.

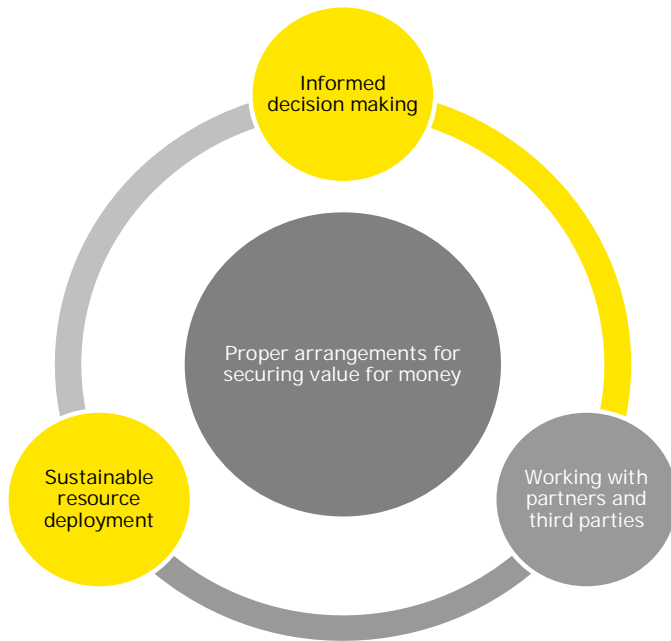
We identified small presentational and disclosure issues which have been adjusted by management, and are not detailed in this report as they are not significant enough to be brought to the attention of the Audit & Governance Committee.



06

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 2017/18 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.

Overall conclusion

We identified a significant risk to our VFM conclusion that by the 31 March 2018 not all the expected proper arrangements would be in place. The table below presents our findings in response to the risk in our Audit Planning Report.

We expect to have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. However, as recognised by the Authority in its Annual Governance Statement, there are aspects of these arrangements which remain a work in progress or were only formalised at the year end.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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, while the Authority is making progress putting in place the building blocks to enable it to operate effectively, efficiently and economically there is a risk that by the 31 March 2018 not all the expected proper arrangements will be in place.	<p>The risk we identified affects all three of the value for money conclusion sub-criteria set out by the NAO:</p> <ul style="list-style-type: none"> • Taking informed decisions. • Deploying resources in a sustainable manner. • Working with partners and other third parties. 	We are satisfied that the Authority has proper arrangements in place to secure the effective use of resources, however there are still some further improvements to make to arrangements, which the Authority has detailed in its Annual Governance Statement. We provide further details on the next few pages.



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Taking informed decisions	<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p> <ul style="list-style-type: none">• The constitution is in place which is available on the Authority's website, updated March 2018.• The constitution includes transparency rules, key decision rules and the forward plan, financial management procedures, delegation scheme and Codes of Conduct.• The devolution deal is on the Authority's website.• Meetings advertised on website and open to the public, public speaking rights published on website, Mayoral decision notices are published.• Freedom of Information and publication scheme was agreed in December and January.• Following the Mayor's election in May 2017, the Mayor published a 100-day plan outlining the actions to progress the devolution deal commitments.• The 2030 programme is responsible for developing core deliverables. <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions</p> <ul style="list-style-type: none">• Agreement of budget for 2017/18, development of financial procedures, policies and strategies approved by the audit and governance committee during the year. For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed – went to May 2018 Board. Updates on the financial position taken to every Board.• Treasury Management Strategy in place for the year and during the year it has been a high priority focus: the 2018/19 strategy and a paper 'Evolving the Treasury Management Strategy' taken to March 2018 Audit & Governance Committee.• Evaluation and Monitoring Framework has been developed along with the assurance framework to set out how Schemes' outcomes are to be monitored and evaluated against benchmarks for each Work stream area. Projects with budget allocation requirements are subject to Board approval.• Business cases are considered at Board including e.g. business case for University of Peterborough presented to June 2017 and March 2018 Board.	Yes



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Taking informed decisions (cont.)	<p>Reliable and timely financial reporting that supports the delivery of strategic priorities</p> <ul style="list-style-type: none">• For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed (issued to the May 2018 Board). Updates on the financial position are taken to every Board.• Development of financial procedures, policies and strategies approved by the Audit & Governance Committee through the year.• The Internal Audit governance review highlighted how an appropriate performance management framework is required, however we have seen other evidence of performance management actions and reporting being taken through the year and evidenced at Board meetings. <p>Managing risks effectively and maintaining a sound system of internal control</p> <ul style="list-style-type: none">• The Internal Audit governance review highlighted that a Risk Management Strategy was not in place. Training has been provided to the Audit & Governance Committee on their role in assessing Strategy and risks. We have seen other evidence of risk management actions being taken through the year and evidenced at Board meetings.• Most aspects of internal control in place: the constitution includes financial management procedures, delegation scheme and Codes of Conduct.• Declaration of interest forms are published on the website.• Member complaints procedure has been developed.• Some arrangements were not put in place until the end of the year - the whistleblowing policy and third party confidential reporting for the CA and LEP, and the anti-fraud and corruption strategy, were considered at Audit & Governance Committee in March 2018.	Yes



Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Deploying resources in a sustainable manner	<p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <ul style="list-style-type: none">• For 2017/18 there was a one-year plan. For 2018/19 onwards, a 4 year plan is being developed (issued to the May 2018 Board). Updates on the financial position taken to every Board• The annual budget process involves consultation with stakeholders including constituent councils, local businesses and rate payers to collect views on the Authority's strategic priorities, and allocation of funds to projects.• Projects with budget allocation requirements are subject to Board approval. <p>Managing and utilising assets effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none">• The constitution has been updated to take account of all Board decisions since May 2017 to March 2018.• There is a procurement policy in the constitution.• All Board reports have a section for legal and financial impact and must be cleared by the CFO and the monitoring officer. <p>Planning, organising and developing the workforce effectively to deliver strategic priorities</p> <ul style="list-style-type: none">• The constitution sets out the responsibilities of the Head of Paid Service and the Chief Finance Officer.• Combined Authority or subject-specific training takes place twice monthly at Leaders Strategy meeting.• An internal compliance working group meets regularly to discuss the work programme.• A staff code of conduct is in place• Regular staff team meetings for training and briefings, weekly newsletter from chief executive to update staff of CA/LEP matters and priorities.• The permanent officer structure is still being established; following the recent combining of the CA and LEP, the new staffing structure will be published shortly.	Yes



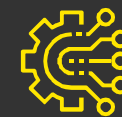
Value for Money: sub-criteria

What are our findings?

Sub-criteria	Arrangements	Are arrangements in place?
Working with partners and other third parties	<p>Working with third parties effectively to deliver strategic priorities</p> <ul style="list-style-type: none"> • This is still under development – the prospectus and 4 year plan went to the May 2018 Board and will form the basis for planning and delivering the strategies and priority programmes. • The Authority meets regularly with established forums, e.g. Cambridgeshire & Peterborough Public Services Board and member councils, and engages Chief Officer and stakeholder groups in development of strategies. • Specific forums also established e.g. Leaders and Chief Officers, Portfolio Holders workshops, Neighbouring Authorities, and wider Stakeholder groups. • Constitution recently reviewed to take account of the establishment of the new LEP business board – reported to annual meeting in May 2018. <p>Commissioning services effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none"> • The Authority has worked with partners to set out responsibilities – e.g. Transport decision making and delivery arrangements, following transfer of powers to the CA, considered at December 2017 Board. • The Mayor has allocated portfolio responsibilities to Authority members which sets out responsibility for partnership arrangements. • Some partnership arrangements still being developed – e.g. Cambridge City Housing Programme considered at March 2018 Board. <p>Procuring supplies and services effectively to support the delivery of strategic priorities</p> <ul style="list-style-type: none"> • To deliver the priority programmes and actions the Authority uses a mixed economy of delivery partners and the Strategic client function manages and monitors delivery in accordance with the Assurance Framework. • There remain aspects still under development – Internal Audit review has shown that not all Service Level Agreements are signed. 	Yes



07 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 26 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee on 20 July 2018.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. The increase from the prior year reflects the fact that this is the first full year of the Authority's operations.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	40,000	35,000	35,000	15,000

* The estimated additional fee of £5,000 relates to additional work to address the VFM risk, and additional work on the statement of accounts including seeking a technical view on REFCUS treatment and new capital notes. This is subject to agreement with the s151 officer, to whom we will provide a detailed breakdown, and approval by PSAA.





10 Appendices





Appendix A

Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report 26 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report 26 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report 20 July 2018

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Cambridgeshire & Peterborough Combined Authority's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>None to report</p> <p>Audit Results Report 20 July 2018</p>
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>By letter of rep request in</p> <p>Audit Results Report 20 July 2018</p>
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>By letter of rep request in</p> <p>Audit Results Report 20 July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	<p>None to report</p> <p>Audit Results Report 20 July 2018</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report 26 March 2018</p> <p>Audit Results Report 20 July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report 20 July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance by letter of representation. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	None to report Audit Results Report 20 July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	By letter of rep request in Audit Results Report 20 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	None to report Audit Results Report 20 July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report 20 July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report 26 March 2018 Audit Results Report 20 July 2018

Management representation letter

Draft Management Rep Letter

Suresh Patel
Executive Director
Ernst & Young LLP
1 More London Place
London
SE1 1AF



Dear Suresh

This letter of representations is provided in connection with your audit of the financial statements of Cambridgeshire & Peterborough Combined Authority ("the Authority") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Authority financial position of Cambridgeshire & Peterborough Combined Authority as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with [CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18].
2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18]. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18], that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit, and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority and Audit and Overview and Scrutiny committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 June 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties

Management representation letter

Draft Management Rep Letter

and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than the transfer of the LEP business to the Combined Authority on 1 April 2018, described in Note 20 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31 March 2017, we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the financial statements for the year ended 31 March 2017 which are shown as comparative amounts in the financial statements for the year ended 31 March 2018. Any differences in the comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes

Yours faithfully,

.....
Interim Chief Finance Officer

Date

.....
Chair of the Audit and Governance Committee

Date

About EY

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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An aerial photograph of the London skyline. The Gherkin is prominent in the foreground on the left, and The Shard is on the right. The city is densely packed with buildings, and the River Thames is visible. The sky is filled with dramatic, dark clouds with some light breaking through.

Local government audit committee briefing



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Government and economic news

EY ITEM Club – Local Government Economic Briefing Q2, May 2018

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important. The briefing covers three main areas:

Continued economic pressures in 2018

Local authorities are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence local authority decision making in the year ahead:

- ▶ The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- ▶ 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- ▶ The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

Positive Signs for some on business Rates Retention

A recent study by the Institute for Fiscal Studies (IFS) has reignited the debate about the potential financial implications associated with 100% business rates retention. The IFS study forecasts that councils included in the 100% retention pilot scheme will gain an additional £870mn in funding next year as a result, representing an approximate 3.6% increase in their collective spending power.

Whilst this provides an incentive to councils for growing their local economies, critics argue that areas less able to generate business income may become vulnerable to funding constraints. For example, the IFS forecasts suggest that London councils could gain £430mn (£49 per person, or 4.9% of core spending power) from the scheme, compared to a gain of just £2.5mn (£5 per person, or 0.6% of core spending power) in Liverpool. As a result, these estimates suggest that Liverpool City Council would have derived a greater financial benefit if total gains made by pilot authorities had been distributed nationally on the basis of relative needs.

One of the primary concerns regarding distributional impacts is the potential lack of correlation between local authority spending needs and the perceived potential for business rates growth. Further analysis is required to determine the potential impact of rate retention in light of where local authority funding needs may emerge in the years to come.

Mitigating the risk of market failure in health and care systems

Allied Healthcare, one of the country's largest home care providers, has successfully agreed a Company Voluntary Arrangement (CVA) allowing it to agree a payment plan with its creditors.

Changes to the Care Act, which came into effect in 2015, means that if a provider like Allied were to stop trading, local authorities would need step in to protect individuals receiving care. This demonstrates the need for a continued focus on the successful integration of care and the role of local authorities in leading this transformation is paramount.

Data is a fundamental enabler to the successful integration of health and social care; it also presents one of the areas of greatest complexity. Key stakeholders across health and social care

systems should recognise the role of sharing data in minimising the risk of information asymmetry. Focus is already being applied to establishing platforms that allow market participants to share data not just on an individual's care needs, but also on broader lifestyle data. Whilst this has the potential to allow for the use of transformative technologies such as artificial intelligence, it also has the potential to support more effective pricing and resource allocation, leading to the better functioning of the health and care market.

NAO Report Financial sustainability of local authorities 2018

In March 2018 the National Audit Office (NAO) published a report Financial sustainability of local authorities 2018. The scope of the report was to review developments within the sector and to understand the impact of funding reductions on the service and financial sustainability for local authorities. One of the key findings of the report was that there had been a real-terms reduction in local authority spending power by 29% between 2010-11 and 2017-18.

Spending on services that have significant statutory responsibilities, such as adult social care have only seen a reduction in spending of 3% in real terms; whereas in contrast spending on more discretionary areas, such as planning, housing services, highways and cultural related services, have seen a greater reduction of spending between 35% to 53% in real terms. These spending reductions have seen reductions in front lines services such as weekly domestic waste collection (reduced by 34% between 2010-11 and 2016-17) and numbers of libraries (reduced by 10% between 2010-11 and 2016-17).

Another key finding of the NAO report is that the many local authorities are relying on using their reserves to fund the provision of services, which is not sustainable. The report found that 11% of single-tiered and county councils had the equivalent of less than three years' worth of total reserves if they continued to use their reserves at the rate they did in 2016-17. Therefore achieving strong financial resilience is imperative to maintaining the financial sustainability of the provision of services by local authorities. Northamptonshire County Council issued a s114 notice in February 2018, indicating that it was at risk of spending more in the financial year than it had resources available. This highlights the increased risk of financial sustainability for local authorities.



Accounting, auditing and governance

IFRS 9: Financial Instruments ... just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9 in the Code could well have an impact on Local Authority budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Classification changes

Currently, many authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category

which is causing authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that

a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and authorities will have to keep a very close eye on the budgetary.

CIPFA/LASAAC consultation on IFRS 16 Leases

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance with IAS 16. (In certain circumstances, alternative subsequent

measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclose any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

Audit Committee Effectiveness Toolkit

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.

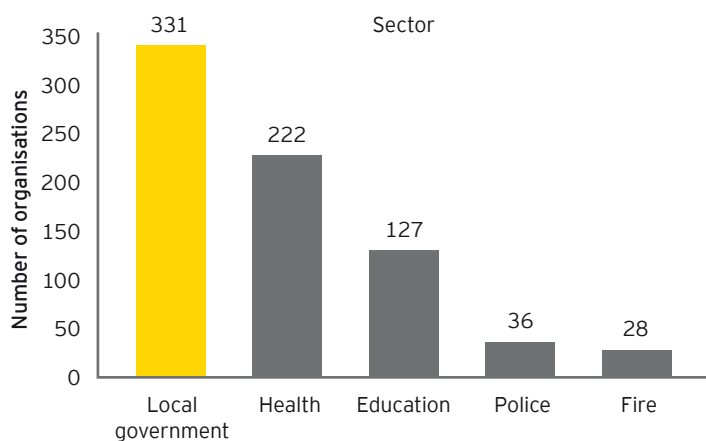
Regulation news

Gender pay gap reporting

On 4 April 2018, employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 331 local authorities (see Figure 1 below).

Figure 1: Government and Public sector bodies reported on gender pay gap

Who reported



The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%), whilst Local Government reported the lowest average median pay gap (5.8%), see Figure 2 below.

Figure 2: Average median pay gap

Average pay gap

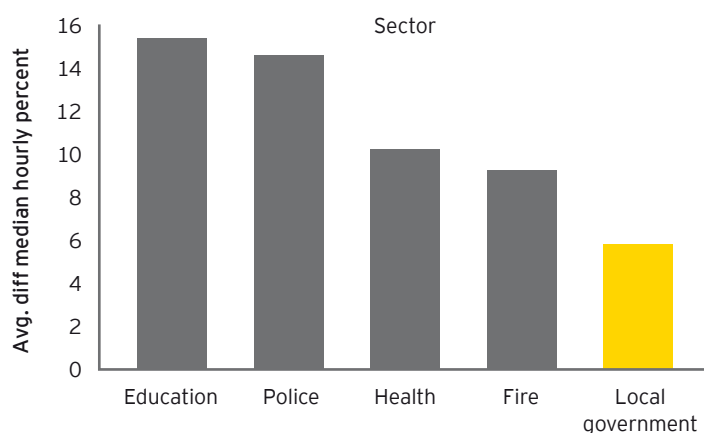
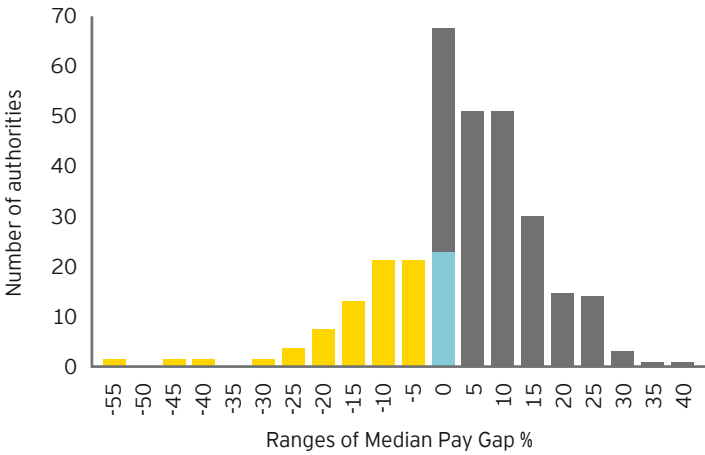


Figure 3 below sets out the % gap in median hourly pay between men and women reported by local authorities. This shows that 25 authorities reported a zero pay gap, 77 authorities reported a higher median pay for women than men, and the remaining 227 authorities reported men receiving a higher median pay for men than women.

Figure 3: Difference in median hourly pay in LG

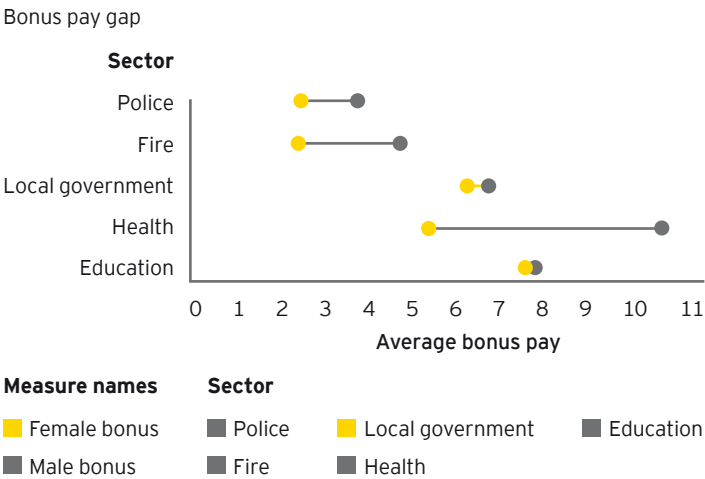
Difference in median hourly pay in fire sector, %



Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances where there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that local authorities have the second lowest bonus pay gap.

Figure 4: Bonus pay gap in the public sector



Making Tax Digital (MTD) for VAT: changes from April 2019

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- ▶ Keep and preserve digital tax records
- ▶ File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by local authority employees it is important to review contracts and working practices across the different activities undertaken. One notable example of HMRC focus has been the payments to care workers

for sleeping time. This has resulted in an increase in enforcement activity in this sector. Other significant areas of focus include:

- ▶ Salaried workers whose hours are not actively monitored
- ▶ Defined dress code policies which may reduce the NMW/NLW pay
- ▶ Deductions, such as car parking charges paid by employees on facilities owned by the local authority
- ▶ Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority, it is prohibited from providing tax advice.

Key questions for the Audit Committee

- ▶ Has your authority assessed the impact of inflation and earnings growth on employee retention?
- ▶ Has your authority considered the impact of potential rises in interest rates over the next year or so, and reflected this in estimated costs of borrowing and on its broader treasury management strategy and medium term financial planning?
- ▶ How has the authority considered the impact of changes to the business rates system, and reflected these changes in its budget and financial planning?
- ▶ In the light of the NAO report on the financial sustainability of local authorities, how financially resilient is your authority? Are you confident that the authority has an appropriate policy on the level of reserves?
- ▶ Has your authority assessed the impact of the new accounting standards IFRS 9 Financial Instruments on your budgets?
- ▶ Has your authority assessed the impact IFRS 16 will have on cost, processes and system information?
- ▶ How is the effectiveness of your Audit Committee assessed and monitored?
- ▶ Have you considered the gender pay gap at your authority? Where there is a gender pay gap, what actions are being taken to reduce the gap?
- ▶ How prepared is your authority for the new Making Tax Digital (MTD) VAT requirements that will come into force from April 2019?
- ▶ How does your authority ensure that it complies with the National Minimum/Living Wage (NMW/NLW) legislation?

Find out more

EY Item Club forecast

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1>

Financial Sustainability: NAO Report

<https://www.nao.org.uk/press-release/financial-sustainability-of-local-authorities-2018/>

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

Code of Practice Improvements

<http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online>

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances>

<http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c,-consultation-on-ifs-16-leases>

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

<https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801>

Audit Committee Effectiveness Toolkit

Please contact your local audit team

Making Tax Digital (MTD) for VAT: changes from April 2019

<https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax>

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

<https://www.icaew.com/en/technical/tax/making-tax-digital>

National Minimum/Living Wage legislation Compliance

<https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law>

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ED None

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AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 11
20 JULY 2018	PUBLIC REPORT

INTERNAL AUDIT: ANNUAL AUDIT REPORT AND OPINION

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 notice of the Annual Audit Report and Opinion.

<u>DECISION REQUIRED</u>	
Lead Officer:	Steve Crabtree, Peterborough City Council
The Audit and Governance Committee is recommended that the Annual Report and Opinion from Internal Audit is considered.	

2.0 BACKGROUND

- 2.1. Public Sector Internal Audit Standard, PSIAS 2450, requires the Chief Audit Executive to provide an annual report to the Audit and Governance Committee timed to support the Annual Governance Statement. This report must include:
- An annual audit opinion on the overall adequacy and effectiveness of governance, risk and control framework (the control environment); and
 - A summary of audit work performed from which the opinion is derived including any reliance placed on work by other assurance bodies.

- 2.2. In addition, the PSIAS require the Chief Audit Executive to confirm to the Audit and Governance Committee at least annually, the organisational independence of internal audit activity.
- 2.3. In the context of PSIAS, “opinion” means that Internal Audit will have done sufficient, evidenced work to form a supportable conclusion about the activity it has examined.

It should be noted that the opinion for Cambridgeshire and Peterborough Combined Authority is that the framework of governance, risk management and control had operated adequately. The Annual Internal Audit report for CPCA is attached at **Appendix 1** to the report for information.

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.

4.0 LEGAL IMPLICATIONS

- 4.1. The Accounts and Audit Regulations 2015, Regulation 5, requires a relevant Authority 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. None.

6.0 APPENDICES

- 6.1. Appendix 1: Annual Audit Opinion

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

APPENDIX 1

ANNUAL INTERNAL AUDIT OPINION 2017 / 2018

ANNUAL REPORT

1. Introduction
2. Arriving at an Opinion
3. Opinion 2017 / 2018
4. Basis of Annual Opinion
5. Delivery of Audit Plan

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 the Annual Internal Audit Opinion report is to meet the Chief Audit Executive¹ annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:
- Include an opinion on the overall adequacy of an effectiveness of the CPCA's governance, risk and control environment and therefore the extent to which the CPCA can rely on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion; and
 - Draw attention to any issues particularly relevant to the Annual Governance Statement.
- 1.2 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit and Governance Committee and the Interim Chief Financial Officer, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.
- 1.3 The definition of Internal Audit, as described in the Public Sector Internal Audit Standards, is "*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*".

¹ The Chief Audit Executive term within the standards is deemed to be the Chief Internal Auditor at Peterborough City Council

2. **ARRIVING AT AN OPINION**

2.1 **Background**

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2017 / 2018. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our work both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit.

2.2 **Risk Based Planning**

Internal Audit continues to embrace the risk assessment approach to audit. A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. Examples include:

- Governance reviews, including a review of key assurance frameworks and the Annual Governance Statement;
- Risk based reviews of fundamental financial systems that could have a material impact on the accounts, and other departmental systems;
- Fraud strategy work, responsive fraud and irregularity investigations; and
- Contract, procurement, performance and project audits.

2.3 **The Audit Review**

There are three elements to each Internal Audit review.

- Firstly, the control and risk environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to establish an opinion on the adequacy of the control framework in place.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables Internal Audit to form a view on the extent to which the control environment, designed to mitigate risk, is being complied with.
- Finally, where there are significant control weaknesses or where the controls are not being complied with and only limited assurance can be given, Internal Audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

2.4 Reporting

Where appropriate, each report we issue during the year is given an overall opinion, as shown in **Table 1** below.

TABLE 1: ASSURANCE RATINGS	
Opinion / Assurance	Description
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.

Based on the works undertaken, recommendations may be identified to improve the control environment. These are identified in **Table 2**.

TABLE 2: RECOMMENDATION GRADES	
Grade	Description
CRITICAL	Fundamental control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.
HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

3. **OPINION 2017 / 2018**

3.1 As the providers of Internal Audit to CPCA, we are required to provide the Chief Executive and Section 151 Officer with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Chief Executive and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2018;
- Any follow-up action taken in respect of audits from previous periods;
- Any key recommendations not accepted by management and the consequent risks (of which there were none this year);
- Considered the effects of significant changes in the Authority's objectives or systems and the requirement for Internal Audit involvement;
- Reviewed and considered matters arising from reports to CPCA committees; and
- Considered whether there were any limitations which may have been placed on the scope of Internal Audit.

3.2 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Following consideration of the above I am able to provide the following opinion for 2017 / 2018

I am satisfied that sufficient quantity and coverage of Internal Audit work and other independent assurance work has been undertaken to allow me to draw a reasonable conclusion on the adequacy and effectiveness of the Authority's risk management, control and governance processes. In my opinion the Authority has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Steve Crabtree
Chief Internal Auditor
June 2018

4. **BASIS OF ANNUAL OPINION**

4.1 The audit work that was completed for the year to 31 March 2018 is detailed at the end of the report. Although one report was produced in line with the first years audit plan – an overview of Governance for the new authority – it was designed so that it could be broken down into constituent parts. These being:

- Financial Management;
- Corporate Governance;
- Risk Management;
- Performance Management;
- Procurement and Commissioning; and
- Programme and Project Management

4.2 **Governance Review**

A number of areas have been identified for improvement (detailed in **Table 3**), primarily due to the organisation being in its infancy and developing all the time.

- Budget Management: In order to develop better engagement and transparency of the CPCA, there is a requirement for budget reports to be provided for scrutiny and challenge by members.
- Financial Resilience: A clear Treasury Management Strategy should be developed which embraces the unique nature of the Combined Authority whilst allowing for greater flexibility in its investment arrangements.
- Risk Management: A clear Risk Management Strategy is required together with including the risk appetite. Regular reviews of risk registers should be monitored through the Board and the various committees.

TABLE 3: GOVERNANCE REVIEW (RECOMMENDATIONS / AGREED ACTIONS)						
		Critical	High	Medium	Low	Total
GOVERNANCE						
Financial Management	Budget Setting	-	-	1	1	2
	Budget Management	-	1	-	1	2
	Financial Resilience	-	1	-	1	2
	Financial Regulations	-	-	-	-	-
	Insurance Arrangements	-	-	-	-	-
Corporate Governance	Governance	-	-	1	-	1
	Roles and Responsibilities	-	-	-	1	1
	Constitution	-	-	-	-	-
	Codes of Conduct	-	-	-	1	1
	Decision Making: Committees	-	-	-	-	-
	Complaints Procedures	-	-	1	-	1
Risk Management	Risk Management Strategy	-	1	1	-	2
	Risk Register	-	-	1	-	1
	Risk Appetite	-	-	1	-	1
Performance Management	Framework	-	-	1	-	1
Procurement and Commissioning	Procurement	-	-	-	-	-
	Contract Rules	-	-	-	-	-
	Value for Money	-	-	-	-	-
Programme and Project Management	Project Management	-	-	1	-	1
OVERALL RATING: REASONABLE ASSURANCE		-	3	8	5	16

4.3 Allegations of Fraud / Irregularity and Breaches of Code of Conduct

Internal Audit is a key contact point for any issues of fraud and irregularity across the CPCA. No matters were brought to Internal Audit attention during the year.

5. DELIVERY OF AUDIT PLAN

5.1 During 2017 / 2018, 25 days were planned to be utilised to deliver the initial audit plan. All reports, plans and progress reports have been produced in accordance with agreed timescales and presented to Members via the Audit and Governance Committee.

5.2 Internal Audit's performance is measured against a number of indicators. **Table 4** shows our performance on key indicators at the end of the year. We are pleased to report a good level of delivery and the added value of our work.

TABLE 4: PERFORMANCE MEASURES			
PERFORMANCE INDICATOR	Description	Target	Actual At 31-Mar-2018
PRODUCTIVITY AND EFFICIENCY			
Actual Audits v. Planned	Comparison of original audit plan and that delivered. Set out to establish whether the organisation is fairly stable and the plan did not need to be revised	100 %	100 %
Percentage of recommendations agreed	Acceptance of audit observations by management that they represent a true reflection of the organisation	100 %	100 %
Percentage of overdue recommendations implemented	To verify that management are implementing agreed actions in a timely manner	100 %	N / A ²

² As at 31 March 2018, no timescales have been reached



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 12
20 JULY 2018	PUBLIC REPORT

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.

<u>DECISION REQUIRED</u>	
Lead Officer:	Steve Crabtree, Peterborough City Council
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 into the audit cycle for an overall opinion to be made.

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.

4.0 LEGAL IMPLICATIONS

4.1. The Accounts and Audit Regulations 2015, Regulation 5, requires a relevant Authority 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

<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 Completed

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:

TABLE 1: ASSURANCE RATINGS	
Opinion / Assurance	Description
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 agreed Internal Audit Plan 2018 / 2019 is table below, together with the indicative completion timelines:

TABLE 2: AUDIT PLAN 2018 / 2019						
		Q1	Q2	Q3	Q4	Total
FINANCIAL ARRANGEMENTS						
TREASURY MANAGEMENT	Review of the operation of key controls including treasury management, segregation, review, authorisation, third party services and assurances and the prudential code.	-	-	10	-	10
CORPORATE GOVERNANCE						
GOVERNANCE	Follow up to the 2017 / 2018 audit review	-	5	-	-	5
PROGRAMMES, PROJECTS, AND CONTRACTING						
Projects	Processes and procedures. Compliance with funding agreements / scheme delivery to timescales and outputs. Covering the various workstreams (Fiscal; Transport; Infrastructure; Housing and Skills)	-	-	20	10	30
Contracts	Contract processes and procedures. Areas which could be covered include (Specification design; PPQ's; Tenders and evaluation; Awarding; Contract Monitoring; and Post Contract Review)	-	-	10	10	20
GRANTS						
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
OVERALL PLANS		-	5	40	20	75

2.2 The Audit Plan is re-profiled throughout the year as and when the risk profile of the Combined Authority changes, and to react to emerging issues, management and Audit and Governance Committee requests. Following on from its initial approval, two additional reviews have been requested (Table 3).

2.3 During Quarter 1, the following works were identified:

TABLE 3: AUDIT PLAN PROGRESS	
	Opinion
NEW AUDIT AREAS TO BE REVIEWED	
BEIS LEP PROJECT <p>The Local Enterprise Partnership was in receipt of a grant from the Department for Business, Energy and Industry Strategy. With the transfer of the LEP to CPCA, 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>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>
LEP GOVERNANCE <p>Discussions at the Informal Audit and Governance Committee meeting 22 May 2018 considered the LEP transfer into CPCA. It was noted that a new Business Board had been created to oversee a number of the decision making processes.</p> <p>There is an expectation that its operations will be subsumed into the CPCA governance arrangements. Internal Audit, as part of its follow up arrangements into corporate governance will include this in the review during Quarter 2.</p> <p><i>It is noted that there is a separate report on the Audit and Governance Committee agenda for 20 July 2018 from the Legal Counsel and Monitoring Officer on the Interim Governance Review (Business Board).</i></p>	<p>To be undertaken during Quarter 2.</p>
FUTURE PROPOSALS	
PROJECTS <p>Following review of all Committee papers during Quarter 1, we have identified the allocation of monies for housing projects in relation to the East Cambridge Trading Co. Ltd as an area for potential review. We are currently liaising with East Cambridgeshires' Internal Auditors to establish whether they have undertaken any works in this area as well as our rights of access.</p>	<p>To be undertaken during Quarter 2.</p>



AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 13
20th July 2018	PUBLIC REPORT

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.

<u>DECISION REQUIRED</u>	
FROM:	18th July 2018
Lead Officer:	Anne Gardiner
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

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



AUDIT & GOVERNANCE COMMITTEE – WORK PROGRAMME

LEAD OFFICER(S): Rachel Musson, S151 Officer

DEMOCRATIC SERVICES OFFICER (DSO): Anne Gardiner

Date	Report Description	Relevant Officer/ Report Author
Deadlines:	Final Reports to DSO: 4pm Tuesday 10 July 2018	Agenda Publication/Despatch Thursday 12 July 2018
20 July 2018 10am – Public Meeting	Election Vice Chair	Chairman
	Annual Financial Report 2017/18	Jon Alsop
	External Audit - Audit Results Report	Suresh Patel/Kay McClennon (Ernst & Young)
	External Audit - Local Government Sector Briefing	Suresh Patel/Kay McClennon (Ernst & Young)
	Internal Audit Annual Report	Steve Crabtree
	Internal Audit – Progress Report	Steve Crabtree
	Forward Agenda Plan	Anne Gardiner
	Annual Audit Report	Anne Gardiner
	Update from Informal meeting held on 22 nd May	Anne Gardiner/Kim Sawyer
Deadlines:	Final Reports to DSO: 4pm Tuesday 18 September 2018	Agenda Publication/Despatch: Thursday 20 September 2018
28 September 2018 9:15am Training Session		
28 September 2018 10am – Public Meeting	External Audit - Annual Audit Letter	Suresh Patel/Kay McClennon (Ernst & Young)
	External Audit - Local Government Sector Briefing	Suresh Patel/Kay McClennon (Ernst & Young)

	Treasury Operations Annual Performance Review	Jon Alsop
	Corporate Risk Register Review	Darren Edey
	Internal Audit – Progress Report	Steve Crabtree
	Forward Agenda Plan	Anne Gardiner
	Risk register	Darren Edey
	Interim governance review of Business Board	Steve Crabtree
Deadlines:	Final Reports to DSO: 4pm Tuesday 20 November 2018	Agenda Publication/Despatch: Thursday 22 November 2018
30 November 2018 9:15am Training Session		
30 November 2018 10am – Public Meeting	External Audit – Annual Certification Report (if required)	Suresh Patel/Kay McClennon (Ernst & Young)
	External Audit - Annual Audit and Inspection Plan	Suresh Patel/Kay McClennon (Ernst & Young)
	External Audit - Local Government Sector Briefing	Suresh Patel/Kay McClennon (Ernst & Young)
	Annual Treasury Management Strategy/MRP/AIS	Jon Alsop
	Internal Audit – Progress Report	Steve Crabtree
	Forward Agenda Plan	Anne Gardiner

Deadlines:	Final Reports to DSO: 4pm Tuesday 19 March 2019	Agenda Publication/Despatch: Thursday 21 March 2019
29 March 2019 9:15am Training Session		
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)
	Code of Corporate Governance Review	Kim Sawyer
	CA Constitution Annual Review	Kim Sawyer
	Corporate Complaints Procedure(s) - Annual Reports & Review	Kim Sawyer
	Corporate Risk Register Annual Review	Darren Edey
	Internal Audit Plan 2019/20	Steve Crabtree
	Internal Audit – Progress Report	Steve Crabtree
	Forward Agenda Plan	Anne Gardiner
31 May 2019 – Informal Workshop	Draft Accounts 2018/19	Jon Alsop

Items to be Timetabled

- *Performance Management Framework*