

# Cambridgeshire & Peterborough Combined Authority

Completion Report for Those Charged with  
Governance

Year ended 31 March 2023

Report issued - 11 November 2024





Audit & Governance Committee  
Cambridgeshire & Peterborough Combined Authority  
2nd Floor, Pathfinder House,  
St Mary's Street, Huntingdon  
PE29 3TN

11 November 2024

Dear Audit & Governance Committee

**Cambridgeshire & Peterborough Combined Authority - Completion Report for Those Charged With Governance - 2022/23 financial year**

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit & Governance Committee of Cambridgeshire & Peterborough Combined Authority (the Authority) with a detailed complete report covering our approach and outcomes of the 2022/23 audit. "

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the year ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, against this backdrop we have also considered the Committee's service expectations.

This report considers the impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit & Governance Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit.

We will consider and report on the adequacy of the Authority's external financial reporting arrangements and the effectiveness of the Audit & Governance Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit & Governance Committee members' and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Audit & Governance Committee, and Management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Janet Dawson', is positioned above the printed name.

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Enc

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. 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 and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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. 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 – System wide context

## Context for the audit – Department for Housing, Communities and Local Government (MHCLG) and Financial Reporting Authority (FRC) measures to address local audit delays


Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. The Department for Housing, Communities and Local Government (MHCLG) (initially as DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ MHCLG has enacted through Parliament Statutory Instrument (2024) No. 907 - “The Accounts and Audit (Amendment) Regulations 2024”, to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has amended the Code of Audit Practice to:
  - ▶ Require auditors to issue audit opinions according to statutory backstop dates for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - ▶ Allow auditors to produce a single Value for Money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of Authority's and residents.

As a result of the system wide implementation of backstop dates we expect to *disclaim the opinion on the Authority's 2022/23 financial statements*. The proposed disclaimer of the Authority's 2022/23 accounts will impact both the audit procedures to be undertaken to gain assurance on the 2023/24 financial statements and the form of the Audit Report in 2023/24 and subsequent years during the 'Recovery phase' of the Government's proposals.



# Executive Summary – Authority responsibilities

## Responsibilities of Authority management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Authority's Section 73 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Authority resources are readily available to support the audit process, within agreed deadlines. The Audit & Governance Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Authority's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Authority financial reporting arrangements where we consider it necessary to do so.
- ▶ Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with, at Appendix E, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.
- ▶ Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.



# Executive Summary - Local context

## Local Background and Context

The position at this Authority has developed over the past few years resulting in unaudited financial statements for 31 March 2023.

The main reasons for the Authority's financial statements not being prepared, audited and signed to date include:

- ▶ The 2021/22 audit was a complex one, as we addressed a risk of significant weakness in the Authority's underlying Value for Money Arrangements, as set out in our letter to Independent Chair of Audit & Governance Committee on the 1 June 2022.
- ▶ In addition, there were a number of new technical issues and challenges within the sector to address during this period, including, accounting for infrastructure assets, taking into account the updated pension fund valuations, which led to delays to the prior year 2021/22 audit being completed, with the audit opinion being signed on the 12 February 2024.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2022/23 audit year.
- ▶ Taken together, this has ultimately led to a lack of capacity to be able to commence the 2022/23 audit year with sufficient time to be able to complete the audit.



# Executive Summary - Report structure and work completed

## Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section, setting out the national and local context and the structure of our report.

Section 2 - Work Plan - we have completed the following planning tasks

- ▶ Completed required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including review of responses to inquiry letters, internal team meeting, minute review, etc.
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. Non-compliance with laws and regulations (NOCLAR), Objections, Significant weaknesses in arrangements for Value for Money, or any other matters that may result in the use of the auditor's powers etc.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, and report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. Non-compliance with laws and regulations, (NOCLAR), Objections, Significant weaknesses in arrangements for Value for Money, any matters that may result in the use of the etc.

Section 4 - Audit Report

- ▶ The draft audit opinion.

Section 5 - Value for Money reporting

- ▶ The Value for Money report covering the year to 31 March 2023.

Section 6 - Appendices



# 02

## Work Plan

# Work Plan – Audit Scope

## Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Authority give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on Value for Money in Section 5.

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

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

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

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

Given that Statutory Instrument (2024) No. 907 - The Accounts and Audit (Amendment) Regulations 2024 imposes a backstop date of the 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

# Work Plan - Materiality

## Materiality

### Planning materiality

£1.5m

Materiality for y/e 31 March 2023 has been set at £1.5 million, which represents 1% of 2023 gross expenditure on provision of services.

### Performance materiality

£0.742m

Performance materiality for y/e 31 March 2023 has been set at £0.742 million, which represents 50% of planning materiality.

### Audit differences

£74,000

We will report all uncorrected misstatements relating to the primary statements greater than £74,000 for y/e 31 March 2023.

Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the 2022/23 draft financial statements.

These materiality levels have been set based on the main Authority financial statements - we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Authority's financial statements.

# Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

## Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Misstatement due to fraud or error	31 March 2023	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	31 March 2023	Fraud Risk	No change in risk or focus	The Authority has a revenue budget it needs to operate within. Manipulating expenditure is a key way to achieve this objective. We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.
Incorrect valuation of Investment Property that had become fully operational	31 March 2023	Significant Risk	New Risk in 2022/23	We have identified material impairment losses on the revaluation of the Investment Property of the Group subsidiaries - Peterborough HE Property Company Limited and Peterborough R&D Property Company Limited - in their audited financial statements as of 31 March 2024 and for their respective previous financial year. There is a risk that the valuation of the assets in the Group accounts is not materially accurate.
Pension Valuation and Other Disclosures	31 March 2023	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.  The Authority's current pension fund asset is a sensitive item and the Code requires that this asset be disclosed on the Authority's balance sheet. At 31 March 2023 the Pension Asset is disclosed as £0.914 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the administering body.  Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates

# Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

## Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Group Consolidation	31 March 2023	Inherent risk	No change in risk or focus	The Authority prepared group accounts for the first time in 2020/21. This included undertaking an assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities. Given the complexity of the group structure, and an increase in activity at one of the subsidiaries, an inherent risk has been raised, to ensure that the consolidation process is performed accurately.
Recoverability of Long-Term Investments with subsidiary entities	31 March 2023	Inherent risk	No change in risk or focus	As at 31 March 2023, the Authority holds a Long-term Investment of £36.4 million in the Balance Sheet in relation to the loans issued to subsidiary companies. The loans are repayable over a number of differing period ends.  The current volatility in the housing market, in which a number of the subsidiaries operate, could have an impact on the Authority’s ability to recover the loan in full. Given the material size of the loan we have considered the recoverability of the loan as an inherent risk.
Accounting in respect of Settlement Agreements including the correct disclosure of Officers’ Remuneration and Exit Packages	31 March 2023	Inherent risk	No change in risk or focus	The Authority has agreed a number of settlement agreements with Senior Officers as a result of the significant risk that we have identified as part of our Value for Money procedures in 2021/22 (see Section 5) which also impact on 2022/23.  The accounting treatment for these agreements needs to be in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and we need to assess the agreements, their impact on the 2022/23 financial statements and any associated disclosures.

# Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence
- ▶ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the Audit & Governance Committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).
- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

# Work Plan - Independence

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your Audit Engagement Partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately nil:nil. No additional safeguards are required.

## Self review threats

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self-interest threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

## Other threats

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

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

## EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).





## 03 Results and findings



# Results and findings

## Status of the audit

Our audit work in respect of the Authority opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

### Final Closing procedures:

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included later in this section.

## Value for Money

Our value for money (VFM) work is complete and reported in Section 5 of this report. We identified two risks of significant weaknesses in arrangements. Having updated and completed the planned procedures in these areas we did identify a significant weakness. See Section 5 of the report for further details.

## Audit differences

We have not identified any audit differences, either adjusted or unadjusted, as part of our audit. The Authority should ensure that in approving the Statement of Accounts, all prior year comparatives agree to the final set of prior year Statement of Accounts, or explanations for prior year adjustments have been set out by the Section 73 Officer. The Authority should also seek explanations for any material variances between years to fully understand the Statement of Accounts.

## 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 have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. We have no matters to report as a result of this work.

We did not receive any questions or objections to the Authority's financial statements from any member of the public following the inspection period.

## 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.



# Results and findings

## Areas of audit focus

In our Audit Plan section we identified a number of key areas of focus for our audit of the financial report of Cambridgeshire & Peterborough Combined Authority. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by Management or disclosed in this report, which we believe should be brought to the attention of Management, the Audit & Governance Committee, or full Authority.

## Control observations

During the audit, we did not identify any significant deficiencies in internal control.

## Independence

Further to our review of independence in Section 2 of this report we have not identified any issues to bring to your attention..



# Results and findings

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations;
- ▶ Group audit.

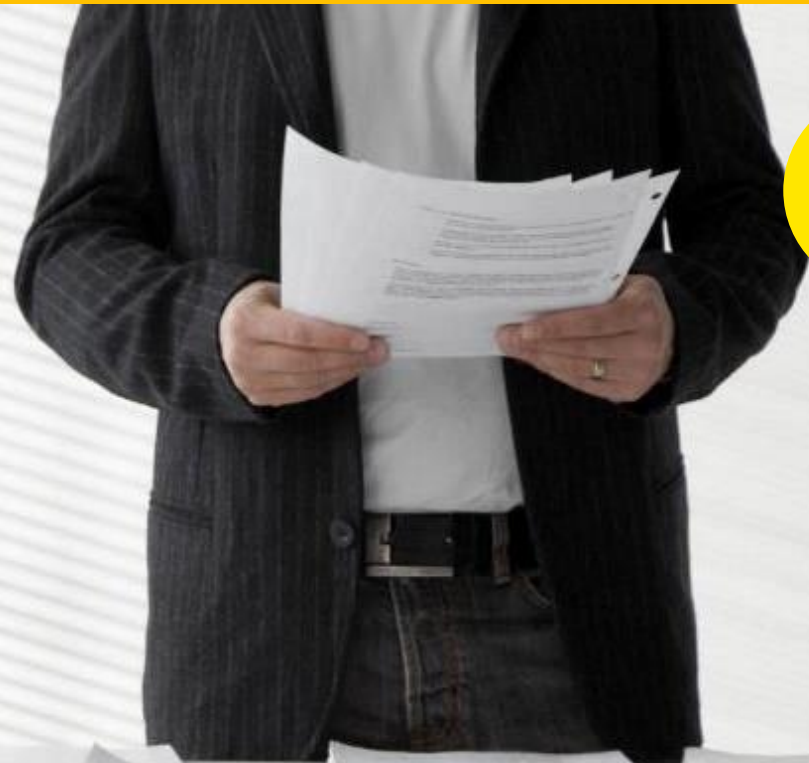


# Results and findings

## Summary of audit differences

We have not identified any audit differences, either adjusted or unadjusted, as part of our audit.

The Authority should ensure that in approving the Statement of Accounts, all prior year comparatives agree to the final set of prior year Statement of Accounts, or explanations for prior year adjustments have been set out by the Section 73 Officer. The Authority should also seek explanations for any material variances between years to fully understand the Statement of Accounts.



# 04 Audit Report

**DRAFT**

## Our opinion on the financial statements

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

#### Disclaimer of opinion

We were engaged to audit the financial statements of Cambridgeshire & Peterborough Combined Authority ('the Authority' and its subsidiaries (the 'Group') for the year ended 31 March 2023. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement, and
- the related notes 1 to 32 to the Authority financial statements and notes 1 to 3 to the Group financial statements.

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 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and the Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

We completed the audit of the 2021/22 financial statements in February 2024 and issued our audit opinion on 12 February 2024.

The backstop date and the wider requirements of the local audit system reset, meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

#### Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

## Our opinion on the financial statements

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception.

### **Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources**

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following two significant weaknesses in relation to the specified reporting criteria of the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2023.

### **Significant weaknesses in arrangements**

**In relation to governance, we are reporting two significant weaknesses.**

1. Allegations regarding the culture, behaviour and integrity of key individuals in the Mayor's office

Our judgement on the nature of the weaknesses identified:

Concerns were raised in [date] through whistleblowing allegations regarding the culture, behaviour and integrity of key individuals in the Mayor's office. Governance arrangements in place did not support the achievement of appropriate standards in terms of officer or member behaviour and were exacerbated by vacancies in the Authority's senior management team. We consider that this gives rise to a significant weakness in the Authority's governance arrangements.



## Our opinion on the financial statements

### The evidence on which our view is based:

- Weaknesses we observed in the behaviour of Authority Board members at the extraordinary meeting in May 2022, and how this behaviour was not supportive of making informed decisions.
- The Best Value Notice issued to the Authority by the Department for Levelling Up, Housing and Communities (DLUHC) on 24 January 2023 as a formal notification of the Department's concerns regarding the Authority and requesting that the Authority engages with the Department to provide assurance of improvement. The Best Value Notice was extended in January 2024 as DLUHC assessed that improvements were still required.
- The Code of Conduct review which concluded in November 2023, identifying breaches in respect of the Authority's Code of Conduct.

### The impact on the Authority:

Issues with leadership capacity combined with cultural challenges impacts the Authority's ability to discharge its statutory obligations as set out in The Cambridgeshire and Peterborough Combined Authority Order 2017, Local Government Act 1999 and other relevant legislation.

### The action the body needs to take to address the weakness:

The Authority should continue to implement the improvement plan as overseen by the Improvement Board.

This issue is evidence of weaknesses in proper arrangements for governance in the year ended 31 March 2023, including how the body monitors and ensures appropriate standards, such as meeting legislative/regularity requirements and standards in terms of officer or member behaviour. We note that the Authority was notified that the Best Value Notice would not be reissued on 9 September 2024.

1. Framework of governance, risk management and control.

### Our judgement on the nature of the weakness identified:

We have identified weaknesses in the Authority's risk management processes and control framework meaning risks are not consistently identified, managed, reviewed, and reported. In addition, other weaknesses include no formal Treasury Management policies or procedures, staff not undertaking data protection and data breach training, control weaknesses regarding compliance with the affordable housing grant programme control framework and issues with regards to processing accounts payable supplier information changes.

## Our opinion on the financial statements

### The evidence on which our view is based:

The Head of Internal Audit concluded that for the 12 months ended 31 March 2023 there were weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective.

### The impact on the Authority:

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud.

There is a risk that the control environment could become inadequate and ineffective, leading to increased risk of fraud, financial mismanagement, non-compliance with regulations, and inefficiency in operations.

### The actions the body needs to take to address the weakness:

The Authority developed an action plan in response to the internal audit report and have made progress in implementing these recommendations. The Authority should continue to implement the recommendations and monitor the progress and outcomes in line with the action plan.

This issue is evidence of weaknesses in proper arrangements for governance including how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

We will report the outcome of our work on the Group and the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any further matters which we are required to report by exception.

### **Responsibility of the Section 73 Officer**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 14 to 15, the Section 73 Officer is responsible for the preparation of the Statement of Accounts, which includes the Group and Authority 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 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Section 73 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 73 Officer is responsible for assessing the Group and 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 Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

## Our opinion on the financial statements

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 responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and 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 Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in January 2023, as to whether Cambridgeshire & Peterborough Combined Authority had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Cambridgeshire & Peterborough Combined Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

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, 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 (as amended) to satisfy ourselves that the Authority has made 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 (as amended) and the Code of Audit Practice issued by the National Audit Office.



# 05 Value for Money



# VFM - Executive Summary

## Purpose

Auditors are required to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements, which we have done within our Interim VFM Arrangements Report - 10 June 2024. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken in respect of the period 1 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) as it was at the time, worked collaboratively with the Financial Reporting Authority (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation stated that where auditors had begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report Value for Money (VFM) in line with our full responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and

The detailed arrangements and processes underpinning the reporting criteria were reported within our Interim VFM Arrangements Report - 10 June 2024



# VFM - Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Authority committee reports;
- meetings with management and key officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Authority management and the finance team.

We identified two significant risks related to 'Governance - How the Authority ensures that it makes informed decisions and properly manages its risks' as part of our risk assessment procedures. We set out our planned response to address this risk in the table on the following two pages.

# Executive Summary (continued)

## Risks of Significant Weakness

Description of risk identified	Work planned to address the risk of significant weakness
<p>1. Governance - DLUHC Best Value Notice:</p> <p>On 24 January 2023, DLUHC issued a Best Value Notice to the Authority in relation to:</p> <ul style="list-style-type: none"><li>a. In relation to 2021/22 external audit, significant weaknesses in the Authority's governance arrangements were identified which were believe to be pervasive (following whistleblowing allegations and a code of conduct investigation into the matters raised)</li><li>b. Concerns raised in a letter to the Interim Chief Executive on 30 June 2022 to set out that the Department would be taking a precautionary approach to the transfer of funding to CPCA until the Department had the assurance that there are appropriate plans in place to reach a resolution</li><li>c. Significant delivery concerns in some of the programmes delivered by the Authority</li><li>d. Concerns around partnership working</li><li>e. Concerns raised within the Authority in respect of procurement of services</li></ul> <p>On 30 January 2024, DLUHC issued a follow up Best Value Notice to the Authority in which they expect the Authority to continue to improve and, specifically, to:</p> <ul style="list-style-type: none"><li>• Continue with the independent Improvement Board, making full use of its support and engaging with its recommendations over the next six months.</li><li>• Continue to implement and embed the changes agreed by the Combined Authority Board as part of the improvement plan.</li><li>• Continue to implement and monitor cultural change across the organisation, for both officers and members, with a focus on measurable outcomes.</li><li>• Commit, through strong partnership working at both officer and member level, to develop the strategic priorities and aspirations for the area that will benefit local residents, and a credible delivery strategy for progressing these. We hope that this can be achieved through consensus but, if not all stakeholders are ready to fully engage, the opportunity should be left open for them to do so when they feel ready to. This work is also important in informing CPCA's approach to further devolution.</li><li>• Continue to engage regularly with the Department at official level throughout the period of this Notice.</li></ul>	<ul style="list-style-type: none"><li>1. Engaged with our EY Forensics team who reviewed the Code of Conduct investigation report</li><li>2. Observed meetings of the Authority Board</li><li>3. Attended the Audit and Governance Committee where the findings of the Code of Conduct investigation were presented and discussed</li><li>4. Reviewed the governance arrangements for, and actions within, the Authority's Improvement Plan</li><li>5. Engaged in regular discussion with DLUHC</li></ul>

# Executive Summary (continued)

## Risks of Significant Weakness

### Description of risk identified

2. Governance - Weaknesses in the framework of governance, risk management and control:

The Head of Internal Audit concluded that for the 12 months ended 31 March 2023 there were weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective.

We have highlighted some of the weaknesses identified by the 2022/23 internal audit work:

- updates to strengthen the risk management processes were still work in progress. The control framework still required further strengthening to ensure that all areas of risk could be consistently identified, managed, reviewed, and reported.
- there were no formal policies or procedures to support or guide staff in complying with the Treasury Management Strategy.
- CPCA staff should undertake data protection and data breach training
- there were control weaknesses regarding compliance with the affordable housing grant programme control framework
- issues with regards to processing accounts payable supplier information changes

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud.

### Work planned to address the risk of significant weakness

1. Review of internal audit reports
2. Review management's response to the internal audit findings



# VFM - Executive Summary (continued)

## Reporting

Our commentary for 2022/23 is set out over pages 34 to 38. The commentary on these pages summarises our understanding of the arrangements at the Authority based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23.

The detailed arrangements and processes underpinning the reporting criteria were reported within our Interim VFM Arrangements Report - 10 June 2024 . These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Authority plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
<b>Governance:</b> How the Authority ensures that it makes informed decisions and properly manages its risks	<ol style="list-style-type: none"> <li>1. DLUHC issued a best value notice to the Authority due to various concerns.</li> <li>2. Internal audit have identified weaknesses in the framework of governance, risk management and control in their annual opinion.</li> </ol>	Significant weaknesses identified
<b>Improving economy, efficiency and effectiveness:</b> How the Authority uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

We completed our risk assessment procedures and did identify a significant weaknesses in the Authority's VFM arrangements.

# Value for Money Commentary

**Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services**

**No significant weakness identified**

Cambridgeshire and Peterborough Combined Authority is made up of a directly elected Mayor and representatives from the Constituent Authoritys, and the Local Enterprise Partnership known as the Business Board. The Board provides direction for the Combined Authority, and therefore has responsibility for the use of resources and continued delivery of services. The long-term priorities of the Authority are set out by the Devolution Deal which identifies the specific projects the Combined Authority and member Authoritys aim to complete over the 30-year period of the Deal. The Authority has a vision and 2023-25 business plan which articulates how it will deliver on its strategic and statutory priorities in the medium term.

The Combined Authority board initially approved the 2022/23 budget in January 2022, which made assumptions over future income streams and capital projects. This post-Covid review confirmed that these projects remained affordable within the lifetime of the Medium Term Financial Plan, and the Authority was not significantly impacted by inflationary pressures.

As the Authority uses a Single Pot funding approach (which comprises a transport settlement and an additional long-term investment fund grant, worth up to £600 million over a 30-year period) there is a lower level of risk at the Authority in terms of experiencing funding issues. The Authority has remained cash rich throughout the period and continues to seek to make maximum return on these balances, through use of treasury investments.

The Authority continues to lobby for further funding, to commit to additional projects for the region. Central Government funding, private partnerships, and other grant opportunities are reviewed for consideration of further funding. The Authority received a Authority Tax precept to support additional transport projects from 2022/23.

**Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**

# Value for Money Commentary (continued)

Governance: How the Authority ensures that it makes informed decisions and properly manages its risks

Two significant weaknesses identified

The Authority is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Authority is expected to have in place during the year ended 31 March 2022. Our risk assessment identified two risks of significant weakness in arrangements in ensuring sound governance regarding the culture, behaviour and integrity of the Authority, as evidenced through a Code of Conduct investigation, linked to whistleblowing concerns raised and control weaknesses identified by internal audit.

## 1. Governance - DLUHC Best Value Notice

During 2021/22 there were allegations raised in respect of Member Code of Conduct, and whistleblowing complains have received media attention. This also extended to the culture at the organisation during this period and an increased number of employment disputes within the Authority. This resulted in EY issuing a letter to the Chair of the Audit & Governance Committee in June 2022 to highlight the significant weakness in arrangements which was present during the financial year. The Code of Conduct review did not conclude until November 2023, which identified breaches in respect of the Code of Conduct. As a result, DLUHC issued Best Value Notices to the Authority on 24 January 2023 and 30 January 2024.

Since we initially communicated the significant weakness in the Authority's governance arrangements, the Authority has taken steps to address the recommendations raised. Whilst our Audit Report, and Audit Results Report, has focused on the weaknesses in arrangements in the financial year, we have included additional details within this report as to the Authority's response, and further matters that have arisen, during the course of our audit.

In respect of the Code of Conduct Investigation, the investigation concluded in November 2023, with the conclusion being that the Mayor had breached the Code of Conduct on two counts. This was taken to a Hearing Panel on the 14 November 2023. The Panel imposed four sanctions:

- 1) To publish their findings (Published as part of the Decision Notice on 14 November 2023)
- 2) A report with the findings of the Panel to be taken to the next Combined Authority Board (A report was taken to the Combined Authority Board on 29 November 2023)
- 3) The Mayor to provide a written apology and, in consultation with the Monitoring Officer, determine the appropriateness of providing a written apology directly to one or more of the complainants. (The Monitoring Officer sent the Mayor's apology to two complainants on 17 November 2023).
- 4) The Mayor to undertake not to repeat the behaviour and agree with the CEO appropriate development & training, including HR practice when in a senior member role (The Mayor's undertaking was published as part of the Decision Notice on 14 November 2023. Three of the four scheduled training sessions have now been held, with the final session to be held on 28 February.)

This matter is now, therefore, deemed to be concluded. Our EY Forensics team found the Code of Conduct investigation to have been completed appropriately and therefore concurred with the findings.

# Value for Money Commentary (continued)

## Governance: How the Authority ensures that it makes informed decisions and properly manages its risks (continued)

### Two significant weaknesses identified (continued)

In respect of the need to identify and implement appropriate actions to ensure it has sufficient appropriate leadership capacity to deliver its objectives and statutory responsibilities, the Authority has worked to fill current vacancies, including at the Chief Executive level. In June 2022 the Board approved the appointment of Gordon Mitchell as the interim CEO, and in June 2023 Rob Bridge took over this role. Other vacancies have continued to be filled, with all senior leadership roles filled by permanent appointments, or experienced interims where required. Whilst retention of these individuals is key, this does show that action has been taken to ensure continued capacity within the leadership team.

In respect of the need to establish and implement an improvement plan to address the questions raised over culture and behaviour at the Authority, the Interim Chief Executive took a paper to the Board in July 2022 to seek approval for an Improvement Framework, to address the matters set out in the significant weakness letter. In October 2022, the Board agreed an improvement plan to address issues raised. This has also led to the formation of the Independent Improvement Board, which holds meetings on a bi-monthly basis where it receives a report from the Chief Executive, to monitor progress against said plan.

In January 2023, DLUHC issued the Authority with a Best Value Notice, that acknowledged the steps the Authority had put in place in respect of the Action Plan but reflected the continued concerns around the Authority and therefore a need to engage more closely with DLUHC. Based on our own discussions with DLUHC, and the updated Best Value Notice issued in January 2024, we understand that the Authority has co-operated with DLUHC, and whilst the Best Value Notice has not been fully lifted, the latest position sets out the continued improvements made.

**Recommendation:** We recommend that the Authority follow the requirements of the 30 January 2024 Best Value Notice. DLUHC expect the Authority to continue to improve and, specifically, to:

- Continue with the independent Improvement Board, making full use of its support and engaging with its recommendations over the next six months.
- Continue to implement and embed the changes agreed by the Combined Authority Board as part of the improvement plan.
- Continue to implement and monitor cultural change across the organisation, for both officers and members, with a focus on measurable outcomes.
- Commit, through strong partnership working at both officer and member level, to develop the strategic priorities and aspirations for the area that will benefit local residents, and a credible delivery strategy for progressing these. We hope that this can be achieved through consensus but, if not all stakeholders are ready to fully engage, the opportunity should be left open for them to do so when they feel ready to. This work is also important in informing CPCA's approach to further devolution.
- Continue to engage regularly with the Department at official level throughout the period of this Notice.

**Footnote:** We note that subsequent to our formal reporting of our Value for Money Commentary on the 10 June 2024, that on 9 September 2024 the department confirmed that it will not reissue a Best Value Notice to Cambridgeshire and Peterborough Combined Authority. The letter outlined that Ministers are assured that the Authority has demonstrated its capacity to comply with the Best Value Duty and that the Best Value Notice which expired on 30 July 2024 will not be reissued at this time. The recommendations as issued prior to 10 June 2024 are still relevant for the Authority to consider and address.

# Value for Money Commentary (continued)

Governance: How the Authority ensures that it makes informed decisions and properly manages its risks (continued)

Two significant weaknesses identified (continued)

2. Governance - Weaknesses in the framework of governance, risk management and control:

The Head of Internal Audit concluded that for the 12 months ended 31 March 2023 there were weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective.

We have highlighted some of the weaknesses identified by the 2022/23 internal audit work:

- updates to strengthen the risk management processes were still work in progress. The control framework still required further strengthening to ensure that all areas of risk could be consistently identified, managed, reviewed, and reported.
- there were no formal policies or procedures to support or guide staff in complying with the Treasury Management Strategy.
- CPCA staff should undertake data protection and data breach training
- there were control weaknesses regarding compliance with the affordable housing grant programme control framework
- issues with regards to processing accounts payable supplier information changes

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud.

**Recommendation:** We recommend that the Management implement the recommendations made by internal audit to improve the Authority's framework of governance, risk management and control. These recommendations include, but are not limited to:

- Strengthening of the control framework to ensure that all areas of risk could be consistently identified, managed, reviewed, and reported.
- Approval of the updated Risk Management Strategy.
- Implementation of formal treasury management policies and procedures to support staff in complying with the Treasury Management Strategy.
- Key CPCA staff and Members undertaking data protection training aimed at understanding potential consequences for data subjects as a result of data breaches.
- Improving housing grant programme evidence for the recording and retention of: due diligence checks on developers; conflicts of interests, claim form approvals; progress reports from developers; and site visit information.
- Improving the processing of accounts payable supplier information changes.

**Conclusion:** Based on the work performed, we have identified a significant weaknesses in the arrangements that we will be reporting by exception. The Authority did not have proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Authority is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Authority is expected to have in place during the year ended 31 March 2023.

The Authority's Section 73 officer has overall statutory responsibility for the proper administration of the Authority's financial affairs, including preparation of the Statement of Accounts and making arrangements for the appropriate systems of financial control. Management have a key role in monitoring the finances of the Authority against the budget, with a bi-monthly Budget Monitoring Report, and a quarterly Performance Monitoring Report being reported to the Combined Authority Board.

As the Authority uses a Single Pot funding approach (which comprises a transport settlement and an additional long-term investment fund grant, worth up to £600 million over a 30-year period) there is a lower level of risk at the Authority in terms of experiencing funding issues. The Authority has remained cash rich throughout the period and continues to seek to make maximum return on these balances, through use of treasury investments. Partnership working is however key to the Authority. The Combined Authority Board has a voting representative from the Business Board and non-voting, co-opted members from Cambridgeshire and Peterborough Clinical Commissioning Group, the Cambridgeshire and Peterborough Fire Authority, and the Police and Crime Commissioner. The Business Board has co-adopted the management and evaluation framework alongside the Authority and provides performance reporting in a similar manner.

During 2022/23 the Authority commissioned PWC to undertake an external review of the procurement service. This has resulted in a high-level action plan for procurement, new Procurement Policy, new Procurement Strategy and refreshed Contract Procedure Rules.

**Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**



# 06 Appendices

# Appendix A – Management representation letter

## Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

### Ernst & Young

This letter of representations is provided in connection with your audit of the [consolidated and parent] Authority financial statements of [name of entity] (“the [Group and] authority”) for the year ended [balance sheet date]. 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 consolidated and parent Authority financial statements give a true and fair view of (or ‘present fairly, in all material respects,’) the [Group and] authority financial position of [name of entity] as of [balance sheet date] and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the [Group and] the Authority, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our [consolidated and parent] Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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, for the [Group and the parent] Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the [Group and] authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the [consolidated and parent] Authority 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 [Group and parent] Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the [Group and] authority financial statements are appropriately described in the [Group and] authority financial statements.
4. As members of management of the [Group and] authority, we believe that the [Group and] authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [applicable financial reporting framework] for the Group and [applicable financial reporting framework] for the Authority that are free from material misstatement, whether due to fraud or error.



# Appendix A – Management representation letter

## Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

## Management Rep Letter

5. *[When there are unadjusted audit differences in the current year]* We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent Authority financial statements taken as a whole. We have not corrected these differences because *[specify reasons for not correcting misstatement]*.
6. *[When the comparative figures have been restated]* The comparative amounts have been restated to reflect the below matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and parent Authority financial statements. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]* There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent Authority financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent Authority financial statements for the year ended *[date]* are solely the result of reclassifications for comparative purposes.
7. We confirm the *[Group and]* authority does not have securities (debt or equity) listed on a recognized exchange.
8. We have confirmed to you any changes in service organizations within the *[Group and]* authority since the last audited financial year.

- B. Non-compliance with laws and regulations, including fraud**
1. We acknowledge that we are responsible to determine that the *[Group and]* authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
  2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
  3. We have disclosed to you the results of our assessment of the risk that the *[consolidated and parent]* Authority financial statements may be materially misstated as a result of fraud.
  4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the *[Group or]* Authority (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:
    - Involving financial improprieties
    - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the *[consolidated and parent]* Authority financial statements
    - Related to laws or regulations that have an indirect effect on amounts and disclosures in the *[consolidated and parent]* Authority financial statements, but compliance with which may be fundamental to the operations of the *[Group and]* authority's business, its ability to continue in business, or to avoid material penalties

# Appendix A – Management representation letter

## Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

## Management Rep Letter

- Involving management, or employees who have significant roles in internal control, or others
- 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 [consolidated and parent] Authority financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the [period] to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the [Group and] 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 [period] end. These transactions have been appropriately accounted for and disclosed in the [consolidated and parent] Authority financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with [applicable financial reporting framework].
6. We have disclosed to you, and the [Group and] authority has complied with, all aspects of contractual agreements that could have a material effect on the [consolidated and parent] Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the [consolidated and parent] Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

# Appendix A – Management representation letter

## Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

## Management Rep Letter

8. We have disclosed to you, and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the [consolidated and parent] Authority financial statements, including disclosures.

### 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 [consolidated and parent] Authority 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.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

### E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than the events described in Note [X] to the [consolidated and parent] Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

### G. Other information

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

### I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the [Group and] authority have reflected these in the consolidated and parent financial statements.

*Yours faithfully,*

\_\_\_\_\_  
(Chief Financial Officer/Finance Director)

\_\_\_\_\_  
(Chairman of the Audit & Governance Committee)

# Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table to the right.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment
- ▶ The Authority complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Authority should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.
- ▶ Note 1 - Due to the reset enacted through Statutory Instrument (2024) No. 907 - The Accounts and Audit (Amendment) Regulations 2024, the above approach is not relevant

	Current Year - 2022/23	Prior Year - 2021/22
	£'s	£'s
Scale Fee - Code Work	32,165	26,950
Determined Scale Fee Variation	TBC - Note 1	170,450
<b>Total audit fee</b>		<b>197,400</b>

*All fees exclude VAT*

Note 1 - PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2022/23.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Note 2 - Planned fee to date, prior to completing all certification requirements.

# Appendix C – Required communications with the Audit & Governance Committee

We have detailed the communications that we must provide to the Audit & Governance Committee.

## Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit & Governance 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Any other matters considered significant.</li> </ul>	This Completion report for Those Charged with Governance

# Appendix C – Required communications with the Audit & Governance Committee (cont'd)

## 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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit &amp; Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit &amp; Governance Committee responsibility</li> </ul>	This Completion report for Those Charged with Governance

# Appendix C – Required communications with the Audit & Governance Committee (cont'd)

## 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 entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	This Completion report for Those Charged with Governance
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance

# Appendix C – Required communications with the Audit & Governance Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit &amp; Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit &amp; Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit &amp; Governance Committee may be aware of</li> </ul>	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	This Completion report for Those Charged with Governance



# Appendix C – Required communications with the Audit & Governance Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	This Completion report for Those Charged with Governance

# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

### Examples of Non-Compliance with Laws and Regulations (NOCLAR)

#### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

#### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

# Appendix E – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Authority complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Authority should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## ***Preparation of the statement of accounts***

*26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.*

*27. In preparing their statement of accounts, audited bodies are expected to:*

- › prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- › ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- › assign responsibilities clearly to staff with the appropriate expertise and experience;*
- › provide necessary resources to enable delivery of the plan;*
- › maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- › ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- › ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- › during the course of the audit provide responses to auditor queries on a timely basis.*

*28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.*

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP

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

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2024 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

UKC-024050 (UK) 07/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/UK](https://ey.com/UK)