



Tyne and Wear Integrated Transport Authority - Audit Committee

Meeting to be held on Friday 5 July 2013 at 2.00 pm in a Committee Room, Newcastle upon Tyne, NE1 8QH

Membership:

Independent Members: Mr Scrimshaw and Mr Clark

Councillors: Curran, Lambert, Maughan, Smith and vacancy

Contact Officer: Victoria Miller (0191) 211 5118 victoria.miller@newcastle.gov.uk

This agenda is available at www.twita.gov.uk

AGENDA

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1. Appointment of Chair	
2. Appointment of Vice-Chair	
3. Apologies for absence	
4. Declarations of interest of members or officers in any matter to be discussed at the meeting	
<p>Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.</p>	
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- 13. Work Programme 119 - 120**
- 14. Date and time of next meeting**

Wednesday, 18 September 2013 at 2pm.



Tyne and Wear Integrated Transport Authority - Audit Committee

22 February 2013
(2.45 - 3.52 pm)

Present:

Independent Member: Mr Scrimshaw (Chair)

Independent Members: Mr Atkinson, Mr Clark and Ms Green

Councillors: Curran, Lawson, O'Shea and Smith

In attendance:

Newcastle City Council:

P Woods - Acting Clerk and Treasurer
P Slater - Head of Audit and Strategic Risk
E Goodman - Senior Accountant (ITA)
I Pattison - Principal Auditor
V Miller - Democratic Services Officer

Deloitte:

E Cook

26. **APOLOGIES FOR ABSENCE**

Councillor Maughan.

27. **DECLARATIONS OF INTEREST OF MEMBERS OR OFFICERS IN ANY MATTER TO BE DISCUSSED AT THE MEETING**

None declared.

28. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 14 September 2012 were approved as a correct record and signed by the Chair.

ACTION

Matters Arising

(a) Minutes of the Previous Meeting

- **Matters Arising – (i) Deloitte – Planning Report**

(Minute 18 refers)

E Goodman explained that the action in relation to establishing whether the Authority was consulted on the appointment of external auditors and raising this question with members of the Authority had been discussed at the last meeting, and no action was required at this point in time. She went on to explain that in future the Authority and the Audit Committee would have a role in the appointment of external auditors but the current contract had been appointed by the Audit Commission until 2016.

Requested: July 2012

Status: completed / not required at this stage.
(Senior Accountant)

- **Matters Arising – (iii) Annual Governance Statement 2011/12**

(Minute 18 refers)

In respect of the previous concerns expressed by members that the Treasurer of the Authority was also the Chair of the Audit Committee of Nexus, P Woods confirmed that another officer would be appointed to chair the Audit Committee of Nexus.

It was also noted that it was anticipated that the recently appointed Chief Executive of the Newcastle City Council would take the role of the Clerk of the Authority.

It was confirmed that all members of the Authority now received minutes of the informal working groups for information. On request from a member, it was agreed that independent members of the Audit Committee would also be added to the circulation list to receive minutes of the informal working groups of the Authority.

Requested: February 2013
Status: To be progressed
(Democratic Services)

It was confirmed that the information on the Lead Members' portfolios had been circulated to members electronically in October 2012.

As an update, it was reported that at its November 2012 meeting, the Authority had appointed Councillor Lott as the Lead Member for the Freight Industry and Taxi Trade portfolio.

(b) Internal Audit Progress Report

(Minute 21 refers)

In relation to the previous request from the Chair to provide members with a copy of the Performance Management Framework for the delivery of the 3rd Local Transport Plan (LTP3) when it became available, it was explained that it was envisaged that this information would be available in September 2013; it would be circulated to members then.

Requested:

September 2012

Status: To be progressed for the September 2013 meeting (Head of Audit and Strategic Risk)

(c) Tyne Tunnels Funding and Financing Arrangements

(Minute 23 refers)

It was agreed that an informal discussion would be held with any member who was interested in obtaining more information on the funding and financial arrangements in relation to the Tyne Tunnels, rather than drafting a detailed note to accompany the report which had already been considered by members at the September 2012 meeting.

Requested:

September 2012

Status: to be progressed if a request was received. (Senior Accountant)

(d) Work Programme

(Minute 24 refers)

Officers advised members that the Terms of Reference of the Committee remained fit for purpose and it was too early to review them at this stage because the Committee had been operational in its present form only since July 2012 and met three times a year. In appreciating the advice, members requested that the current Terms of Reference be reviewed at the July 2013 meeting.

Requested:

February 2013

Status: to be progressed by the July 2013 meeting (Acting Clerk and Treasurer)

29. ANNUAL AUDIT LETTER 2011/12

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

E Cook presented the Annual Audit Letter on the 2011/12 Audit for members' information and comment.

In response to a member's question, E Goodman confirmed that the review of the levels for authorisation and an independent review of internal journals, which related to internal journals and transactions, had been completed.

RESOLVED – That the report and the Annual Audit Letter be noted.

30. **ACCOUNTING POLICIES 2012/13**

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

ACTION

The report provided an update on the Authority's accounting policies which would be applied in the preparation of the Annual Report and Accounts for 2012/13. The report also sought members' confirmation of the appropriateness of these policies.

A member asked whether there was a scientific rationale behind the existing calculation of the depreciation for the Tyne Tunnel, which currently was 120 years. This would be checked.

Requested: February 2013

Status: To be progressed for a future meeting (Acting Clerk and Treasurer)

RESOLVED – That the accounting policies be approved for the use in the preparation for the 2012/13 accounts.

31. **ITA BUDGET AND TREASURY MANAGEMENT STRATEGY 2013/14**

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

ACTION

The report provided an update on the Authority's budget, the treasury management strategy and prudential indicators for 2013/14. P Woods drew members' attention to the Authority's investment criteria and limits for 2013/14 explaining that these had been revised to ensure more prudent levels.

In response to the Chair's question, P Woods explained that the discretionarily discounted fares were monitored and reviewed; however, it was difficult to secure savings on this type on fares.

A member queried the impact of the increase in the levels of the tolls on the usage of the Tyne Tunnels. In response, P Woods explained that it had been expected that there would be a slight decrease in the usage of the vehicle tunnels at the time of the implementation of the changes. However, based on the previous experiences, it was expected that this position would improve. In relation to other factors that could affect the usage of the Tyne Tunnels, it was expected that the A19 improvement scheme would also have an impact.

Members commented on the success of the Tyne Tunnels, as demonstrated by the October and November 2012 figures.

P Woods pointed out that, at present, the Tyne Tunnels' income was earmarked for the Tyne Tunnels' purposes only. However, there were prospects that in future income generated by the Tyne Tunnels' would be used to support other transport initiatives.

In relation to the Nexus budget, the Chair asked how many members of Nexus' staff would be lost and how this would impact on services. A member queried whether the requirement to drive efficiencies was compatible with the pressures to deliver services. In response, P Woods explained that the review of the staffing structure of Nexus was needed and that no significant impact on services was expected. This was partially due to the fact that the services were already changing their shape, including because of the move towards the smart technologies. On request from the Chair, a report on Nexus' review would be brought to a future meeting. The report would include a chart on the changes in the staffing structure.

Requested: 22
February 2013
Status: to be
progressed for a
future meeting
(Acting Clerk and
Treasurer)

In response to the Chair's question, P Woods confirmed that he was not aware of any complaints received from passengers about the increase in fares on public transport.

In response to a query from a member, P Woods explained that the strategy to provide the constituent Councils with a dividend instead of a reduction in the levy had a two-fold explanation: from the Authority's perspective, it was preferable to keep the level of the levy unchanged; whilst from the Councils' perspective, any reduction in the levy would limit their flexibility to change the levels of the council tax. The dividend approach benefited the Councils and the Authority.

In response to a member's query relating to the possibility of instigating a legal process to challenge the Government's funding for the concessionary travel scheme in Tyne and Wear, P Woods explained that a legal advice was currently being sought on whether a legal challenge could be an option for the way forward. The potential ground for the challenge could be the reasonableness of the Government's formula in that it was based on the estimated figures on transport boardings rather than actual information. In response to a member's question on whether there was an opportunity to join efforts with other councils in the country, P Woods explained that this was unlikely due the variances in the impact of the Government's formula on

different councils. Some councils, particularly some shire councils, had benefited from the formula. However, it was understood that there were councils who had seen a negative impact. For Tyne and Wear, the formula meant that the current concessionary travel scheme was not sustainable.

A member referred to a comment which had been raised at the last meeting of the Authority about the need for safeguards to ensure that the Authority used banks with uncompromised ethical practices. P Woods confirmed that this matter would be given a careful consideration and a response provided to a future meeting of the Authority in the first instance.

RESOLVED – That the report be noted.

32. AUDIT COMMITTEE ANNUAL REPORT 2012/13

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

The report sought members' approval of the proposed text for the inclusion in the Authority's Annual Report and Accounts, which summarised the work of the Committee during 2012/13.

A member asked if consideration could also be given to the inclusion of information on the number of meetings held and members' attendances in 2012/13.

RESOLVED – That subject to the inclusion of information on the meetings held in 2012/13 and any further comments received from members by 31 March 2013, the proposed text be approved.

33. AUDIT FEE FOR 2012/13 AUDIT

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

The report presented the audit free for 2012/13 audit.

In welcoming the reduction in the external audit fee, members queried how this reduction was achieved. They also queried the meaning of "internal efficiency" and whether the reduction in fees would have an impact on the level of work carried out. Members were reassured that although a reduction in the hours of work was expected, this would not impact on the level of work provided to carry out the prescriptive list of standard tasks required from external auditors. It was explained that internal

efficiency was achieved due to the removal of the overheads which had previously been included in the standard set of audit fees of the Audit Commission.

It was also noted that if further pieces of work were required, the fee would need to be re-negotiated.

RESOLVED – That the report and the fee for 2012/13, including the reduction in fee compared to 2011/12, be noted.

34. **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report of the Head of Audit and Risk (previously circulated and copy attached to Official Minutes).

ACTION

The report informed members of the progress against the Annual Internal Audit Plan 2012/13 and the position on the implementation of recommendations, as required by the CIPFA Internal Audit Code of Practice 2006.

P Slater drew members' attention to section 5.1 of the report and explained that due to staffing changes at Nexus, the Authority's Internal Auditor Service had secured a contract to provide Internal Audit resources to Nexus, initially for a 2-year period.

In response to a member's question about some weaknesses identified following the internal audit of governance and performance monitoring for LTP3 and the Local Sustainable Transport Fund (LSTF), I Pattison confirmed that this matter had been flagged up with relevant officers and they had commenced work to address the issues.

In response to a member's comment about the outstanding recommendation from the 2011/12 Strategic Business Planning audit which had recommended the development of a performance management framework to enable an effective monitoring of the delivery of LTP3, it was noted that this had been raised again as an issue within the audit of LTP3 and LSTF and it was now anticipated that this would be completed by September 2013.

A member expressed concerns about the lack of review in relation to the LTP3 and asked for an explanation. It was agreed that a response would be sought.

Requested:
February 2013
Status: a response
is expected at a
future meeting

In response to a member's question, officers reassured members

that there were sufficient resources remaining to complete the Annual Internal Audit Plan on target.

RESOLVED – That the progress against the 2012/13 Audit Plan and the position on the implementation of audit recommendations be noted.

35. INTERNAL AUDIT ANNUAL PLAN 2013/14

Submitted: A report of the Head of Audit and Risk (previously circulated and copy attached to Official Minutes).

The report provided members with the proposed Internal Audit Plan for 2013/14, which was based upon the work for 2013/14 contained within the Internal Audit Strategic Plan 2012/13-2014/15 as approved by the Committee in July 2012.

In response to a member's query, it was noted that the Tyne Tunnels Contract was audited on an annual basis because the income from the Tyne Tunnel represented a significant income for the Authority and it was important to obtain assurances about the processes as well as ensure that the correct amounts were paid to the Concessionaire. The audit plan was reviewed on an annual basis and in future it could cover other relevant areas such as the forthcoming improvements to the Tyne Pedestrian and Cyclist Tunnels (TPCT).

In response to a member's question, P Slater explained that there were no planned changes to the internal audit reporting arrangements. However, there was a change in the standards that Internal Audit complied with. At present, the service complied with the CIPFA Internal Audit Code of Practice 2006. From 1 April 2013 these standards would be replaced by the Public Sector Internal Audit Standards which followed the International Standards of Institute of Internal Auditors.

RESOLVED – That:

- (i) the proposed Internal Annual Audit Plan 2013/14, as appended to the report, be approved;
- (ii) the performance indicators, as set out in paragraph 4 of the report, be approved.

36. STRATEGIC RISK REGISTER UPDATE

Submitted: A report of the Acting Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

The report provided an update on the Authority's strategic risks and opportunities.

RESOLVED – That the report be noted.

37. WORK PROGRAMME

Submitted: the Committee's Work Programme (previously circulated and copy attached to Official Minutes).

It was noted that the draft Annual Governance Statement would be considered in July 2013 and the final one in September 2013.

RESOLVED - That:

- (i) The review of the Committee's Terms of Reference be carried out at the next meeting;
- (ii) As the three-year Strategic Internal Audit Plan was agreed at this meeting, it should be removed from the work programme for July 2013;
- (iii) A separate training session be arranged for members on treasury management.

38. DATE AND TIME OF NEXT MEETING

RESOLVED – That in the Municipal Year 2013/14 the Committee would meet on Friday 19 July 2013, Wednesday 18 September 2013 and Friday 21 February 2014, all at 2pm, subject to approval by the Authority at its annual meeting in May 2013.

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DATE: 5 July 2013
SUBJECT: Committee Terms of Reference – Annual Review
REPORT OF: Legal Adviser and Monitoring Officer

PURPOSE OF REPORT

To consider and review the Committee's Terms of Reference, agreed by the Authority at its Annual Meeting on 23 May 2013, and provide an opportunity for Committee members to raise any concerns or suggest recommendations to be made to the Authority.

RECOMMENDATIONS

The Committee is recommended to:

- a) Note this report
- b) Make recommendations to the Authority if the Committee has any concerns about its Terms of Reference

BACKGROUND DOCUMENTS

None

CONTACT OFFICERS

<i>Full name</i>	<i><u>Email address</u></i>	<i>Telephone number</i>
<i>Eleanor Goodman</i>	<i><u>eleanor.goodman@twita.gov.uk</u></i>	<i>0191 277 7518</i>

IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral



1 Executive Summary

- 1.1 This report asks members to consider the Committee's Terms of Reference and, if members have any concerns about them, to make appropriate recommendations to the Authority.

2 Background information

- 2.1 The Authority agreed the Committee's Terms of Reference at its Annual Meeting on 23 May 2013.
A copy is attached.
- 2.2 The Committee's work programme includes the following item: "Annual Review of the Terms of Reference". This item was scheduled for the meeting on 22 February. At that meeting officers advised that, having reviewed the Terms of Reference (which were previously agreed by the Authority in May 2012), they did not think any changes were required. However, the Committee specifically requested that the Terms of Reference be brought to the July meeting so that members could consider them.

3 Proposals

- 3.1 The Committee is invited to consider and review the Terms of Reference.
If members have any concerns, or wish to suggest any amendments, the Committee will need to make appropriate recommendations to the Authority.

4 Potential impact on objectives

- 4.1 Neutral



Audit Committee 2013/14

Terms of Reference

This will be a formal committee of the ITA, to meet 3 times a year, with the following terms of reference:

1. Purpose of the Committee

The purpose of the Committee is to:

- i. Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- ii. Provide independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment;
- iii. Oversee the financial reporting process.

2. The Committee's roles and responsibilities:

- i. To act as the principal advisory committee to the Authority in relation to audit and governance issues;
- ii. To review annually the effectiveness of the Authority's internal control environment;
- iii. To carry out an annual self-assessment of its effectiveness;
- iv. To prepare an annual report for consideration by the Authority;
- v. To undertake a number of functions in relation to Governance and Audit issues, and advise the Authority upon such matters as and when is necessary (see 3 and below);
- vi. To consider reports from other external and inspection agencies;
- vii. To review issues relating to the Authority's accounts (see 6 below).

3. The Committee's Governance Role

- i. To consider and promote the Authority's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice;
- ii. To maintain an overview of the Authority's contract procedure rules and financial regulations;
- iii. To review any issues referred to it by the Clerk of the Authority and the Authority itself;
- iv. To consider the effectiveness, and monitor and promote the effective development and operation of risk management in the Authority;



- v. To consider the effectiveness of the Authority's anti-fraud and anti-corruption arrangements including whistle-blowing;
- vi. To review the Authority's Local Code of Corporate Governance and Annual Governance Statement and to recommend their adoption to the Authority;
- vii. To consider the Authority's compliance with its own and other appropriate published standards and controls and to make recommendations where necessary;
- viii. To consider the Authority's budget monitoring reports and annual budget report.

4. Internal Audit

- i. To approve the strategic and annual audit plans and to monitor internal audit activity against both plans;
- ii. To consider the Head of Audit and Strategic Risk's Annual Audit Report and Opinion on the overall adequacy and effectiveness of the Authority's control environment, which supports the Annual Governance Statement;
- iii. To consider summaries of specific internal audit reports as requested;
- iv. To consider reports dealing with the management and performance of the providers of internal audit services;
- v. To consider any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale;
- vi. To receive and consider the results of an annual review of the effectiveness of internal audit.

5. External Audit

- i. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- ii. To consider specific reports as agreed with the external auditor;
- iii. To comment on the scope, focus and depth of the external audit plan of work and to ensure it gives value for money;
- iv. To commission work from external audit.

6. Accounts

- i. To review the Annual Statement of Accounts including consideration as to whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority;



- ii. To consider the external auditor's report to those charged with governance on issues arising from the audit of the Accounts.

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Our Planning Report to the Audit
Committee
On the 2012/13 Audit

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June 2013

Agenda Item 8

Dear Sirs

We have pleasure in setting out in this document our planning report to the audit committee of Tyne & Wear Integrated Transport Authority (“the Authority”) for the year ended 31 March 2013.

This plan has been prepared to inform the members and staff of the Authority about our responsibilities as your external auditors and how we plan to discharge them. In this report we have set out the scope and approach of our audit including our initial view on what we consider to be your key audit risks.

Our audit risk assessment is continuously under review during the course of the audit period and should our assessment of risk fundamentally change we reserve the right to revisit the proposed work schedule. Any amendments to the Audit Plan will be discussed with management and agreed with the Audit Committee.

We would like to take this opportunity to thank the management team for their on-going assistance.



For Deloitte LLP
Chartered Accountants
Newcastle Upon Tyne

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Member of Deloitte Touche Tohmatsu

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We have the pleasure in setting out in this document our planning report to the Audit Committee of Tyne and Wear Integrated Transport Authority (“TWITA”) for the year ended 31 March 2013.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the planning of our audit work.

1. Strategic context

The Authority has a good track record of delivering savings and has managed financial performance and reserves effectively. A balanced budget has been set for 2013/14 and management do not anticipate major difficulty in delivering the savings that have been approved by members.

Going forward, there is increased uncertainty over the implications of central government policy decisions such as reductions in funding, changes in the funding mechanisms for local government and welfare reform. Maintaining robust governance arrangements during the period of change with reduced resources and increased risk will be vital in ensuring no unexpected consequences arise from decisions made.

We look forward to continuing to work with Tyne and Wear Integrated Transport Authority and will support the staff in addressing its key challenges, within the bounds of our role as external auditors.

The Authority has a good track record of delivering savings but the challenge to continue to achieve financial balance is increasing.

2. Scope of work and approach

Audit scope

We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”).

The Code requires that we:

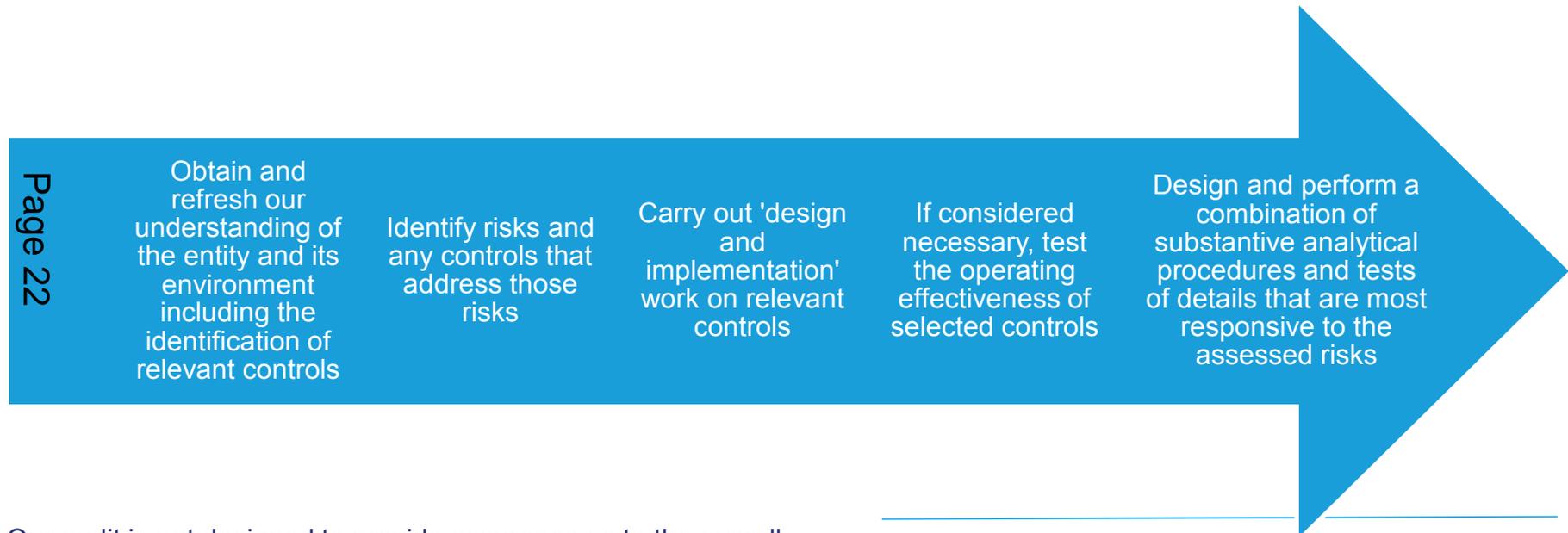
- issue an opinion on the financial statements of Tyne and Wear Integrated Transport Authority; and
- consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission

2. Scope of work and approach (continued)

Controls

As set out in "Briefing on audit matters" circulated to you with previously, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:



Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within TWITA, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

The results of our work in obtaining an understanding of controls will be considered in determining the extent of substantive audit testing required.

2. Scope of work and approach (continued)

Scoping of material balances

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

For the 2013 financial statements, we will determine materiality based on gross net assets. Materiality has been calculated as £3,523,000 (2012: £3,687,300) based on gross net assets for the year ended 31 March 2013. We will report on all unadjusted misstatements greater than £176,000 (2012, £204,850) and other adjustments that are qualitatively material.

Liaison with internal audit

We have and will continue to liaise with the internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the internal audit function, its systems documentation and risk identification during the planning of the external audit to the extent we determine we can rely on their work.

The audit team has reviewed this year's internal audit reports and found no instances where the audit approach should be adjusted. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

A risk focussed audit approach allows us to tailor our testing, placing greater emphasis on areas that are a greater source of risk and concern for the organisation.

2. Scope of work and approach (continued)

Whole of Government Accounts

We will again be required to provide an assurance statement on the Authority's consolidation pack for the purposes of the Whole of Government Accounts. The deadline for submission of the audited consolidation pack is 7 October 2013.

The Audit Commission has expressed its intention again to name bodies where assurance statements are submitted late and/or are qualified.

We note that the National Audit Office instructions to us last year required us to qualify our report in relation to any unadjusted errors in excess of £1 million, a lower threshold than we apply for our opinion on the statutory accounts. Although no such issues arose last year, we were additionally expected to qualify our opinion in respect of any unadjusted errors over £1 million in the accounts which were not subsequently adjusted in the consolidation pack. Where such unadjusted items were reported last year, those bodies were named in the public report. We are not aware of any proposed changes to these requirements for this year.

3. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

Revenue recognition	Deloitte response
<p>International Standards on Auditing (UK and Ireland) 240, “The auditor’s responsibility to consider fraud in an audit of financial statements”, requires auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk.</p> <p>For the Authority we consider that the specific revenue recognition risk relates to the completeness of Tyne Tunnel toll income</p>	<p>We will review toll income and the controls currently in place to ensure that the revenue is recognised correctly. We will also perform tests of detail on the toll income to gain assurance over the completeness of this transaction stream.</p>

3. Significant audit risks (continued)

Accounting treatment of the Tyne Tunnel Crossing

The new Tyne Tunnel crossing requires complex accounting arrangements similar to a PFI scheme to be put in place. There is therefore a risk that errors in accounting treatment may be made which would cause the accounts to be materially misstated.

Deloitte response

We will review the accounting model and advice provided by PricewaterhouseCoopers in relation to that. We will seek guidance from our technical experts if required.

Accounting for the North East Smart Ticketing Initiative (NESTI) funding

Funding received from the Local Authorities is held on the balance sheet until the associated conditions, namely spend incurred on the NESTI project, are satisfied. The release of the funding will therefore need to be in line with the rights and obligations attached to the funding. From prior year knowledge this is when it has been matched to relevant expenditure.

Deloitte response

We will review the expenditure against NESTI and perform a test of detail to ensure that the release of the funding is appropriate.

3. Significant audit risks (continued)

Combined Authority	Deloitte response
<p>We are aware of the local authorities intention to form a combined authority in the near future. The authorities will combine around economic growth, with transport and skills as areas of immediate priority. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland councils will work together through a governance model tailored to the issues, challenges and opportunities that are particular to the North East, but enshrined within the national legal framework.</p> <p>As part of the formation of the combined authority, TWITA may be dissolved and its functions transferred to the combined authority.</p> <p>From discussions with management we understand that the function of TWITA will continue in existence for the foreseeable future. We expect the 2012-2013 accounts to be prepared on the assumption that the rights, assets and liabilities of the ITA will transfer to the new authority and therefore it is appropriate for these accounts to be prepared on a going concern basis.</p>	<p>We will continue to review the progress made in this area and the impact on TWITA if a combined authority is formed.</p> <p>Additional disclosures will be required within the 2012-2013 accounts to disclose the formation of the combined authority and the impact on TWITA. We will review this disclosure during the final audit visit to ensure the disclosure is inline with the Code.</p>

3. Significant audit risks (continued)

Management override of control

Management override of control:

Auditing standards require that, in every audit, the auditor assumes that there is a risk of material misstatement connected to management's ability to fraudulently manipulate the reported position by overriding controls. This would typically occur through either the manipulation of judgements and assumptions by management to achieve a predetermined result or through circumventing controls, such as through using management journals.

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Deloitte response

We will perform the following:

- understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and test the appropriateness of a sample of such entries and adjustments;
- review accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and
- a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.

3. Value for money conclusion

The approach to local value for money (VFM) audit work at the Authority is specified by the Audit Commission.

Consistent with last year, our VFM audit work will consist of the following:

- review of the annual governance statement (AGS);
- review the results of the work of the Audit Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertake other local risk-based work as appropriate, or any work mandated by the Audit Commission.

At this time we have not identified any local risk-based work, nor are we aware of any additional work mandated by the Commission. Our value for money work will also be carried out between July and September.

The findings from the final visit and VFM work will be presented at the Audit Committee meeting in September 2013.

4. Changes introduced by the Code in 2012/13

Topic	
Exit packages	<p>The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at the year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages has historically not been material; therefore we do not consider there to be audit risk of material misstatement.</p>
Page 300 Explanatory forward	<p>Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages audited bodies to take into consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Organisations use of finite resources, but neither does it prevent the Authority from including such information in its Explanatory Foreword. Specific additional disclosures would include, but are not limited to, a brief history of the Authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members, and sickness absence data.</p>

5. Responsibility statement

This report sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to you and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Tyne and Wear Integrated Transport Authority ' system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use, as Members, for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other parties as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon, and for the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP

Chartered Accountants
Newcastle upon Tyne
June 2013

Appendix 1: Prior year uncorrected misstatements

Uncorrected misstatements

There were no uncorrected misstatements reported in the prior year.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. During our audit we did not identify any significant disclosure deficiencies in the prior year.

Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) , we are required to report to you on the matters listed below:

Independence confirmation

We confirm we are independent of TWITA and will reconfirm our independence and objectivity to the audit committee for the year ended 31 March 2013 in our final report to the audit committee.

Fees

Details of the audit and non-audit services fees proposed for the period have been presented separately in the appendix.

Non-audit services

In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

As part of our obligations under International Standards on Auditing (UK & Ireland) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity.

No non-audit services have been provided during 2012-13.

Appendix 2: Independence and fees (continued)

The table below details our proposed audit fees and non audit fees for the year ending 31 March 2013:

	Current year £	Prior year £
Audit of TWITA under Audit Commission Code of Audit Practice		
Audit Commission scale fee (Note 1)	19,559	32,599
Total audit		

There are no non audit related fees for current year or prior year.

Notes:

- Page 34
- The 2012/13 scale fee set by the Audit Commission reflects a reduction of 40% on 2011-12 fees. The fee excludes:
- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
 - any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately.
 - any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
 - value added tax which will be charged at the prevailing rate.

We have also assumed that:

- Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the interim audit visit; and
- Good quality working papers and records will be provided to support the financial statements by the agreed start date for the final audit visit.

Appendix 3: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
 - Internal audit
 - Policies covering hospitality, gifts and inducements and whistleblowing
 - Standards of conduct for members and officers.

Responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Process and documentation

- We will make the enquiries on the previous page between the date of this report and our final audit visit. Our preferred approach is to schedule a short meeting or phone call to discuss each person's perception of the risk and occurrence of fraud and to facilitate this discussion with a short checklist of consideration points which we would ask participants to review, consider and respond to before our meeting.

Concerns

- As set out in the significant risks and accounting judgements section, we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation.
- No other concerns have been identified from whistle blowing procedures or by management about quality of management in any service area.

Appendix 3: Fraud considerations (continued)

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments</p> <p>Management's process for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud and status reports on fraud cases during 2012/13</p>	<p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity</p>

Appendix 3: Fraud considerations (continued)

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4: Audit team

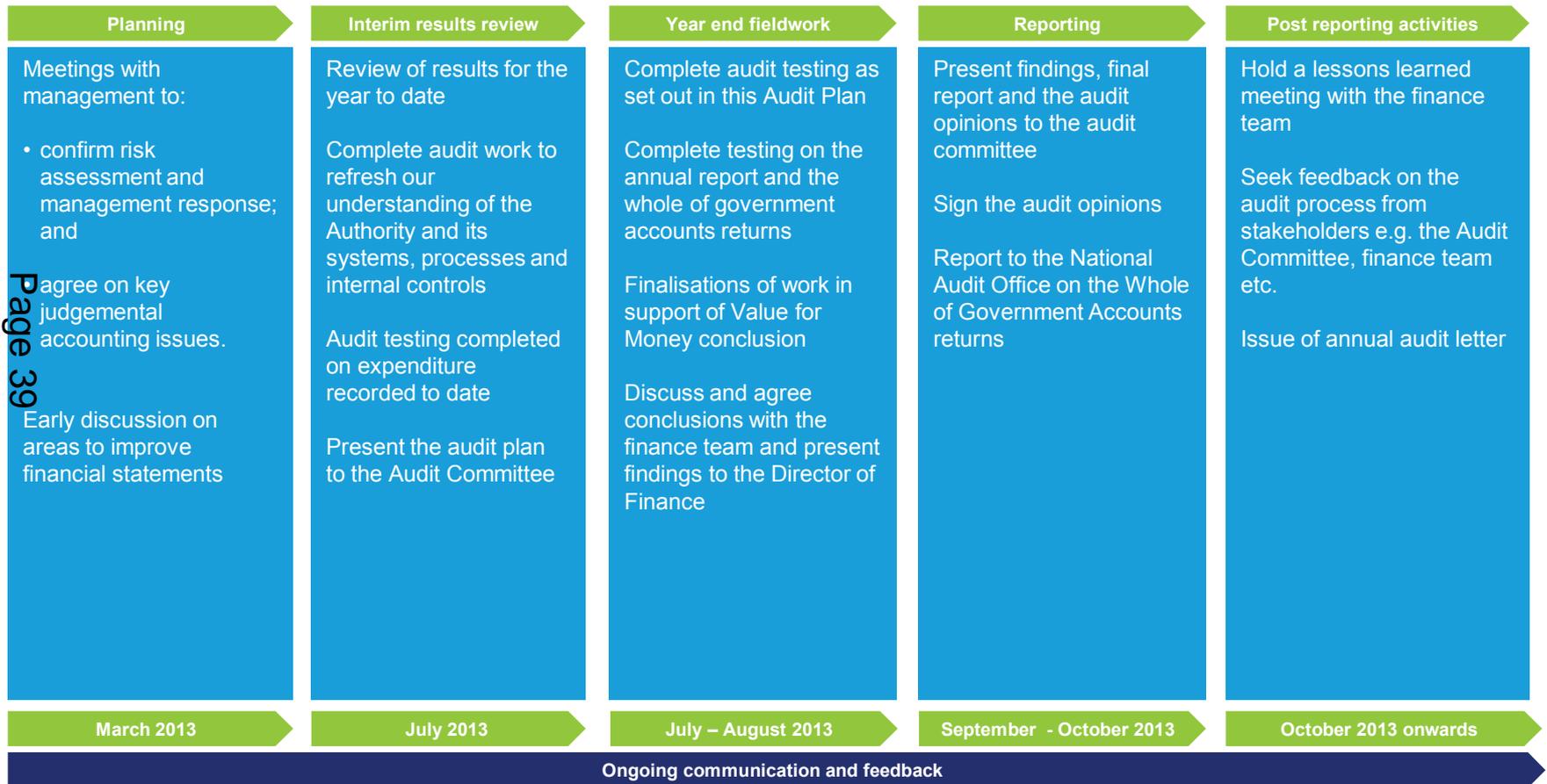
We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and draws on the expertise of our public sector group.

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Appendix 4: Communication timetable

Set out below is the approximate expected timing of our reporting and communication with the Authority.



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Member of Deloitte Touche Tohmatsu Limited



REPORT FOR INFORMATION

DATE: 5 July 2013

SUBJECT: Outturn and Draft Financial Statements for the Financial Year 2012/13

REPORT OF: Treasurer and Deputy Clerk, ITA

Not confidential

PURPOSE OF REPORT

The purpose of this report is to provide Audit Committee with a summary of the ITA's financial results for 2012/13, present the key accounting statements and provide an overview of significant financial matters which occurred during the year.

RECOMMENDATIONS

Audit Committee is recommended to receive this report for information and comment.

BACKGROUND DOCUMENTS

Copies of the full draft 2012/13 accounts are available on the TWITA website or from the contact officer.

CONTACT OFFICERS

<i>name</i>	<i>email</i>	<i>phone</i>
Eleanor Goodman	eleanor.goodman@twita.gov.uk	0191 277 7518

IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

1	Executive Summary																																													
1.1	This outturn report provides Audit Committee with a summary of the Authority's financial results for 2012/13, explaining the key accounting statements and presenting an overview of significant financial matters which occurred during the year.																																													
1.2	Expenditure has been maintained within budget for the year and use of reserves is as planned as part of the Medium Term Financial Strategy.																																													
1.3	This report will be presented to the ITA at its meeting on 25 July. There is an opportunity for any comments or issues raised by Audit Committee to be incorporated within the report to the ITA.																																													
2	Introduction and Background																																													
2.1	Under the Accounts and Audit Regulations 2011, the Statement of Accounts must be formally approved by the ITA by 30 September. They must still be signed by the ITA Treasurer by 30 June and published on the ITA website by this date, but there is no longer a requirement for the draft accounts to be approved by Committee.																																													
2.2	This report therefore sets out to explain the principal financial results for the year and presents the key financial statements. The full draft accounts are available for committee members to view if they wish, from the ITA website or the contact officer for this report.																																													
3	Principal Financial Results for the Year																																													
3.1	<p>The table below compares actual spend against the budget for 2012/13, and shows actual figures for 2011/12 to provide a comparison across years.</p> <table border="1"> <thead> <tr> <th></th> <th>2011/12 Actual</th> <th>2012/13 Budget</th> <th>2012/13 Actual</th> <th>Variance</th> </tr> <tr> <th></th> <th>£000</th> <th>£000</th> <th>£000</th> <th>£000</th> </tr> </thead> <tbody> <tr> <td>Service Level Agreement and staffing charges</td> <td>284</td> <td>286</td> <td>281</td> <td>(5)</td> </tr> <tr> <td>Audit Fees</td> <td>30</td> <td>20</td> <td>18</td> <td>(2)</td> </tr> <tr> <td>Members Allowances and Expenses</td> <td>80</td> <td>86</td> <td>82</td> <td>(4)</td> </tr> <tr> <td>Local Government Association Subscription</td> <td>31</td> <td>30</td> <td>30</td> <td>-</td> </tr> <tr> <td>Conferences and Travel Expenses</td> <td>7</td> <td>4</td> <td>3</td> <td>(1)</td> </tr> <tr> <td>Website costs</td> <td>22</td> <td>10</td> <td>12</td> <td>2</td> </tr> <tr> <td>Supplies and Services</td> <td>14</td> <td>19</td> <td>8</td> <td>(11)</td> </tr> </tbody> </table>		2011/12 Actual	2012/13 Budget	2012/13 Actual	Variance		£000	£000	£000	£000	Service Level Agreement and staffing charges	284	286	281	(5)	Audit Fees	30	20	18	(2)	Members Allowances and Expenses	80	86	82	(4)	Local Government Association Subscription	31	30	30	-	Conferences and Travel Expenses	7	4	3	(1)	Website costs	22	10	12	2	Supplies and Services	14	19	8	(11)
	2011/12 Actual	2012/13 Budget	2012/13 Actual	Variance																																										
	£000	£000	£000	£000																																										
Service Level Agreement and staffing charges	284	286	281	(5)																																										
Audit Fees	30	20	18	(2)																																										
Members Allowances and Expenses	80	86	82	(4)																																										
Local Government Association Subscription	31	30	30	-																																										
Conferences and Travel Expenses	7	4	3	(1)																																										
Website costs	22	10	12	2																																										
Supplies and Services	14	19	8	(11)																																										



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	Payments to Pension Fund	432	455	455	-
	Financing Charges	2,733	2,568	2,568	-
	Interest on investments and revenue balances	(83)	(30)	(35)	(5)
	Total ITA Operating Expenses	3,550	3,448	3,424	(26)
	Grant to Nexus	70,323	66,922	66,922	-
	Total ITA Expenditure	73,873	70,370	70,346	(26)
	Levy Income	(73,792)	(70,207)	(70,207)	-
	Transfer from ITA General Fund Reserve	81	163	137	(26)
3.2	<p>Overall spending for 2012/13 was within budget, with small variations on some individual budget lines. Savings were made on controllable budgets such as supplies and services. A saving was made on the SLA with the lead authority as a result of staffing changes, with the ITA Treasurer serving as Acting Clerk from September 2012 to April 2013. This saving was ringfenced and used to fund additional policy support to the ITA for work on major schemes devolution.</p> <p>The final position is a use of ITA General reserves of £0.137m, compared with the revise budget of £0.163m. This is also considerably lower than the original budget for the year which estimated a use of reserves of £0.191m.</p>				
3.3	<p>It is proposed that the underspend is carried forward to 2013/14 and used to fund additional support which may be required in relation to work around the transfer of the ITA's functions, assets and liabilities to a new North East Combined Authority.</p>				
3.4	<p>At 31 March 2013, the ITA had £18m of investments with external financial institutions, which are held on behalf of Nexus. There is a further £10m debtor with Newcastle City Council for monies held at the year end in the lead authority's name which are owed to the ITA and repayable to Nexus.</p> <p>The ITA's own cash balances are invested with the lead authority, Newcastle City Council, providing an extremely low-risk return on balances. The average rate of interest paid on loans in the year was 4.25% and the average interest received on balances was 1.2%.</p> <p>The ITA has £202.893m of long term borrowing and £4.694m short term borrowing carried on its balance sheet. This is made up of loans taken out to finance the New Tyne Crossing Construction, plus historic capital supported borrowing, where the</p>				



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Districts receive government funding but the debt is held by the ITA.

4 Tyne Tunnels

4.1 In 2012/13, the traffic level was 14.4m vehicles, corresponding with a total toll income of £19.869m after adjusting for prepayments (compared with £14.886m in 2011/12). In line with the financing strategy for the New Tyne Crossing, tolls were increased on 1 January 2013 to £1.60 for cars and small vans and £2.50 for lorries and large vans (with a ten percent discount for permit holders). The fare increases applied since the completion of both tunnels do not appear to have had a detrimental effect on traffic figures, with actual traffic levels around 14% higher for the year compared with 2011/12.

4.2 The table below details expenditure within the ringfenced Tyne Tunnels trading account and compares it against the actual outturn for 2011/12 and the budget for 2012/13.

	2011/12 Actual	2012/13 Budget	2012/13 Actual	Variance
	£000	£000	£000	£000
Employees	34	33	31	(2)
Pensions	499	525	526	1
Supplies and Services	45	50	34	(16)
Support Services	145	130	108	(22)
Community Fund	18	10	8	(2)
Financing Charges	5,530	6,637	6,622	(15)
Toll Income	(14,886)	(19,700)	(19,869)	(169)
TT2 Contract Payments	6,522	14,130	13,986	(144)
One-off saving on insurance sharing agreement	(4)	-	(110)	(110)
Interest on Investments and Reserves	(774)	(460)	(517)	(57)
Total Net Tunnels Operating (Surplus) / Deficit	(2,871)	1,405	868	(537)
NESTI Expenditure financed from Tunnel Reserves	1,886	-	413	413
(Surplus) / Deficit transferred to Tyne Tunnels General Fund Reserve	(985)	1,405	1,281	(124)

4.3 Although there were variances on some individual items, the overall surplus was



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largely in line with the budgeted position. The net deficit on Tunnels Operating costs was £0.868m, against the revised budget of £1.405m. £0.413m of expenditure on the North East Smart Ticketing Initiative (NESTI) has been financed in year from Tunnels Reserves. This reflects the fact that in 2009/10, grant was received by the twelve North East Local Authorities, Nexus and the ITA and this grant was applied to finance capital expenditure on the New Tyne Crossing in that year. An equivalent amount (£7.178m) of capital and revenue expenditure was therefore to be funded from Tunnels Reserves.

4.4 The long-term financing model for the New Tyne Crossing allows for small planned deficits on the account in the early years of the contract. A substantial level of reserves was built up during the construction phase to allow for this.

5 Capital Expenditure

5.1 Capital expenditure has been incurred in 2012/13 in relation to the New Tyne Crossing Project and the refurbishment of the Tyne Pedestrian and Cycle Tunnel. There has been further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus.

In addition to the capital expenditure shown within the ITA's own accounts, Nexus have also invested £47.3m in the Metro Asset Renewal Plan (ARP) and Metro Ticketing and Gating programmes. A summary of expenditure against the ITA's (non-Nexus) capital programme is set out in the table below:

	2011/12 Actual £000	2012/13 Budget £000	2012/13 Actual £000	2012/13 Variance £000
New Tyne Crossing	48,216	600	682	82
Tyne Pedestrian and Cycle Tunnel Refurbishment	423	750	402	(348)
Total Tunnels Capital Programme	48,639	1,350	1,084	(266)
LTP Integrated Transport Block Grant to Districts	9,440	8,509	8,509	-
Public Transport Schemes Allocation	1,685	6,593	6,292	(301)
Total LTP Capital Programme	11,125	15,102	14,801	(301)
LSTF – Capital Grants to Districts	198	747	302	(445)
NESTI – Capital Payments to Nexus	1,776	4,416	3,235	(1,181)



5.2 **New Tyne Crossing**

Following the completion of the construction works on the New Tyne Crossing, the capital programme is significant smaller than in recent years. Final completion of the construction programme was signed off by the Independent Certifier on 31 January 2013. Expenditure in 2012/13 related to remaining environmental works and environmental monitoring, professional fees for work towards achieving final completion and setting the final concession toll, and costs associated with land transfer work.

In addition, expenditure was incurred on preliminary works and professional fees on the Tyne Pedestrian and Cycle Tunnels refurbishment project. The majority of the works on this £6m project will take place in 2013/14 when the Tunnels will be temporarily closed to the public to allow for the removal of two escalators, installation of two inclined lifts and the complete replacement of all Mechanical and Electrical systems.

5.3 **LTP Integrated Transport Block (LTP)**

LTP Integrated Transport Block funding is capital grant awarded to the ITA by DfT. The ITA allocated this funding between the five Tyne and Wear Districts and Nexus, with a proportion being ringfenced to provide support to the Metro Asset Renewal Programme (ARP) and other public transport related schemes. ITA-funded expenditure on Metro ARP was significantly higher than in 2011/12, since the works were funded 100% by DfT last year, with an increased local contribution required in 2012/13.

5.4 **Local Sustainable Transport Fund (LSTF)**

2012/13 was the second year of the LSTF-funded Schools Go Smarter programme, which commenced in autumn 2011. The 2012/13 capital budget of £0.477m related primarily to the purchase of vehicles for parking enforcement, and the school links and school grants workstreams. School grants provides funding for bike sheds, to provide safe places for pupils to store their bicycles, and other works including new paths, pool bikes and tools. School links funds infrastructure work in the Districts making it easier to cycle or walk to school, such as upgrading cycle paths or installing new pedestrian crossings.

In September 2012, the ITA was informed that it had been successful in its revised bid for further LSTF grant to support the 'Go Smarter to Work' programme. The grant was received from DfT in December 2012. Capital works are focused around infrastructure investments, implementing the physical infrastructure work



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necessary to make cycle, walking and public transport trips a more attractive alternative to car use; and improved information including use of open data sources and Real Time Passenger Information (RTPI) to enable the transport user to access more reliable and up-to-date details of transport services.

5.4 **Better Bus Area Fund**

In April 2012, the ITA received notice that it had been successful in its application for DfT Better Bus Area funding, including £3.889m capital grant. The project is aimed at improving journey times on key bus routes, to improve the attractiveness of buses to the travelling public. The capital grant will be used primarily for the procurement and installation of equipment including CCTV, Automatic Number Plate Recognition and co-ordination of traffic signal installations. In addition, infrastructure works are taking place on a number of key bus routes. Works will be completed and the remaining grant paid out to districts in 2013/14.

5.5 **North East Smart Ticketing Initiative (NESTI)**

The ITA acts as accountable body for NESTI which is a programme of investment in smart ticketing infrastructure across the north east. The programme is governed via a collaboration agreement which was entered into by all 12 local authorities in the region plus the ITA and Nexus. The ITA holds the funding on behalf of the authorities, and the remaining budget of £4.879m is shown on the ITA's balance sheet as Grants Received in Advance.

The outturn for 2012/13 was £3.325m, with main highlights during the year being the beginning of the implementation of solutions to enable remote uploading of stored travel rights, the contribution towards the Ticketing and Gating platform validator installations and a back-office upgrade required to support the scheme.

5.6 **Financing of Capital Expenditure 2012/13**

The vast majority of the capital programme is now funded by government grant awarded to the ITA by DfT. Expenditure on NESTI was funded through contributions held by the ITA on behalf of the 12 North East Local Authorities, and revenue contributions from Tyne Tunnels reserves. Expenditure on the New Tyne Crossing was funded by Prudential Borrowing in line with the long term financing strategy for this project.

The table below shows the funding sources for the ITA's capital programme in 2012/13.



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Funding source	2012/13 (£000)	2012/13 (%)
Prudential Borrowing	1,084	5%
Central Government Grants	17,365	80%
NESTI Contributions	2,822	13%
Capital Expenditure funded from Revenue	413	2%
Total	21,684	100%

6 Reserves Position

6.1 The table below shows the level of ITA and Tyne Tunnels reserves at the year end, compared with 2011/12.

	2011/12	2012/13	Movement
	£000	£000	£000
General Fund			
ITA	(2,519)	(2,380)	139
Tyne Tunnels	(41,757)	(40,477)	1,280
Earmarked Reserves			
Metro Reinvigoration	(14,357)	(12,325)	2,032
Total	(58,633)	(55,182)	

In line with the three-year Medium Term Financial Strategy, some planned use of reserves has been made to support ITA expenditure while significant reductions have been made to the levy. The actual amount required was lower than budgeted during the year.

Tyne Tunnel reserves, which increased significantly during the construction period are now beginning to be reduced as payments to the concessionaire have stepped up following final completion and provisions for the repayment of prudential borrowing are increasing.

The Metro Reinvigoration reserve holds funding set aside to contribute to the Metro Asset Renewal works. Around £2m of this reserve was drawn down by Nexus in year to meet capital expenditure on the programme so the value carried at the



	year end has reduced accordingly.
7	Pension Liabilities
7.1	The ITA is a member of the Tyne and Wear Pension Fund, which is part of the Local Government Pension Scheme. This is a scheme which provides defined benefits based on members' final pensionable salary. In the ITA's accounts, a liability for future pension costs is recognised on the Balance Sheet, and pension contributions are charged against the General Fund (i.e. funded by the levy or tolls).
7.2	<p>The figure presented in the Comprehensive Income and Expenditure Statement is different from the actual contributions charged against the General Fund. This is because it is prepared on an International Accounting Standard 19 (IAS 19) basis. Under IAS 19, the ITA is required to disclose the total value of all pension payments that have accumulated (including deferred pensions) at 31 March each year. This value is made up of:</p> <ul style="list-style-type: none">• The total cost of pensions that are being paid out to former employees who have retired.• The total sum of the pension entitlements earned to date for current employees.
7.3	IAS 19 also requires all investments (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates on a day-to-day basis, but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension payments and the value of investments at 31 March results in an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or deficit.
7.4	At 31 March 2013, actuaries have estimated that the IAS 19 deficit is £8.250m. This compares with an equivalent figure in the 2012/13 accounts of £6.730m. The main reason for this increase is a change in the discount rate used in the calculation of the present value of the future payments required, from 4.6% at 31 March 2012 to 4.1% at 31 March 2013. This discount rate is required for IAS 19 purposes to be based on the yield on high quality long term corporate bonds, which have fallen since 31 March 2012. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased.
7.5	The IAS 19 deficit has to be disclosed in the accounts, but there will be no change to the actual contributions due to be paid to the Pension Fund in 2013/14. These



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	<p>contributions are calculated following the detailed triennial Pension Fund valuation, the results of which are due in late 2013/early 2014. The IAS 19 valuation is only a snapshot at a given point in time, whereas the detailed triennial valuation assesses the ongoing financial position of the Pension Fund, and is used to review contribution rates to the Fund from employers to ensure that existing assets and future contributions will be sufficient to meet future pension payments.</p>
7.6	<p>The ITA Treasurer is currently considering strategies for the reduction of the pension deficit, which could include using some reserves to pay off the deficit, since these reserves are not currently attracting significant levels of interest income. This would give an annual saving on the revenue budget. However, key to this will be the timing of any such payment since the pension liabilities are sensitive to movements in the markets and will fluctuate during the year. Work on this will continue during 2013/14 with the advice of the pension fund and professional actuaries.</p>
8	Key Financial Statements
8.1	Movement in Reserves Statement
8.1.1	<p>This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce the levy) and Unusable Reserves. The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.</p>
8.1.2	<p>The Movement in Reserves Statement shows the true surplus or deficit against reserves after adjusting for pensions and capital accounting. The total movement on the General Fund Balance for 2012/13 is a deficit of £1.419m, made up from a deficit of £0.139m on the ITA and a deficit of £1.200m on the Tyne Tunnels. These deficits are planned, in line with the ITA's Medium Term Financial Strategy, and the long term financing model for the New Tyne Crossing.</p>
8.2	Comprehensive Income and Expenditure Statement



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8.2.1	The Comprehensive Income and Expenditure Statement (CIES) shows the accounting costs in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. The amount to be funded from the levy and tolls is shown in the Movement in Reserves Statement as set out above.
8.2.2	The CIES shows a surplus on the Provisions of Services of £1.704m, compared with a surplus in 2011/12 of £5.131m. Overall the net Cost of Services decreased slightly, from £63.837m to £62.562m, largely as a result of a reduction in the revenue support grant payable to Nexus. However net expenditure on Financing has increased compared with 2011/12, and the levy income shown under Taxation and Non-Specific Grant Income has decreased, leading to a reduction in the surplus.
8.2.3	Appendix 3 provides a reconciliation between the analysis of expenditure against budget set out in this report and the figures presented in the Comprehensive Income and Expenditure Statement, which are significantly different in some instances. The reconciliation shows clearly the accounting entries which have been made to arrive at the CIES position.
8.3	Balance Sheet
8.3.1	The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category is Usable Reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to retain a prudent balance and any statutory limitations on their use. The second category of reserves is those that the Authority is not able to use to provide services – referred to as Unusable Reserves. This category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “adjustments between accounting basis and funding basis under regulations”.
8.3.2	Short Term creditors on the balance sheet has increased by around £9m compared with 2011/12. This is due to a higher level of grants (LTP, LSTF, Better Bus, NESTI) being paid to the Districts and Nexus, much of which has been claimed for the full year at the year end.



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8.3.3	The overall level of borrowing (short term and long term) has decreased slightly in 2012/13, from £210.286m to £207.587m as the level of principal repayments has been in excess of any new borrowing taken out. The majority of the ITA's borrowing is long term (i.e. repayment is due in excess of 365 days) as the ITA has taken advantage of some lower rates to fix some of its borrowing for longer periods of time, which provides stability to the overall borrowing costs.
8.3.4	Grants and Contributions receipts in advance have increased in 2012/13, as the ITA has received £4.995m Local Sustainable Transport Fund and £4.904m Better Bus Area Fund grant from DfT, the majority of which is to be applied to expenditure as the conditions are met over the next two financial years.
8.3.5	The overall level of the New Tyne Crossing Deferred Income balance has decreased from £132.832m to £127.723m, as amounts have been written down to the CIES in year. The balance is split between long term and short term elements on the basis of the amount which will be released to the CIES in 2013/14 and the amount which will be released in future years.
8.3.6	Other Long Term Liabilities on the Balance Sheet relates to the pension liability, which has increased as explained in section 7 above.
8.4	Cash Flow Statement
8.4.1	The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of the levy and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.
8.4.2	The ITA has had an increase in its cash balances in 2012/13, from £66.454m to £74.084m. The main reason for the £7.63m increase is that during 2012/13 the ITA received two new grants from DfT (£4.9m for the Go Smarter to Work and £4.9m for the Better Bus Area Fund projects) against which expenditure of £2.5m had taken place at the year end, leaving a balance of £7.3m carried forward to fund



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activity in future years. There has also been an increase in the level of creditors compared with 2011/12, as grant claims from Tyne & Wear Districts were made at the year-end rather than during the year, meaning less cash had been paid out by 31 March 2013 when compared with 31 March 2012.

The ITA's cash balances are currently invested with the lead authority, Newcastle City Council, providing an extremely low-risk return to the Authority. The ITA Senior Accountant will work together with Treasury Management officers to review the use of cash balances during 2013/14 to determine whether a proportion of the balances should be used for the early repayment of debt or placed as investments with external financial institutions in order to maximise investment income or reduce borrowing costs.

9 Looking ahead to 2013/14 and beyond

9.1 The public sector financial environment remains extremely challenging, and this affects the ITA and Nexus along with all local authorities in the region. 2012/13 marked the final year of the medium term financial strategy which has seen a significant reduction in the levy with savings passed back to the local authorities. A cash freeze position was agreed for 2013/14, in recognition of the need to establish a firm funding base pending a decision on the most appropriate means of delivering the ITA's ambitions for the Bus Strategy Delivery Project. Work will be continuing during the year to identify further savings and efficiencies wherever possible.

9.2 The issue of Concessionary Travel Funding continues to be extremely challenging for the Tyne and Wear region. Cuts to the overall level of funding available nationally combined with a system of apportionment that does not recognise the high level of pass take-up and usage in our region means that the funding gap is significant and growing. The ITA and Nexus will continue to work with the Passenger Transport Executives Group (PTEG) and other areas of the country to lobby strongly for these issues to be addressed, in order that we can continue to provide valuable public transport services which are essential to the wellbeing of the people who live and work in Tyne and Wear.

9.3 In early 2013, the leaders of Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland Councils expressed their intention to launch a governance review process to consider options for working more closely as a region on economic growth, skills and transport. The governance review process is now nearing conclusion and the leadership board anticipate issuing a draft scheme to central government in July for the establishment of a formal



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Combined Authority across the seven authority footprint. Under the legislation, the existing Tyne and Wear ITA would be dissolved, with its functions and responsibilities transferring to the new body. Since the rights, assets and liabilities of the ITA will all transfer to the new authority, it is appropriate for these accounts to be prepared on a going concern basis. ITA members and officer and officers from Nexus will be closely involved with the work to establish a potential new Combined Authority, to ensure that the ambitions and objectives of the ITA are at the heart of the new arrangements.

10 **Next Steps**

10.1 The accounts are subject to audit by the Authority's external auditors, Deloitte, and the final accounts will be presented to Audit Committee at the September meeting, prior to approval by the ITA on 26 September 2013.

11 **Potential impact on objectives**

11.1 There is no impact on ITA objectives as a result of the recommendations in this report.



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APPENDIX 1 – MOVEMENT IN RESERVES STATEMENT

	General Fund	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2012	(44,277)	(14,357)	(58,634)	(59,862)	(118,496)
<u>Movement in Reserves During 2012/13</u>					
(Surplus) / Deficit on Provision of Services	(1,704)	-	(1,704)	-	(1,704)
Other Comprehensive Income and Expenditure	-	-	-	2,750	2,750
Total Comprehensive Income and Expenditure	(1,704)	-	(1,704)	2,750	1,046
Adjustments between Accounting Basis and Funding Basis Under Regulations	5,154	-	5,154	(5,154)	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	3,450	-	3,450	(2,404)	1,046
Transfers (to) / from Earmarked Reserves	(2,032)	2,032	-	-	-
(Increase) / Decrease in 2012/13	1,418	2,032	-	-	1,046
Balance at 31 March 2013 carried forward	(42,859)	(12,235)	(55,184)	(62,266)	(117,450)



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APPENDIX 2 – COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

← 2011/12 →				← 2012/13 →		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
453	-	453	Corporate and Democratic Core Highways and Transport Services	435	-	435
13,328	(20,519)	(7,191)	- Tyne Tunnels	18,079	(25,089)	(7,009)
82,028	(11,453)	70,575	- Other Highways and Transport Services	91,209	(22,083)	69,126
-	-	-	Non-Distributed Costs	10	-	10
95,089	(31,972)	63,837	Cost of Services	109,733	(47,172)	62,562
8,412	(3,588)	4,824	Financing and Investment Income and Expenditure	9,101	(3,160)	5,941
-	(73,792)	(73,792)	Taxation and Non-Specific Grant Income	-	(70,207)	(70,207)
		(5,131)	(Surplus) / Deficit on Provision of Services			(1,704)
		(597)	Surplus / (Deficit) on Revaluation of Fixed Assets			-
		3,660	Actuarial Losses on Pension Fund Assets and Liabilities			2,750
		3,063	Other Comprehensive Income and Expenditure			2,750
		(2,068)	Total Comprehensive Income and Expenditure			1,046



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**APPENDIX 3: RECONCILIATION BETWEEN MOVEMENT IN RESERVES STATEMENT AND
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

	ITA	Tyne Tunnels	Total
	£000	£000	£000
Net Cost of Services	69,571	(7,009)	62,562
Financing and Investment Income & Expenditure	806	5,135	5,941
Taxation & Non-specific Grant Income	(70,207)	-	(70,207)
Surplus/Deficit on Provision of Services	170	(1,874)	(1,704)
Depreciation charges	-	(3,862)	(3,862)
Write down of New Tyne Crossing Deferred Income	-	5,109	5,109
Capital Grants applied to finance Capital Expenditure	17,437	3,235	20,671
Revenue Expenditure Funded from Capital Under Statute	(17,437)	(2,821)	(20,258)
Reversal of items relating to retirement benefits in CIES	250	-	250
Employers' pension contributions and direct payments to pensioners payable in year	455	525	980
Statutory provision for financing of capital investment	1,222	969	2,191
Transfer to/from Earmarked reserves	(2,032)	-	(2,032)
Financial Instruments Adjustment	72	-	72
Movement in Reserves / Explanatory Foreword basis	137	1,281	1,418



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APPENDIX 4 – BALANCE SHEET

31 March 2012 £000		31 March 2013 £000
368,344	Property, Plant and Equipment	365,566
49,104	Long Term Debtors	47,141
417,448	Long Term Assets	412,707
23,000	Short Term Investments	18,000
11,842	Short Term Debtors	16,858
66,454	Cash and Cash Equivalents	74,084
101,296	Current Assets	108,942
(4,726)	Short Term Borrowing	(4,694)
(35,030)	Short Term Creditors	(44,684)
(5,501)	New Tyne Crossing - Deferred Income	(5,501)
(8,637)	Grants and Contributions Receipts in Advance	(10,125)
(53,894)	Current Liabilities	(65,004)
(127,331)	New Tyne Crossing - Deferred Income	(122,222)
(6,734)	Grants and Contributions Receipts in Advance	(5,830)
(205,560)	Long Term Borrowing	(202,893)
(6,730)	Other Long Term Liabilities	(8,250)
(346,355)	Long Term Liabilities	(339,195)
118,496	Net Assets	117,450
(58,633)	Usable Reserves	(55,184)
(59,863)	Unusable Reserves	(62,266)
(118,496)		(117,450)



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APPENDIX 5 – CASH FLOW STATEMENT

2011/12 £000		2012/13 £000
(5,132)	Net (surplus) or deficit on the provision of services	(1,704)
(2,181)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(2,034)
11,236	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	20,671
<u>3,923</u>	Net cash flows from Operating Activities	<u>16,933</u>
28,183	Investing activities	(25,172)
<u>(52,728)</u>	Financing activities	<u>609</u>
(20,622)	Net increase or decrease in cash and cash equivalents	(7,630)
(45,832)	Cash and cash equivalents at the beginning of the reporting period	(66,454)
<u>(66,454)</u>	Cash and cash equivalents at the end of the reporting period	<u>(74,084)</u>

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DATE: 5 July 2013
SUBJECT: Annual Governance Statement 2012/13
REPORT OF: ITA Officer Working Group

PURPOSE OF REPORT

The ITA is required to conduct an annual review of its governance and internal control arrangements and to produce an Annual Governance Statement. Officers from the ITA Officers Working Group (“Officer Group”) carried out this review in May 2013 – this report explains and presents the outcome.

RECOMMENDATIONS

Audit Committee is recommended to:

1. consider the draft Annual Governance Statement provided in Appendix A and recommend it to the ITA for approval in September 2013, as part of the draft Annual Report and Accounts 2012/13.
2. note that the AGS must be up to date at the time of final publication which does not take place until the Accounts have been audited and finalised in September 2013. The AGS will therefore be updated (if necessary) and submitted to this Committee for final consideration in September 2013.
3. consider the updated Local Code of Corporate Governance provided in Appendix B and recommend it to the ITA for approval in September 2013.

BACKGROUND DOCUMENTS

Annual Governance Statement, Local Code of Corporate Governance and CIPFA Criteria for Significant Internal Control Issues, all provided as appendices to this report.

CONTACT OFFICERS

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IMPACT ON OBJECTIVES

To support economic development and regeneration	neutral
To address climate change	neutral
To support safe and sustainable communities	neutral



1 Executive Summary

- 1.1 The ITA is required to conduct an annual review of its governance and internal control arrangements and to produce an Annual Governance Statement. There is no longer any requirement for the ITA's Draft Accounts to be submitted for formal approval, but recommended best practice is for the outcome of the annual governance review to be considered by this Committee when it is complete.
-
- 1.2 Officers from the ITA Officers Working Group ("Officer Group") carried out this review in May 2013 – this report explains and presents the outcome.
-
- 1.3 There are two key documents which Committee are asked to consider:
- (a) **Appendix A** - draft Annual Governance Statement 2012/13 ("AGS"); and
 - (b) **Appendix B** – draft revised Local Code of Corporate Governance ("Local Code").
-
- 1.4 The role of this Committee, as per the relevant paragraphs of its Terms of Reference is:
- 9.2 To review annually the effectiveness of the Authority's internal control environment
 - 10.1 To consider and promote the Authority's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice
 - 10.6 To review the Authority's Annual Governance Statement and to recommend its adoption to the Authority.

2 Background information

- 2.1 The ITA is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.



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- 2.2 The ITA also has a duty¹ to make arrangements to secure continuous improvement in the way in which it exercises its functions, having regard to a combination of economy, efficiency and effectiveness.
-
- 2.3 To discharge this responsibility, the ITA is responsible for putting in place proper arrangements (a Governance Framework) to:
- (a) Govern its affairs: in relation to this, we have adopted a Local Code. This is a public document which sets out the main elements of our governance framework, evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA²; and
 - (b) Facilitate the effective exercise of our functions, including arrangements for managing risk: in relation to this, we have a system of internal control designed to manage risk to a reasonable level.
- 2.4 The ITA has a statutory duty to do the following on an annual basis :
- (a) Review and update the Local Code and demonstrate how we have complied with it in practice;
 - (b) Conduct a review of the effectiveness of our governance framework, including the system of internal control;
 - (c) Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
 - (d) Report these to the public in the AGS which is part of the Accounts.

3 Review process

- 3.1 The ITA Officers Working Group met on 1 May 2013. At that meeting the Officers were invited to draw together their knowledge of the ITA's activities during the 2012/13 financial year. Where available, the Officer Group drew upon the information sources highlighted in Section 4 of the AGS.
- 3.2 The Local Code was also updated as part of this review, to reflect changes and improvements in the governance framework and to ensure there were no significant gaps in our arrangements that may need to be referenced in the AGS.
- 3.3 The main parts of the review were:

¹ Local Government Act 1999

² CIPFA/SOLACE Framework Delivering Good Governance in Local Government.



Assurances provided by Internal Audit during the year:

- Annual Internal Audit Plan agreed by Audit Committee which includes audits of key risk areas for the ITA.
- A final audit report is issued to the ITA's responsible officer for the area reviewed which provides an overall opinion, findings, recommendations for improvement and an action plan agreed with management to address findings raised. A copy of the final report is also issued to the Deputy Clerk and Treasurer, other relevant senior officers and the Chair of Audit Committee to provide an overview of the audit assignment and outcomes.
- The Officer Group and Audit Committee are informed of the outcomes of all internal audits completed during the year and any medium or high priority recommendations arising which impact upon the ITA's operations and control environment. For the audit work completed within 2012/13 there are no significant control issues.
- Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk, which is included on this agenda, provides an overview of all audits completed in the year. As part of this report the effectiveness of Internal Audit and its compliance with CIPFA Code for Internal Audit is considered.

Assurances provided by External Audit (Deloitte) during the year: officers attend regularly meetings with the external auditors which enables continuing feedback. The Annual Audit Opinion is an important source of formal information arising from the external auditors and this will not be available until later in the year, following the audit of the Statement of Accounts. This will be taken into account before the AGS is finalised in September.

Local Transport Plan Partnership: a review of the main governance and internal control arrangements through an assurance statement. Internal Audit has undertaken a review of Strategic Business Planning which is based around the ITA's strategic plan, i.e. the Local Transport plan. This review found the overarching planning and monitoring arrangements to be satisfactory.

TT2 Ltd: there is a governance structure in place which provides management, contract monitoring and assurance in relation to the operation of the project agreement. The New Tyne Crossing Project Director has considered TT2 Ltd's annual report and is satisfied that this provides the necessary assurances

Nexus: consideration of their Annual Governance Statement. The Officer Group has satisfied itself that the Nexus Annual Governance Statement, overseen by Nexus' Audit Committee, provides the ITA with an appropriate level of assurance since:

- (i) There is external auditing of Nexus accounts; and
- (ii) There are senior ITA officers who are members of the Nexus Executive



Board and the Deputy Clerk and Treasurer is the Chair of the Audit Committee at Nexus.

Newcastle City Council's Draft Annual Governance Statement: the ITA uses and relies upon the governance and internal control arrangements of the lead authority and therefore, if there are material issues within this framework, it is relevant for the ITA to take these into account.

ITA Strategic Risk Register: officers considered risks set out in the Strategic Risk register.

Views of the Officer Group: the group is represented by policy and management, finance, legal, internal audit, risk management, project management and democratic services, all working on behalf of the ITA. Membership is:

Director of Finance and Resources

Director of Housing, Planning and Transport

Head of Corporate Law

Head of Strategy, Planning and Performance

Policy and Information Officer (with scrutiny responsibility)

Project Director, New Tyne Crossing

Senior Communication Adviser

Principal Auditor, Internal Audit

Senior Transportation Practitioner, ITA LTP City Region

Senior Accountant, Financial Systems & Accounting

Solicitor, Corporate Team

Democratic Services Officer

Committee is asked to note that Paragraph 9.3 of its Terms of Reference require it to carry out an annual self-assessment of its effectiveness. This has not been completed yet, however this should be completed prior to agreeing the final AGS in September 2013. This would be one of the sources of assurance relevant to the review.

4 Conclusions of the review

4.1 The annual review must consider whether any of the following concerns have been identified and should be included in the AGS :

- (a) Significant weaknesses (Section 5 of the AGS): where there are or have been significant gaps, where we have experienced a serious incident from a failure in our arrangements or where there was a



systemic weakness in our arrangements during the majority of the year under review.

- (b) Significant improvements needed (Section 6 of the AGS): where there are essential parts of our arrangements which, whilst not 'weaknesses', need significant improvement and/or have not been working as they should during the year under review.

4.2 There are criteria provided by CIPFA which guide us on what to include as a "significant weakness". These are provided in Appendix C for information. The "significant improvement" section is not mandatory – we do this to ensure transparency, focus and continuous improvement in our arrangements, even though they fall below the materiality thresholds recommended by CIPFA.

4.3 Significant weaknesses:

There are no areas of significant weakness that have been identified in the review in 2012/13.

4.4 Significant improvements needed:

There are no areas of needing significant improvement that have been identified in the review in 2012/13.

5 Monitoring

5.1 If any issues arise that have to be included in the statement in September 2013, the ITA Officer Co-ordination Group will monitor progress in addressing them and provide a monitoring report to this committee in February 2014.

6 Next steps

6.1 The AGS must be up to date when the Final Accounts are published – this does not take place until September 2013, following external auditing of the Draft Accounts. In addition, the AGS is subject to relevant assurance sources not available at drafting, such as the Annual Value for Money Conclusion. The AGS will therefore be reviewed at that time to ensure that any relevant issues highlighted during that period are taken into account.

6.2 The final AGS will then need to be considered and approved by this



Committee before it receives final approval from the ITA in September 2013.

-
- 6.3 The AGS will be signed by the Chair of the ITA, Clerk to the ITA and the Treasurer and Deputy Clerk (Section 151 Officer) before being published with the Final Accounts.

7 Potential impact on objectives

-
- 7.1 There is no impact on ITA objectives as a result of this report.

APPENDIX A ANNUAL GOVERNANCE STATEMENT 2012/13

SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

In discharging this overall responsibility, the ITA is responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) the governance of our affairs and
- (ii) facilitating the effective exercise of our functions, including arrangements for the management of risk.

In relation to (i) we have adopted a Local Code of Corporate Governance (“Local Code”), which is consistent with the principles of the *CIPFA/SOLACE Framework Delivering Good Governance in Local Government*. A copy is available on our website at www.twita.gov.uk.

The Local Code evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA. It has been updated and approved as part of this review.

In addition to the Local Code, the authority’s financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer on Local Government (2010)* as set out in the Application Note to *Delivering Good Governance in Local Government: A Framework*.

In relation to (ii) the ITA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- (a) identify and prioritise the risks to the achievement of our policies, aims and objectives; and
- (b) to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

In addition to the above, the ITA's Governance Framework comprises the systems and processes, culture and values, through which the ITA is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the ITA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The governance framework has been in place at the ITA for the year ended 31 March 2013 and up to the date of approval of the Annual Report and Accounts.

This Annual Governance Statement explains how we have complied with the Code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant public bodies to prepare an annual governance statement.

SECTION 3: THE GOVERNANCE FRAMEWORK

The main features our Governance Framework are described in our Local Code and are summarised below.

CORE PRINCIPLE 1: FOCUSING ON OUR PURPOSE AND OUTCOMES FOR RESIDENTS

Identifying and communicating the ITA's vision of its purpose and intended outcomes for residents and service users

The ITA's priorities were set out in the Passenger Transport Policy Statement, published every three years. With the ITA having overall responsibility for the Tyne and Wear Local Transport Plan 2011-2021, we have sought to include our vision and policies within our LTP. The LTP sets out the ITA's policies, priorities and implementation plan for action in the coming years, and included significant consultation with residents during the development stage. We consulted with our Members, residents and businesses during 2010 on the vision and objectives. This helped inform our adopted vision and objectives and a chapter of the finalised LTP document is dedicated to outlining changes to the document post-consultation.

There is a policy work programme enabling us to secure effective and forward looking decision while also being flexible enough to be able to react to emerging changes. This is strengthened by bi-monthly policy seminars for Members.

Reviewing the ITA's vision and the implications for its governance arrangements

We are assisted by the work of our internal and external auditors, in helping to identify strengths and weaknesses in our performance, governance and internal control.

We have been working with colleagues in Nexus and across Tyne and Wear to implement the opportunities presented by the Local Transport Act 2008 and the transition to the Integrated Transport Authority. We continued to support the ITA informal working groups to help the ITA to discharge its broader remit. These are the LTP Working Group, the Equality and Diversity Working Group, the Bus Strategy Working Group and the Tyne Tunnels Working Group. We also continued

to support the Metro Sub Committee, Standards Committee, Audit Committee and Scrutiny Advisory Group.

The ITA has been closely involved in the review of transport governance across the Tyne and Wear City Region. This strengthened the role of the ITA in developing transport strategy and policy at the City Region level. More recently, the ITA has been working closely with the North East Local Enterprise Partnership on transport-related issues – including on the establishment of Local Transport Bodies to establish the devolution of future local major transport schemes from 2015 onwards.

The roles of Standards Committee and Audit Committee have been further embedded over the last year.

The Scrutiny Advisory Group has an agreed annual work programme, which allows for timely scrutiny of issues in the ITA's own forward plan. Regular review enables the Group to take account of the balance of the work programme, any new and emerging issues, changing scrutiny priorities and discussion at meetings.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the ITA's objectives and for ensuring that they represent the best use of resources

We measure value for money through the annual financial plan process which reviews services and identifies specific actions required to improve value for money which are then built into our budget.

In previous years, the ITA completed an annual value for money (VFM) self-assessment that was submitted to our external auditors. This assessed how well we manage and use our financial resources in broad theme areas, considering Key Lines of Enquiry (KLOE) as specified by the Audit Commission.

The Audit Commission has revised the approach to the auditor's local VFM work at certain types of body including integrated transport authorities. Auditors now apply a lighter-touch approach to their local VFM work and will meet their VFM duty by:

- Reviewing the annual governance statement
- Reviewing the results of the work of other relevant regulatory bodies or inspectorates
- Undertaking other local risk-based work as appropriate

Performance against the capital programme is also monitored on a regular basis, with quarterly reports taken to the ITA. There is also regular monitoring of the Financial Strategy, with revenue budget monitoring reports to the ITA.

Service level agreements with the Lead Authority (Newcastle City Council) are in place, and regularly monitored, to ensure value for money is being achieved. These are reviewed and updated annually.

Nexus provide a Business Intelligence report to ITA Members regarding information, which highlights issues such as number of people using public transport, type of ticket purchased etc.

The main non-financial performance reporting undertaken by the ITA relates to LTP3, which is the main strategy document of the ITA, covering all forms of transport in Tyne and Wear, and is underpinned by the first in a series of three year delivery plans (2011-14) setting out how the strategy will be put into effect at a local level.

The LTP3 Delivery Plan Chapter 5 (Monitoring) sets out the Performance Management Framework, based on monitoring the 12 main policies identified in the LTP3 strategy. Updated baseline measurements and targets were reported to the ITA in May 2012, and will be reviewed and monitored on a regular basis, with performance reported to the ITA and the ITA LTP Working Group.

CORE PRINCIPLE 2: MEMBERS AND OFFICERS HAVE CLEARLY DEFINED ROLES AND RESPONSIBILITIES

Defining and documenting the roles and responsibilities of the ITA, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The roles and responsibilities of the committees and working groups of the ITA are set out in their Terms of Reference.

The responsibilities of members and officers of the ITA in relation to the use of assets and resources are set out in the financial regulations of the ITA, which are part of the ITA constitution.

There is a clear scheme of delegation to officers.

There is a code of conduct for members, to which all members sign up upon taking the Office.

CORE PRINCIPLE 3: WE PROMOTE HIGH STANDARDS OF CONDUCT AND BEHAVIOUR

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

There is a Code of Conduct for Members and Code of Conduct for Employees.

The Standards Committee deals with issues of conduct and promotes high standards among officers and members.

There is a Register of Interests and Registers of Gifts and Hospitality for both members and officers.

CORE PRINCIPLE 4: TRANSPARENT DECISION MAKING SUBJECT TO SCRUTINY AND RISK MANAGEMENT

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

The ITA's constitution and scheme of delegation are reviewed annually in May.

Officers undertook the annual review of the ITA's corporate governance arrangements, to ensure that the relevant documents remain up to date, and reported to the ITA in May 2013.

Policy and decision making is undertaken by the ITA and its committees. Officers from the ITA, the constituent Councils and Nexus have developed transport policies for the Local Transport Plan (2011-2021).

The ITA has developed and maintains an effective scrutiny function which encourages constructive challenge and enhances overall performance. The

Scrutiny Advisory Group consists of members who are not ITA Members, so are able to provide independent scrutiny.

The ITA has a Risk Management Framework in place and maintains a register of its strategic risks as well as project risks related to the New Tyne Crossing Project. The ITA uses the risk management resources available within the Lead Authority as required.

The ITA purchases appropriate levels of insurance to minimise financial risks, and self-insures wherever possible.

Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

We have established an Audit Committee which is independent of the ITA and scrutiny functions. It includes an independent chair and independent members to whom training is provided.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The Clerk, Deputy Clerk & Treasurer (S73 of the 1985 Act), Monitoring Officer, Head of Democratic Services and other senior managers are responsible for advising the ITA and associated committees on legal, financial and other procedures and policy considerations.

The ITA is subject to internal and external audit and inspection regimes. The ITA has an internal audit service provided by the Lead Authority.

The ITA also has a Standards Committee and an Audit Committee, whose terms of reference ensure probity and further scrutiny of ITA activities.

Whistle-blowing and for receiving and investigating complaints from the public

The ITA has an agreed whistle-blowing policy which is kept up to date and reviewed by Standards Committee. The policy is available via the ITA website.

There is a corporate complaints procedure in place via the Lead Authority, with Nexus having separate procedures in place for managing complaints.

CORE PRINCIPLE 5: DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS TO BE EFFECTIVE

Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The ITA provides members with training and there is induction training for new members. The ITA also holds a number of policy seminars with Nexus throughout the year to enhance member training and understanding.

ITA Members also undertake site visits, where they are able to see progress in action at first hand. For example, site visits have taken place to the Tyne Tunnel, Haymarket Metro development, Sunderland Station development, the fitting of new Metro cars as part of the reinvigoration programme, and London Docklands Light Railway, to examine future generation light trains.

CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Meetings are held in public, and committee papers are available on the ITA's website which is reviewed regularly.

The ITA reviewed and refreshed its website during 2011/12 to ensure it is easier to use and with more up to date information and has continued these improvements during 2012/13. A feedback mechanism has been incorporated into the website, to encourage users to get in touch on any subject.

In line with the guidance on Local Transparency issued by the Department for Communities and Local Government, details of all external payments over £500 are published on the ITA website on a regular basis. Details of the members allowances scheme and amounts paid to members are also published.

The consultation and involvement strategy sets out how Nexus on behalf of the ITA is engaging with its partners and stakeholders. The Nexus website encourages people to submit questions and offer feedback.

LTP3 was subject to a period of public consultation with feedback received through a myriad of channels including the website, social media, face-to-face interviews and letters. Comments received were used to finalise the document.

Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005.) and reflecting these in the Authority's overall governance arrangements

The ITA takes a lead on the development of the LTP, in partnership with the other districts and Nexus.

The ITA is now working closely with the newly-established North East Local Enterprise Partnership on transport issues. A Local Transport Body has been established, made up of the seven Leaders and Elected Mayor of the local authorities in the North East. The ITA is a full voting member of the Local Transport Body and is represented by the ITA Chair. The officer group that provides support to the Local Transport Body is chaired by the Clerk of the ITA, in her role as the lead Chief Executive for transport in the north east.

Partnership arrangements are in place for the Local Sustainable Transport Fund Schools Go Smarter programme, which includes a Programme Board made up of representatives of each of the Tyne and Wear Districts, Nexus, the ITA, and other delivery partners. A task-and finish group has been established for delivery of the Better Bus Areas programme, made up of officers from the ITA, Districts, Nexus and the major bus operators.

Nexus establishes and monitors its objectives and performance through the Passenger Transport Policy Statement and its Annual Performance Plan and 3 year business plan.

Nexus establishes and monitors its objectives and performance through performance plans and accounts.

The ITA has a partnership with TT2 Ltd to operate the Tyne Tunnels.

The NESTI partnership is made up from all local authorities across the North East and Tees Valley in order to provide a smart ticketing transport infrastructure across the region. A collaboration agreement between the ITA and other authorities was entered into in October 2010 and runs for a five year period; the ITA leads on the development of this initiative with Nexus delivering it on behalf of partners. The ITA Policy lead chairs the NESTI Board meetings.

SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK

The ITA has responsibility for conducting, at least annually, a review of the effectiveness of the Governance Framework including the system of internal control. The review is led by the ITA Officer Working Group and the outcomes are reviewed by the Audit Committee before being considered and approved by the ITA. The review is informed by:

- (a) The executive managers within the ITA who have responsibility for the development and maintenance of the governance environment
- (b) The views of our internal auditors which are reported to Audit Committee through regular progress reports and through the Annual Internal Audit Opinion.
- (c) An annual review of the effectiveness of our Internal Audit arrangements (as required by Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006).
- (d) The views of our external auditors, regularly reported to Standards and Audit Committee through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through regular meetings with officers.
- (e) The independent views of inspection agencies.
- (f) The governance and internal control arrangements of our significant partnerships, contractors and group arrangements:
 - The Local Transport Plan Partnership (responsible for delivering the Local Transport Plan)
 - Nexus (the passenger transport executive responsible for the planning, provision and promotion of public transport). The ITA has appropriate representation within Nexus which provides an ongoing source of assurance
 - TT2 Ltd (responsible for the construction and effective operation of the Tyne Tunnels and New Tyne Crossing) and internal arrangements in place to support and monitor the contract.
- (g) The ITA's Strategic Risk Register, which captures the most significant risks associated with delivery of the ITA's objectives
- (h) The Lead Authority's own annual review of its Governance Framework
- (i) The views of members through the ongoing work of Audit Committee and the ITA

- (j) The work of the ITA Officer Working Group – this group consists of Lead Authority officers who meet monthly for agenda setting purposes, to share information and to monitor performance issues and governance arrangements.

SECTION 5: SIGNIFICANT GOVERNANCE ISSUES

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the ITA's objectives have been mitigated.

The review did not highlight any issues as significant weaknesses in governance or internal control during 2012/13.

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

The purpose of the review is also to identify issues that may need significant improvement but which do not constitute "significant weaknesses" in our governance and internal control arrangements.

The review did not highlight any governance or internal control issues as requiring significant improvement during 2012/13.

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2012/13 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Systems are in place to continually review and improve the governance and internal control environment.

The annual review has shown that the arrangements are in place and operating as planned.

We have been advised on the implications of the review by the ITA Officer Working Group.

Pat Ritchie
Clerk

Councillor David Wood
Chair of the ITA

Paul Woods
Treasurer and Deputy
Clerk

Date:

Date:

Date:

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Appendix B

Tyne and Wear Integrated Transport Authority

LOCAL CODE OF CORPORATE GOVERNANCE

TYNE and WEAR INTEGRATED TRANSPORT AUTHORITY

LOCAL CODE OF CORPORATE GOVERNANCE

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Tyne and Wear Integrated Transport Authority

LOCAL CODE OF CORPORATE GOVERNANCE

INTRODUCTION

1. The Tyne and Wear Integrated Transport Authority (ITA) recognises that in order to fulfil its purpose and deliver the intended outcomes for its citizens and service users it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it operates in an effective, efficient and ethical manner.
2. The Cadbury Report (1992) defined corporate governance as “the systems by which organisations are directed and controlled”. It identified three fundamental principles of corporate governance:-
 - *Openness*: This ensures that all interested parties are confident in the organisation itself. It leads to effective and timely action and lends itself to necessary scrutiny.
 - *Integrity*: This is straightforward dealing reflected in the honesty of the annual report in portraying a balanced view. It depends on the integrity of those who prepare the report which is a reflection of the professional standards within the organisation.
 - *Accountability*: This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.
3. The Chartered Institute of Public Finance and Accountancy (CIPFA) adapted the Cadbury definition for the local government sector. It defines corporate governance as “the systems and processes, the cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities”.
4. The Nolan Committee (1995) identified seven general principles of conduct which should underpin public life and which all holders of public office should practise:-
 - Selflessness
 - Honesty
 - Objectivity
 - Leadership
 - Openness
 - Integrity
 - Accountability
5. The Relevant Authorities (General Principles) Order 2001 added four additional principles to those identified by the Nolan Committee:-
 - Respect for others
 - Duty to uphold the law

- Stewardship (using resources prudently)
 - Personal judgement
6. Building on these principles the Good Governance Standard for Public Services (2004) set out six core principles that should underpin the governance arrangements of all public bodies.
 7. In 2007 CIPFA published a Framework for Delivering Corporate Governance in Local Government to assist Authorities to review their governance arrangements and to highlight any gaps. It adapts the six core principles of good governance for the local government sector and recommends that all Authorities should comply with them.
 8. The ITA believes that effective corporate governance is achieved by:-
 - putting in place sound control systems and processes
 - regular checking to make sure those systems and processes are working in practice
 - reviewing those control systems and processes at least annually
 9. This Code demonstrates how the ITA does this in practice and how it complies with each of the six principles. These are:-
 - i) Focusing on the ITA's purpose and on outcomes for its Tyne and Wear residents and service users
 - ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles
 - iii) Promoting high standards of conduct and behaviour across the ITA
 - iv) Making transparent decisions which are subject to scrutiny and risk management
 - v) Developing the capacity of members and officers to be effective
 - vi) Engaging with local people and stakeholders
 10. The Code brings together in one document all the governance and accountability arrangements which the ITA currently has in place.
 11. The Code will be reviewed and updated annually.
 12. As part of the annual accounts process, the ITA is required to conduct an annual review of its governance arrangements, including its system of internal controls, and to publish a statement of that review known as the Annual Governance Statement (AGS), within the Annual Report and Accounts. The purpose of the AGS is to represent how the governance arrangements operated in each financial year, and to highlight significant improvements needed. The Code will facilitate the ITA's review of its corporate governance arrangements for the purposes of the AGS.

This Local Code of Corporate Governance was last approved by the ITA on 27 September 2012.

CORE PRINCIPLE 1 – Purpose and Outcomes

Core Principle 1 – Focusing on the purpose of the Tyne and Wear Integrated Transport Authority and on outcomes for the community and implementing a vision for the area

Summary: Good governance helps to ensure that we fulfill our purpose and achieve the intended outcomes for our citizens and service users and that we operate in an effective, efficient, economic and ethical manner. We have therefore developed a clear vision of our purpose and intended outcomes which are communicated both within the ITA and to external stakeholders. Our Passenger Transport Policy Statement sets out our vision and values and the intended outcomes for local people. It is used as a basis for corporate and service planning.

Exercising strategic leadership by developing and clearly communicating the ITA's purpose and vision and its intended outcome for citizens and service users

Evidence of compliance

- § Tyne and Wear Local Transport Plan 2011-21
- § New ITA Vision and Objectives
- § ITA Reports in 2012/13 (Financial Strategy, Policy positions)
- § Annual Review and Update of ITA constitutional documents
- § ITA Officer Statement reviewed and updated January 2012
- § ITA Signing of Nottingham Declaration September 2009
- § ITA Terms of Reference for Working Groups
- § NESTI Collaboration Agreement
- § Nexus Consultation Panel
- § Community Engagement Strategy
- § Corporate Communications Plan
- § Refreshed ITA Website
- § Policy seminars
- § Market research reports
- § Consultation and Involvement Policy/Strategy
- § Annual Performance Plan
- § Annual Report and Accounts
- § Annual Governance Statement

Areas for Further Improvement

- § Further refresh and consolidation of ITA website as a channel for clear communication of vision and aims to service users.

Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning

Evidence of compliance

- § Consultation on LTP 2011-21
- § Annual Investment Strategy
- § Annual Governance Statement
- § Annual Performance Plan
- § Policy seminars
- § Market research reports
- § Household survey
- § Bus Strategy consultations
- § Consultation and Involvement Policy/Strategy
- § Community Engagement Strategy
- § Bus Strategy
- § Bus Network Development
- § Annual audits - internal and external
- § Nexus Metro Passenger Charter
- § Local Sustainable Transport Fund proposals
- § Stakeholder workshops
- § Nexus, Tyne Tunnels and ITA complaints procedures
- § Access For all
- § Policy work programme
- § Policy briefings
- § Response to consultations
- § Benchmarking against other Integrated Transport Authorities and Passenger Transport Executives
- § Performance Reports to ITA on Metro performance
- § Equality and Diversity Policy

Areas for Further Improvement

- § Embed newly-established working arrangements between the ITA and the North East Local Enterprise Partnership
- § Embed and continue to improve partnership and project management arrangements
- § Monitoring outcomes of ITA programmes such as the LSTF Schools Go Smarter initiatives, and the Better Bus Areas programme

Ensuring that the ITA makes best use of resources and that tax payers and service users receive excellent value for money

Evidence of compliance

- § Annual Performance Plan
- § Positive external audit report and VFM conclusion
- § Internal audit of arrangements for budgetary control, strategic business planning
- § Work with PTEG
- § Major project and cross-cutting business cases
- § Annual Treasury and Investment Strategy Statement
- § Member Briefings & Workshops on budget proposals
- § Newcastle City Council procurement documents
- § Nexus business reviews
- § Capital financing records, indicating sources of external funding
- § Risk Management Framework
- § ITA Scrutiny Advisory Group
- § Annual Financial Strategy for the next 3 years
- § Medium Term Plan
- § Regular monitoring against budgets
- § Sound record of maintaining expenditure within budget
- § Annual budget process
- § Key output measures

Areas for Further Improvement

- § Further engagement on budget proposals in future

CORE PRINCIPLE 2 – Members and officers working together

Core Principle 2 – Members and officers working together to achieve a common purpose with clearly defined functions and roles

Summary: Elected members are collectively responsible for the governance of the ITA. The ITA is a joint authority and comprises sixteen representatives of the five local authorities in the (former) metropolitan county of Tyne and Wear. Those representatives must be members of those five authorities and Schedule 10 of the Local Government Act 1985 (as amended from 1 April 2006) specifies the numbers to be as follows:

§	Newcastle	4
§	Sunderland	4
§	Gateshead	3
§	North Tyneside	3
§	South Tyneside	2

The Local Government Act 2000 introduced a number of changes to the way in which local authorities carry out their work. While major innovations, such as the change to cabinet-style government, do not apply to the ITA, a number of improvements, such as dispensing with the committees such as those that formerly dealt with the Tyne Tunnel and Passenger Services, and replacing them with leading members acting as spokespersons for various portfolios, have been made. These changes have brought the operating procedures of the ITA more closely in line with those of its five constituent councils.

The ITA has a Scrutiny Advisory Group; the purpose of this body is to help ensure the ITA delivers its objectives. Scrutiny can do this by providing a mechanism for the ITA decisions and policies to be reviewed and examined in order to contribute to service improvement and ensuring value for money.

The ITA also has both a Standards and an Audit Committee, whose terms of reference ensure probity and further scrutiny of ITA activities. The Committee consists of 5 members from the ITA, and a further 4 independent members ensuring greater objectivity.

The ITA has three working groups to help advise it in its discharge of its broader remit. These working groups are the LTP Working Group, the Equality and Diversity Working Group and the Bus Strategy Working Group. Each has a developed Terms of Reference. In addition, the ITA has set up a Metro Sub Committee.

The Clerk, Deputy Clerk / Treasurer (S73 of the 1985 Act), Monitoring Officer and other senior managers of the Lead Authority (Newcastle City Council) are responsible for advising the ITA and associated committees on legal, financial and other policy considerations.

Ensuring effective leadership throughout the ITA and being clear about the roles and responsibilities of its members and officers and of the scrutiny function

Evidence of compliance

- § Annual Review and Update of the ITA constitutional documents (particularly terms of reference of each committee and delegations to officers) reported to Annual General Meeting
- § Delegations to Officers
- § ITA Management Group
- § Job Descriptions and Person Specifications (Director General of Nexus, Clerk and Deputy, etc)
- § Standing Orders
- § Development and refresh of Equality and Diversity Policy
- § Scrutiny Advisory Group Terms of Reference, Annual Report to the ITA and Work Programme
- § Standards Committee and Audit Committee Terms of Reference, Annual Report to the ITA and Work Programme
- § Member Code of Conduct
- § Employee Code of Conduct (inc. Lead Authority Code)
- § Service Level Agreement between the ITA and the Lead Authority
- § Independent Review of Corporate Governance

Areas for Further Improvement

- § Update Employee Code of Conduct
- § Embed the role of the ITA Management Group

Ensuring that a constructive working relationship exists between ITA Members and Officers and that the responsibilities of members and officers are carried out to a high standard

Evidence of compliance

- § Member Code of Conduct
- § Employee Code of Conduct (inc. Lead Authority Code)
- § ITA meetings
- § ITA Working Groups
- § ITA Management Group
- § ITA Scrutiny Advisory Group meetings

- § ITA Standards Committee and Audit Committee meetings
- § Metro Sub Committee
- § ITA Policy Seminars
- § Consultation and Involvement Strategy
- § Member induction process
- § ITA Officer Statement
- § Member training and briefing sessions
- § Policy Work Programme
- § ITA Portfolio holders

Areas for Further Improvement

- § Update Employee Code of Conduct
- § Consider role of ITA, sub committees or lead portfolio roles.
- § Embed the role of the ITA Management Group

Ensuring relationships between the ITA, its partners and the public are clear so that each knows what to expect of the other

Evidence of compliance

- § ITA Policy Statement
- § Complaints System
- § Nexus Metro Passenger Charter
- § Community Engagement Strategy
- § ITA meetings
- § ITA Working Groups
- § New Tyne Crossing communication strategy
- § Stakeholder consultations
- § Refreshed ITA Website
- § Programme Boards and Task and Finish Groups for Local Sustainable Transport Fund and Better Bus Areas activity
- § ITA Policy Seminars
- § Member and Employee Codes of Conduct
- § Independent Remuneration Panel / Members Allowance Scheme
- § Service Level Agreements with Lead Authority
- § ITA Officer Statement
- § Relationship with North East Local Enterprise Partnership
- § Local Transport Body of seven North East Local Authorities
- § New Tyne Crossing Project Agreement
- § Tyne and Wear Leaders / Treasurers groups
- § ITA Officer & Nexus Liaison groups
- § Scrutiny Advisory Group Annual Report

Areas for Further Improvement

- § Further embed and develop working arrangements between the ITA and the North East LEP

CORE PRINCIPLE 3 – Conduct and Behaviour

Core Principle 3 – Promoting values for the ITA and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Summary: We recognise that good governance is underpinned by shared values and demonstrated in the behaviour of our members and staff. Our values (the way in which we will work for the community in pursuing our aims) are set out in our Policy Statement. The standards of conduct and behaviour we expect of members and officers are clearly set out in the Member and Employee Codes of Conduct.

Ensuring ITA members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance

Evidence of compliance

- § Performance Plan
- § Members Handbook
- § Employee Contracts of Employment
- § Member and Employee Codes of Conduct (inc. Lead Authority Codes)
- § Protocol for Dealing with Complaints Against Councillors
- § Policy for the Confidential Reporting of Concerns (“Whistleblowing Policy”)
- § Standing Orders and Officer Delegations
- § Freedom of Information Procedures
- § Standards and Audit Committees’ Terms of Reference include responsibility for promoting high standards of conduct across the ITA
- § Standards and Audit Committees’ Annual Report to the ITA and inclusion within Annual Report and Accounts
- § Financial Regulations
- § Fraud and Corruption Policy

Ensuring that organisational values are put into practice and are effective

Evidence of compliance

- § Standing Orders and Officer Delegations
- § Financial Regulations
- § Fraud and Corruption Policy
- § Standards and Audit Committee Terms of Reference and agendas
- § Standards and Audit Committees’ Terms of Reference include responsibility for promoting high standards of conduct across the ITA

- § Standards and Audit Committees' Annual Report to the ITA and inclusion within Annual Report and Accounts
- § Procedures in place for dealing with complaints against members - ITA Protocol
- § Register of interests and register of gifts and hospitality for both members and employees (inc. lead authority)
- § Nexus Metro Passenger Charter
- § Internal Audit work programme
- § Monitoring Officer role
- § Member Code of Conduct
- § Employee Code of Conduct (inc. Lead Authority Code)
- § Nexus Strategies
- § Strengthening the Audit function of the Standards and Audit Committees by increased relevant membership

CORE PRINCIPLE 4 – Decision Making

Core Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Summary: We recognise that all ITA decisions are potentially subject to legal challenge and that we need to be able to successfully defend such challenges. In order to do so we must be able to demonstrate that decision makers followed a proper process, the decision was properly documented and was taken having regard to all relevant considerations whilst ignoring any irrelevant considerations. Members and officers must therefore have all relevant information before them, including the outcome of any constructive scrutiny and a detailed assessment of the risks to ensure that ITA resources are used legally and efficiently.

Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny

Evidence of compliance

- § ITA meetings
- § ITA Working groups advising full ITA
- § ITA Policy Seminars
- § Policy Work Programme
- § Agendas and minutes of Scrutiny Advisory Group
- § Scrutiny Advisory Group Annual Work Programme
- § Scrutiny Advisory Group Annual Report to ITA
- § Standards and Audit Committees' Terms of Reference include responsibility for promoting high standards of conduct across the ITA
- § Standards and Audit Committees' Annual Report to the ITA and inclusion within Annual Report and Accounts

Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs

Evidence of compliance

- § Reports to ITA / Scrutiny Advisory Group / Standards and Audit committees and LTP, Bus Strategy and Equality and Diversity Working Groups
- § Delegation to Officers / Officer Co-ordination Group meetings
- § Lead Authority policies and procedures
- § ITA Policy Seminars
- § Complaints procedures
- § Communication strategies (Nexus and New Tyne Crossing)
- § Stakeholder consultations

- § Specific legal and financial input sections to ITA reports

Ensuring that an effective risk management system is in place

Evidence of compliance

- § Risk Management Framework
- § Strategic Risk Register
- § Performance and Risk Monitoring report to ITA
- § Standards and Audit Committees' Terms of Reference
- § Standards and Audit Committees' Annual Report to the ITA and inclusion within Annual Report and Accounts
- § Member training sessions

Using their legal powers to the full benefit of the citizens and communities in their area

Evidence of compliance

- § S73 responsibilities
- § Role of Monitoring Officer and Chief Legal Officer
- § Stakeholder consultations
- § Nexus Metro Passenger Charter
- § Complaints against members Protocol
- § Members induction
- § Member training
- § ITA Work Programme
- § Delegation to Officers
- § Ongoing monitoring of policy
- § Use of 'well-being powers' for the NESTI project
- § Revised ITA Report Template

CORE PRINCIPLE 5 – Effective members and officers

Core Principle 5 – Developing the capacity of members and officers to be effective

Summary: Authorities need people with the right skills to direct and control them. The ITA is serviced by officers from the Lead Authority. In addition, Nexus officers work closely with the Lead Authority.

Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles

Evidence of compliance

- § Members Induction and Training
- § Lead Authority and Nexus training programmes
- § Policy briefings
- § Officer job descriptions and person specifications
- § Regular finance training for members
- § Member and officer attendance at conferences, etc

Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group

Evidence of compliance

- § Member training for ITA members and members of Committees
- § Lead Authority / Nexus personal development plans
- § Internal and external audit processes
- § Benchmarking and knowledge sharing with other ITAs

Encouraging new talent for membership of the ITA so that best use can be made of individuals' skills and resources in balancing continuity and renewal

Evidence of compliance

- § Member and officer training
- § ITA, ITA Standards and Audit Committees and ITA Scrutiny Advisory Group – increases in membership
- § Complaints and comments procedures
- § ITA Policy Seminars
- § Lead Authority officer pool

- § Equality and Diversity Working Group
- § Consultation and Involvement strategy
- § Work with Access For All

CORE PRINCIPLE 6 – Local Engagement

Core Principle 6 – Engaging with local people and stakeholders to ensure robust public accountability

Summary: Nexus has arrangements in place for consulting with service users, key stakeholders and partners this is set out in the Consultation and Involvement Policy Strategy to help ensure that key messages about services are taken into account. There is a separate communications plan to ensure that key messages are communicated to stakeholders and other target audiences.

Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships

Evidence of compliance

- § ITA agendas and minutes
- § Scrutiny Advisory Group
- § Standards and Audit Committees
- § LTP, Bus Strategy and Equality and Diversity Working Groups
- § Annual Performance Plan
- § Annual Governance Statement
- § Relationship with internal and external auditors
- § ITA Policy Seminars
- § Consultation and Involvement Strategy
- § LTP 3 development & Consultation
- § Local Sustainable Transport Fund development
- § Consultation on ITA Vision
- § Nexus Passenger Panel
- § Complaints and comments systems
- § Scrutiny Advisory Group Annual reports to ITA on scrutiny function - included in Annual Report and Accounts
- § Reports on scrutiny work programme
- § Reports to the ITA on outcome of call-in of decisions under the scrutiny process
- § Lead Authority delegated decisions system
- § Household Survey
- § Focus Groups as necessary
- § Citizen Panel
- § Links with local strategic partnerships or equivalent partnership forums

Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning

Evidence of compliance

- § Positive relationship with External Audit
- § Positive Relationship with the Tyne and Wear Districts through the Local Transport Plan groups and Programme Boards for Local Sustainable Transport Fund, Better Bus Areas Fund and North East Smart Ticketing Initiative activities.
- § Positive relationship with central government departments e.g. Department for Communities and Local Government and the Treasury and Department for Transport
- § Refreshed ITA Website including publication of all expenditure over £500
- § Publication of agendas and minutes of meetings
- § Annual Performance Plan
- § Consultation And Involvement Strategy
- § Communications Plan
- § Work with Access for All
- § Equality and Diversity Review Sub group
- § Annual Report and Accounts
- § Compliance with Freedom of Information Act 2000 – information requests are monitored to ensure that requests are responded to within the statutory timescales

Making best use of human resources by taking an active and planned approach to meet responsibility to staff

Evidence of compliance

- § Lead Authority / Nexus HR policies and procedures

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APPENDIX C - CIPFA CRITERIA FOR SIGNIFICANT INTERNAL CONTROL ISSUES

A single definition of a significant internal control issue is not possible. Authorities will need to exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category.

Factors which may be helpful in exercising that judgement include:

1. The issue has seriously prejudiced or prevented achievement of a principal objective;
2. The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business;
3. The issue has led to a material impact on the accounts;
4. The audit committee, or equivalent, has advised that it should be significant for this purpose;
5. The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
6. The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
7. The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

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DATE: 05 July 2013

SUBJECT: Internal Audit Progress Report

REPORT OF: Head of Audit and Strategic Risk

If confidential, please indicate and state the reason for confidentiality.

PURPOSE OF REPORT

The CIPFA Internal Audit Code of Practice 2006 requires Internal Audit to regularly monitor its performance against the Annual Audit Plan and to report progress during the year to Audit Committee. The Code also requires Internal Audit to report to Committee on the implementation of recommendations. This report satisfies these requirements by providing the following information:

- A statement on progress against the Annual Internal Audit Plan 2012/13.
- The position on the implementation of audit recommendations.

RECOMMENDATIONS

Audit Committee is recommended to note:

- Progress against the 2012/13 Audit Plan.
- The position on the implementation of audit recommendations.

BACKGROUND DOCUMENTS

Held by, and available from, the contact officers.

CONTACT OFFICERS

Philip Slater, Head of Audit and Risk philip.slater@newcastle.gov.uk 0191 2776511

Ian Pattison, Principal Auditor ian.pattison@newcastle.gov.uk 0191 2776885

IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

1 Executive Summary

This report shows Internal Audit activity since the last Committee meeting in February 2013 and summarises the following:

Details	Assessment	Comments
Progress against the Annual Audit Plan 2012/13 (see 3)	Good	Audit plan complete.
Implementation of recommendations (see 5)	Satisfactory	4 recommendations are outstanding past their due date.
Internal Audit Performance Indicators (see 7)	Good	Number of days utilised is in line with expectations.

2 Introduction and Background

2.1 At its meeting on 20 July 2012, the Audit Committee approved the Strategic Internal Audit Plan 2012/13-2014/15 including the Annual Internal Audit Plan 2012/13.

2.2 This report is produced in accordance with the CIPFA Internal Audit Code of Practice 2006 which requires Internal Audit to regularly monitor its performance against the Annual Audit Plan and to report progress during the year to Audit Committee. The Code also requires Internal Audit to report to Committee on the implementation of recommendations.

3 Progress against the Annual Audit Plan 2012/13

3.1 Completed Audits

Internal Audit have issued the following final reports since the last Audit Committee meeting:

Audit	Assessment
North East Smart Ticketing Initiative – Governance	Good
Tyne Tunnels Contract Monitoring	Good
Performance Monitoring	Some Weaknesses

Additionally, Nexus have provided details of their audit work in 2012/13 covering two key areas of work. These are as follows:

Audit	Assessment
Concessionary Travel	Good
Metro Reinvigoration	Good

Appendix I to this report summarises the work undertaken on the above audit together with our findings and recommendations.



3.2 The table below provides Committee with the current status of each audit in the 2012/13 plan.

Audit	Status
Local Sustainable Transport Fund	Some Weaknesses
Local Transport Plan	Some Weaknesses
Tyne Tunnels Contract Monitoring	Good
North East Smart Ticketing Initiative	Good
Performance Management	Some Weaknesses
Concessionary Travel	Good (Reliance upon Nexus Internal Audit work)
Metro Re-invigoration	Good (Reliance upon Nexus Internal Audit work)

Progress against the Annual Audit Plan 2013/14

The table below provides Committee with the current status of each audit in the 2013/14 plan.

Audit	Status
Treasury Management	Scheduled for Oct / Nov 2013
Local Sustainable Transport Fund (LSTF) and Local Transport Plan (LTP)	Scheduled for Jan 2014
Budgetary Control	Scheduled for Oct / Nov 2013
Tyne Tunnels Contract Monitoring	Scheduled for March 2014
Risk Management	Work in progress
Concessionary Travel	Reliance upon Nexus Internal Audit work taken at year end.
Metro Re-invigoration	Reliance upon Nexus Internal Audit work taken at year end.

4 Reliance on Newcastle City Council Financial Systems

4.1 TWITA uses a number of Newcastle City Council financial systems. Internal Audit undertook audits of those systems in 2012/13 which provides TWITA with assurance on the adequacy of the controls in operation. The assessments given for each of those audits is shown below.



Audit	Assessment
Main Accounting	Satisfactory
Internal Banking	Good
Creditors	Some weaknesses

There are no significant issues impacting upon the arrangements operating for TWITA and therefore TWITA can rely upon the systems in place.

Whilst the creditors audit shows some weaknesses there is no impact upon the control environment for TWITA. TWITA arrangements were assessed as good as part of the Tyne Tunnels Contract Monitoring audit.

5 Recommendations Follow Up

5.1 Management is responsible for implementing all audit recommendations. Internal Audit follows up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. As low priority recommendations are not vital to the Authority's system of internal control these are not followed up by Internal Audit.

5.2 Four medium priority recommendations due for implementation are outstanding and there are three medium priority recommendations not yet due for implementation. The table below provides details of all recommendations which are outstanding or have not yet been implemented.

Audit and Recommendation	Due date	Progress update
2011/12 Audits		
Strategic Business Planning The Policy Advisor to the ITA should develop a Performance Management Framework which enables the delivery of LTP3 to be effectively monitored.	30/09/12	Performance monitoring audit has confirmed these actions remain outstanding and are expected to be implemented by September 2013.
2012/13 Audits		
LTP and LSTF Governance and Performance Monitoring The Lead Policy Advisor to TWITA should undertake a fundamental review of the governance	31/05/13	Not yet complete and will be assessed and finalised following completion of NCC restructure.



structures supporting LTP / LSTF.		Expected by September 2013.
<p>LTP and LSTF Governance and Performance Monitoring</p> <p>The Lead Policy Advisor to TWITA should undertake a fundamental review of the LTP Core Team and determine its roles and responsibilities going forward.</p>	31/03/13	Not yet complete and will be assessed and finalised following completion of NCC restructure. Expected by September 2013.
<p>LTP and LSTF Governance and Performance Monitoring</p> <p>The Lead Policy Advisor to TWITA should ensure that there is a periodic review of LTP3 undertaken to assess the effectiveness of delivery against LTP3 and to determine its ongoing appropriateness in light of the changing economic and operational environments.</p>	30/09/13	This action will be taken forward once the revised governance structures are agreed.
<p>LTP and LSTF Governance and Performance Monitoring</p> <p>The Lead Policy Advisor to TWITA should determine appropriate governance arrangements which enable TWITA to obtain assurances that the funding allocated to districts is spent on projects which contribute towards delivery of LTP3, i.e. it is being spent on relevant projects, objectives of projects are clearly defined and subsequent monitoring of delivery against these projects.</p>	30/09/13	This will be considered in part through the overarching review of governance structures. Once completed it will be necessary to work on these arrangements with partners to agree requirements.
<p>LTP and LSTF Governance and Performance Monitoring</p> <p>As part of the review of governance arrangements and LTP Core Team Work Programme the Lead Policy Advisor to TWITA should determine appropriate arrangements for reporting to ITA, i.e. what information is required to</p>	31/05/13	This will be considered through the overarching review of governance structures which is ongoing.



enable them to assess delivery and value for money being obtained from the money it is spending.		
LTP and LSTF Governance and Performance Monitoring The Lead Policy Advisor to TWITA should identify an appropriate officer to undertake a review of the capabilities and capacity of Project Vision as a project management and management reporting tool for LSTF.	31/12/13	Performance monitoring audit has confirmed these actions remain outstanding and are expected to be implemented by September 2013.

6 Internal Audit Performance Indicators

6.1 Internal Audit has a number of internal performance indicators agreed with the Committee. The table below shows the indicators used and our performance in 2012/13 to date. The figures shown in brackets represent the number of audits to which the performance indicator relates.

Performance Indicator	Target	Actual
Completion of the Annual Internal Audit Plan.	100% (5)	100% (5)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work.	35	35
Average satisfaction survey score (maximum score 5) – See Note 1	4 (4)	4.2 (1)

Note 1 – As LTP and LSTF Governance and Performance Monitoring was issued as one report there are now only 4 surveys expected. Surveys for the 3 remaining audits have been issued but are not yet due for return.

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			
			High	Medium	Low	
North East Smart Ticketing Initiative (NESTI) – Governance	To review the adequacy and effectiveness of governance arrangements for NESTI.	Good	0	0	0	
Effective controls and areas of good practice			Areas for further development			
<ul style="list-style-type: none"> Robust governance arrangements are established and a senior ITA officer chairs the Partnership Board which provides executive oversight of delivery. This Board has appropriate representation from all delivery partners. Updates on delivery and spend are provided to the Partnership Board and ITA. Additionally, as this is a regional programme, the Association of North East Councils also receives updates. 			§ No recommendations.			

Summary of completed audits

Audit Work	Audit coverage	Assessment	Recommendations			
			High	Medium	Low	
Tyne Tunnels Contract Monitoring	To review the adequacy and effectiveness of contract monitoring for the Tyne Tunnels contract.	Good	0	0	0	
Effective controls and areas of good practice			Areas for further development			
<ul style="list-style-type: none"> • There are robust contractual arrangements setting out allocation of income and calculating all payments due to the Concessionaire. • There are robust arrangements for collection, processing and banking of all cash collected from the toll booths. • Tolls income is received promptly and in line with the Project Agreement. • There is a monthly invoice checking process completed prior to authorising payments to the Concessionaire. • The Finance Service undertake reasonableness checks on income received during the year and a full reconciliation as part of year end. • Transactions are recorded accurately on the financial system. 			§ No recommendations.			

Summary of completed audits

Audit Work	Audit coverage	Assessment	
Performance Monitoring – Follow Up	Review the implementation of performance monitoring recommendations made in the Strategic Business Planning audit report issued in April 2012 and Local Transport Plan and Local Sustainable Transport Fund - Governance and Performance Monitoring audit report issued in January 2013.	Some Progress has been made towards implementation of audit recommendations. The recommendations are only partially implemented.	Audit complete
Update on progress			
<p>Joint Transport Working Group have developed and agreed performance targets for some areas but these do not as yet cover all of the priorities set in the LTP3 Delivery Plan 2011-14. As the agreement of targets across all areas remains outstanding there has not yet been any monitoring of performance and subsequent reporting to ITA. The LPT Working Group have proposed to prepare a monitoring report in the first half of 2013.</p>			

Summary of completed audits

Audit	Nexus Audit coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Concessionary Travel	To review the fixed payment agreement with operators and to ensure that the four weekly returns and audit certificates from the major operators are complete, accurate and matched with Continuous Monitoring returns which show good correlation to support payments made.	Good	0	0	0	Audit complete
Areas of good practice			Areas for further development			
<ul style="list-style-type: none"> • Mazars (External Auditor) review procedures on an annual basis and update a control flowchart • Independent audit certificates are received from major operators to confirm the accuracy of the four weekly returns. • Fixed payments are agreed with the 3 major operators. <ul style="list-style-type: none"> ○ Budget certainty on both sides and assists to promote a stable network for our customers in Tyne and Wear; ○ Removes the risk of operator appeal and the associated costs and timeliness of the decision could affect both future budgets for both parties and have a consequential knock-on effect to secured services and commercial services, again affecting our customers; ○ Nexus ensure that ridership targets are met and if this goes below the 5% of the agreed target then a clawback payment is enforced. 			<ul style="list-style-type: none"> • Continuous Monitoring; surveys can be extended to include additional questions on journeys and possible ticket inspections which would give greater travel information and act as a further deterrent to reduce fraudulent travel • Smart Card technology; these will give further electronic data on passenger journeys frequency of travel to assist in data to support quality contracts ,voluntary contracts with operators and secured services • Ticketing & Gating. This will assist ion the reduction of fraudulent travel for metro and cross over services 			



- | | |
|---|--|
| <ul style="list-style-type: none">• Nexus utilise the DfT guidelines as to how to reimburse operators for concessionary passengers as the base document in assisting in the negotiations with operators to ensure we (Nexus) achieve best value on behalf of the Tyne and Wear districts which we represent.• The negotiations involve some judgement, for example to calculate average fare, and Nexus utilise external consultants to both assist and give an independent assessment.• Nexus Continuous Monitoring is used to correlate survey results with the four weekly returns from operators on revenue, mileage and total ridership. | |
|---|--|

Summary of completed audits

Audit	Nexus Audit Coverage	Assessment	Recommendations			Status
			High	Medium	Low	
Metro Reinvigoration	<p>To ensure appropriate levels of controls and supervision have been exercised over the projects making up the Metro Reinvigoration programme and adequate records exist to support payments made in accordance with funding requirements. The elements of the Metro Reinvigoration linked to the Metro Operating Concession include:</p> <ul style="list-style-type: none"> • Delivery by the MC of the Metrocars ¾ life refurbishment programme; • Facilitate the delivery of the Automatic Fare Collection project (“the AFC project”) by working in partnership with Nexus and its appointed contractors; • Facilitate the delivery of the Asset Renewal Programme (ARP) to 	Good	0	0	0	<p>Good progress made to date on both Metro Reinvigoration and the Concession. Nexus have met DFT spend target for 2012/2013 and progressing well for 2013/2014 to date. Review of the ¾ Life refurbishment of the Metro cars was undertaken in the year by Internal Audit payments were in accordance with agreement.</p>



	programme by working in partnership with Nexus and its appointed contractors					
Areas of good practice			Areas for further development			
<ul style="list-style-type: none"> • Capital programme was submitted to and approved by the ITA. • All expenditure (committed and actual) charged to capital projects was appropriate, monitored on a regular basis and reported to management. • Capital funding reclaims were correct. • Project slippage is monitored and reported to the ITA on a quarterly basis. • Correct approvals for the individual schemes obtained. • Competitive tenders were sought and appropriate contracts made. • Adequate levels of supervision and control had been exercised during the contract period. • Overall financial standing of the Metro ARP is understood and communicated to those charged with governance. Forecast overspends are identified, challenged and managed down. • Payments are correctly allocated and adequate records exist to support payments made. • The Concession Agreement which commenced on 1 April 2010 between Tyne and Wear PTE and DB Regio Tyne and Wear Limited regarding the requirements and timetable for capital expenditure are comprehensive and subject to monthly review. • The scope of audit work carried out on an annual basis was in 			<ul style="list-style-type: none"> • Constant dialogue with DfT on funding and budget virement. • Constant lessons learned programme following Stage Gate procedures. The creation of the Asset Delivery Team will achieve an effective resource in the delivery as certain track improvement throughout the system and result in financial savings 			



respect of fixed payments for variable and non-variable costs, penalty and reward clauses on performance and committed obligations for which penalties can be charged.	
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DATE: 05 July 2013

SUBJECT: Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk

REPORT OF: Head of Audit and Strategic Risk

If confidential, please indicate and state the reason for confidentiality.

PURPOSE OF REPORT

This report sets out the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk as required by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (“the Code”).

A summary of the work carried out by Internal Audit on which the Opinion is based is set out in section 3.1 below which has been reported to managers and directors in audit reports and to Audit Committee at its meetings.

RECOMMENDATIONS

Audit Committee is recommended to:

- Receive and consider the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk

BACKGROUND DOCUMENTS

Held by, and available from, the contact officers.

CONTACT OFFICERS

Philip Slater, Head of Audit and Risk philip.slater@newcastle.gov.uk 0191 2776511

Ian Pattison, Principal Auditor ian.pattison@newcastle.gov.uk 0191 2776885

IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

Summary of completed audits

1	The Opinion																
	<p>The Opinion of the Head of Audit and Strategic Risk, based on the internal audit work carried out since the date of the previous Internal Audit Annual Report is that TWITA's systems of control are satisfactory, i.e. the control environment throughout the year has been adequate and effective. The overall opinion for 2011/12 was good.</p> <p>No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance.</p> <p>There are no qualifications to the above opinion.</p>																
2	Summary of audit work form which the opinion is derived																
2.1	<p>Set out in Table 1 below are the Internal Audit reports which have been issued and reported to Audit Committee during the year. There are no high priority findings arising from audits and therefore no findings which impact upon TWITA's Annual Governance Statement.</p> <p>Table 1 – 2012/13 Internal Audit Reports Issued</p> <table border="1" data-bbox="272 1077 1310 1480"> <thead> <tr> <th data-bbox="272 1077 850 1122">Audit</th> <th data-bbox="850 1077 1310 1122">Status</th> </tr> </thead> <tbody> <tr> <td data-bbox="272 1122 850 1160">Local Sustainable Transport Fund</td> <td data-bbox="850 1122 1310 1160">Some Weaknesses</td> </tr> <tr> <td data-bbox="272 1160 850 1198">Local Transport Plan</td> <td data-bbox="850 1160 1310 1198">Some Weaknesses</td> </tr> <tr> <td data-bbox="272 1198 850 1236">Tyne Tunnels Contract Monitoring</td> <td data-bbox="850 1198 1310 1236">Good</td> </tr> <tr> <td data-bbox="272 1236 850 1274">North East Smart Ticketing Initiative</td> <td data-bbox="850 1236 1310 1274">Good</td> </tr> <tr> <td data-bbox="272 1274 850 1312">Performance Management</td> <td data-bbox="850 1274 1310 1312">Some Weaknesses</td> </tr> <tr> <td data-bbox="272 1312 850 1400">Concessionary Travel</td> <td data-bbox="850 1312 1310 1400">Good (Reliance upon Nexus Internal Audit work)</td> </tr> <tr> <td data-bbox="272 1400 850 1480">Metro Re-invigoration</td> <td data-bbox="850 1400 1310 1480">Good (Reliance upon Nexus Internal Audit work)</td> </tr> </tbody> </table>	Audit	Status	Local Sustainable Transport Fund	Some Weaknesses	Local Transport Plan	Some Weaknesses	Tyne Tunnels Contract Monitoring	Good	North East Smart Ticketing Initiative	Good	Performance Management	Some Weaknesses	Concessionary Travel	Good (Reliance upon Nexus Internal Audit work)	Metro Re-invigoration	Good (Reliance upon Nexus Internal Audit work)
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Performance Management	Some Weaknesses																
Concessionary Travel	Good (Reliance upon Nexus Internal Audit work)																
Metro Re-invigoration	Good (Reliance upon Nexus Internal Audit work)																
2.2	<p>The 2012/13 audit plan has been completed and audit assessments relating to 2012/13 Internal Audit reports show that 2 reports were rated as good and 3 reports were rated as some weaknesses supporting an overall opinion for the year of satisfactory. Also both audits where reliance has been placed upon the internal audit work of Nexus have been assessed as good.</p> <p>In addition to the above audits advice and guidance has been provided by Internal Audit to TWITA over the year on control and efficiency issues.</p>																



3 Reliance on Newcastle City Council Financial Systems

3.1 TWITA uses a number of Newcastle City Council financial systems. Internal Audit undertook audits of those systems in 2012/13 which provides TWITA with assurance on the adequacy of the controls in operation. The assessments given for each of those audits is shown below.

Audit	Assessment
Main Accounting	Satisfactory
Internal Banking	Good
Creditors	Some weaknesses

There are no significant issues impacting upon the arrangements operating for TWITA and therefore TWITA can rely upon the systems in place.

Whilst the creditors audit shows some weaknesses there is no impact upon the control environment for TWITA. TWITA arrangements were assessed as good as part of the Tyne Tunnels Contract Monitoring audit.

4 Internal Audit Performance

4.1 Internal Audit's performance in completing audit work in the 2012/13 Plan has been reported to the Audit Committee throughout the year and final performance is shown in the Internal Audit Progress Report which is elsewhere on this agenda. All assignments have been completed against the 2012/13 plan.

Performance Indicator	Target	Actual
Completion of the Annual Internal Audit Plan.	100% (5)	100% (5)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work.	35	35
Average satisfaction survey score (maximum score 5) – See Note 1	4 (4)	4.2 (1)

Note 1 – As LTP and LSTF Governance and Performance Monitoring was issued as one report there are now only 4 surveys expected. Surveys for the 3 remaining audits have been issued but are not yet due for return.

5 Review of Effectiveness and Internal Audit Quality Assurance



5.1 The Accounts and Audit Regulations 2011 require a Local Authority to annually review the effectiveness of its Internal Audit.

NCC's Director of Resources has undertaken an assessment for 2012/13 and considers the Internal Audit function to be operating effectively and reported this to NCC's Audit Committee on 28 June 2013. This assessment was based on the following evidence:

- A self assessment by the Head of Audit and Strategic Risk against the CIPFA Code of Practice for Internal Audit in Local Government, which found the service to comply with the Code.
- Reliance placed on internal audit work by the Council's and TWITA's External Auditor (Deloitte) who said .

"We have undertaken our initial review of Internal Audit to determine whether or not we can place reliance on the work and have concluded that arrangements and the work carried out are adequate and we will be placing reliance on that work in selected areas. Further reviews and re-performance testing will be undertaken in those specified areas in accordance with international auditing standards." No recommendations were raised for improvements by the External Auditor.

- Internal Audit's achievement of key performance indicators for 2012/13.
- Internal Audit's completion of NCC ad partners 2012/13 Annual Audit Plans.

TWITA can rely upon this assessment of the effectiveness of Internal Audit.

Tyne and Wear Integrated Transport Authority Audit Committee

Work Programme

		2013/14		
Details		5 July 2013	18 Sept 2013	21 Feb 2014
Governance				
1	Review the risk update report		Scheduled	Scheduled
2	Review the Authority's anti-fraud and anti-corruption arrangements			Scheduled
3	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority	Scheduled	Scheduled	
4	Progress Update on the Annual Governance Statement	Scheduled	Scheduled	
5	Review Annual budget and budget monitoring reports for the Authority.	Scheduled		Scheduled
Audit				
6	Approve Three Year Strategic Internal Audit Plan, including Annual Internal Audit Plan for the following financial year.			Scheduled
7	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any).	Scheduled	Scheduled	Scheduled
8	Consider Internal Audit Annual Report and Opinion of the Head of audit and Strategic Risk	Scheduled		
9	Consider External Audit Annual Plan	Scheduled		
10	Consider External Audit Progress Report	Scheduled	Scheduled	Scheduled
11	Consider External Audit Inspection Letter			Scheduled

Tyne and Wear Integrated Transport Authority Audit Committee

Work Programme

12	Consider External Audit report on the Annual Accounts – draft and final versions		Scheduled	
	Accounts			
13	Approve the Authority’s accounting policies			Scheduled
14	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report and Accounts by the ITA.		Scheduled	
	Governance and Risk Management			
15	Annual Review of the Terms of Reference	Scheduled		Scheduled
16	Agree Annual Report to the Authority			Scheduled