



Tyne & Wear ITA - Standards & Audit Committee

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN
on Friday 16 September 2011 at 2.00 pm

Membership:

Independent Chair: Mr Scrimshaw

Independent members: Mr Atkinson, Mr Clark and Ms Green

Councillors: Blackburn, Green, Hall, McElroy and P Wood

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

ITA papers are available on the ITA website at www.twita.gov.uk

Members are reminded to sign the attendance list

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1. Apologies for Absence

2. Declarations of Interest of Members or Officers in any matter to be discussed at the meeting

(If any Member has a personal/prejudicial interest please complete the appropriate form and hand this to the Democratic Services Officer before leaving the meeting. A blank form can be obtained from the DSO at the meeting).

Members are reminded to verbally declare their interest and the nature of it and, if prejudicial, leave where appropriate at the point of the meeting when the item is to be discussed

3. Minutes of the Previous Meeting

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4. 2010/11 Audit of the Annual Report and Accounts

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.

5. Annual Report and Accounts 2010/11

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.

6.	Annual Governance Statement 2010/11	7 - 22
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10.	Dates and Time of the Next Meeting	

Members are requested to agree a date of the February 2012 meeting.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.



Tyne & Wear ITA - Standards & Audit Committee

8 July 2011
(2.00 - 3.10 pm)

Present:

Chair: Mr Scrimshaw
Councillors: P Wood and Hall
Independent Members: Mr Atkinson and Ms Green

In attendance:

P Woods - Deputy Clerk and Treasurer, Newcastle City Council
E Goodman - Senior Accountant (ITA), Newcastle City Council
H Wilson - Legal Services, Newcastle City Council
I Poll - Head of Democratic Services, Newcastle City Council
P Slater - Head of Audit and Strategic Risk, Newcastle City Council
I Pattison - Audit and Strategic Risk, Newcastle City Council
R Elliott - Head of Strategy, Planning and Performance, Newcastle City Council
V Miller - Democratic Services Officer, Newcastle City Council
D Wilkinson - Partner, Deloitte LLP Chartered Accountants

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Blackburn and McElroy and Mr Clark.

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

There were no declarations of interest received.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting held on 18 March 2011 were approved as a correct record and signed by the Chair.

Matters Arising

(a) The future of the standards regime – Localism Bill – Chapter 5

(Minute 36 refers)

H Wilson provided an update on the progress of the Localism Bill which was at the stage of being considered by members of the House of Lords.

(b) ITA Budget 2011/12

(Minute 37 refers)

A member asked for the report on the split and analysis of the Concessionary Travel grant and the grant to Bus Services and Infrastructure, which had been requested at the last meeting, to be made available to the Committee as soon as possible. **(Action: Director of Finance and Resources, Nexus)**

(c) Whistleblowing, Fraud and Corruption Policy Updates

(Minutes 42 refers)

I Pattison confirmed that the wording of section 4.1.1 had been amended in line with the request made by the Committee at the last meeting.

4. THE 2011 AUDIT PLANNING REPORT FROM DELOITTE

Submitted: A report by Deloitte (previously circulated and copy attached to Official Minutes).

D Wilkinson presented the report which informed members about Deloitte's proposed audit plan for the Tyne and Wear Integrated Transport Authority for the financial year 2010-2011.

D Wilkinson clarified that it was part of Deloitte's remit to look at the valuation of pension liabilities and this work did not repeat the work of actuaries. It was noted that Deloitte used their own specialists.

D Wilkinson confirmed that accounting for the New Tyne Crossing would be added to the list of key audit risks set out in the report summary, due to the complexity of the accounting treatment. **(Action: Deloitte)**

D Wilkinson confirmed that the auditors used a formulated calculation when determining materiality and prior year uncorrected misstatements and disclosure deficiencies.

RESOLVED – That:

- (i) the report be noted;
- (ii) a report on the findings from the final visit and value for money work be submitted to the September 2011 meeting **(Action: Deloitte)**.

5. ANNUAL GOVERNANCE STATEMENT 2010/11

Submitted: A report by the ITA Officers' Co-ordination Group (previously circulated and copy attached to Official Minutes).

R Elliott presented the Annual Governance Statement 2010-2011 and invited members to comment on the document.

Comments:

- The Chair recommended that the job titles of the officers who attended meetings of the ITA Officers' Co-ordination Group should be outlined in the document. It was agreed not to specify the names of the officers as they were not working for the ITA on a full-time basis. **(Action: the Head of Strategy, Planning and Performance would update the document and the Democratic Services Officer would circulate it to members).**
- In relation to business continuity, it was clarified that the majority of business processes of the ITA relied on the processes, systems and procedures of Newcastle City Council as the lead authority and, therefore, the functionality of these systems was crucial to the functionality of the systems of the ITA.
- With regard to section 4.5 of the report, it was noted that the annual self-assessment of the Committee's effectiveness had been carried out. This will be reflected in the updated version of the document. **(Action: the Head of Strategy, Planning and Performance).**
- With regard to section 3, Core Principle 1, it was clarified that the three ITA member working groups were the existing working groups. The document would be amended accordingly. **(Action: the Head of Strategy, Planning and Performance).**
- In relation to section 4.3 (e) of the report, P Woods advised that the independence of Nexus' Annual Governance Statement and external auditing from the Annual Governance Statement and external auditing of the ITA should be clarified in the document. It should also be clarified that the senior ITA officer representation on Nexus' Executive Board were the Clerk of the ITA, the Deputy Clerk and Treasurer of the ITA and the Policy Adviser to the ITA. **(Action: the Head of Strategy, Planning and Performance).**

RESOLVED – That:

- (i) the suggested amendments be incorporated and the evidence of this be circulated to members;
- (ii) any further significant amendments be reported at the September 2011 meeting;
- (iii) the final document be submitted to the September 2011 meeting and then to the September 2011 meeting of the ITA for approval.

6. **OUTTURN AND DRAFT FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2010/11**

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

P Woods introduced the report which provided members with a summary of the Authority's financial position in 2010-2011. He invited members to comment. It was noted that the full document would be presented to the Committee in September and members would then have another opportunity to comment.

In response to members' questions, the following points were explained:

- **NESTI**

The North East Smart Ticketing Initiative (NESTI) would be implemented over the course of the next 2 years. The "Smart Card" was the technology and the "POP Card" was the brand. "POP" did not stand for anything in particular but was a catchy word without a negative connotation. Whilst the main use of the card was on transport, in the long-term there were opportunities to expand its use to other areas of life.

- **The New Tyne Crossing**

Officers were developing a long-term financial strategy for the Tyne Tunnels, which included setting a sustainable level of tolls. In relation to the employees, it was noted that the majority of staff were the employees of the concessionaire, TT2.

- **Principal Financial Results for the Year – Where the Money Comes From**

It was agreed that the diagram 2 in section 5.1 of the report should clarify that the Public Transport Revenue Grant was a grant to Nexus. **(Action: The Deputy Clerk and Treasurer/Senior Accountant).**

RESOLVED – That the report and comments made be noted.

7. **REVENUE BUDGET MONITORING REPORT TO JUNE 2011**

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

P Woods presented the report which provided members with the revenue budget monitor information.

It was agreed that an indicative position in relation to financing charges could be added to all future budget monitoring reports; this is in addition to reporting the position at the year end **(Action: Deputy Clerk and Treasurer/Senior Accountant).**

RESOLVED – That:

- (i) the report be noted;
- (ii) future reports include an indicative position in relation to financing charges.

8. **VALUE FOR MONEY SELF ASSESSMENT - UPDATE**

Submitted:

- (i) A report by the Deputy Clerk and Treasurer (previously circulated and copy attached to Official Minutes);
- (ii) VFM conclusion self-assessment 2010/11 – Tyne & Wear Integrated Transport Authority (with the permission from the Chair, due to the timetables involved circulated at the meeting and copy attached to Official Minutes).

E Goodman presented the report which provided an update on the progress of the draft 2010/11 Value for Money Self-Assessment.

RESOLVED – That the report be noted.

9. **INTERNAL AUDIT PROGRESS REPORT**

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

I Pattison introduced the report which provided an update on the progress against the 2010-2011 and 2011-2012 audit plan and implementation of audit recommendations.

Members enquired as to whether or not there should be concern that the Treasury Management audit was rated as “Satisfactory” and not “Good”. Internal Audit officers explained that “Satisfactory” was a positive outcome and the wording of the opinion reiterated this, i.e. slight improvements are required in these areas to increase the adequacy and effectiveness of risk management, control and governance.

RESOLVED – That the report be noted.

10. **INTERNAL AUDIT ANNUAL REPORT AND OPINION OF THE HEAD OF AUDIT AND STRATEGIC RISK**

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

P Slater presented the report which set out the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk which provided an overall assessment of “Satisfactory” for 2010-2011.

The Chair asked what would be required to improve the overall opinion to “Good”. Following on from previous discussions P Slater reaffirmed that “Satisfactory” was a positive assessment and did not raise any concerns around the operation of the system of control. P Slater went on to say that there would be an expectation that all audits in the year under review would need to be rated as “Good” and no other issues would be identified before an overall opinion of “Good” would be awarded.

P Slater informed members that there were now some new areas included within the audit plan for 2011-2012 which had not been audited previously, e.g. strategic planning and NESTI. As such, there was more risk that the assessment in these areas would not be "Good" given no previous work and recommendations made to improve arrangements. It was felt important to look at these areas to add value to the audit process as opposed to continually looking at areas which have been audited regularly and improved to a "good" state as a result, e.g. tolls income.

Members felt that the general public might not perceive "Satisfactory" to be a positive assessment but acknowledged that the assessment was consistent with the assessment criteria for report ratings.

A member asked what arrangements were in place for continuous improvement. Officers informed members there were a range of mechanisms in place including the Service Transformation and Efficiency Programme (STEP).

RESOLVED – That the report and comments made be noted.

11. **WORK PROGRAMME (FOR INFORMATION)**

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

RESOLVED – That the work programme be noted.

12. **DATES AND TIME OF THE NEXT MEETING**

Friday, 16 September 2011 at 2pm



Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date: 16 September 2011
TITLE: ANNUAL GOVERNANCE STATEMENT 2010/11
REPORT OF ITA OFFICER CO-ORDINATION GROUP
Not Confidential / District Implications - All

1. Summary / Purpose of Report

- 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 to be published as part of the ITA's accounts.
- 1.2 Officers from the ITA Co-ordination Group ("Officer Group") carried out this review in May 2011 and updated assurances in August 2011– this report explains and presents the outcome.
- 1.3 Appendix A to this report presents the Annual Governance Statement 2010/11 ("AGS").
- 1.4 The role of this Committee, as per the relevant paragraphs of its Terms of Reference are:
 - 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. Recommendations

- 2.1 To consider the Annual Governance Statement provided in **Appendix A** and recommend it to the ITA for approval on 22 September 2011, as part of the Annual Report and Accounts 2010/11.

3. Introduction / Background

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 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.

4. Review Process

- 4.1 The Officer Group met on 4 May 2011 to draw together their knowledge of the ITA's activities during the 2010/11 financial year. Where available, the Officer Group drew upon the information sources highlighted in Section 4 of the AGS. These information sources were further reviewed where relevant in August 2011 to ensure that the AGS is up to date at the point of final approval. No revisions to the draft AGS approved by this Committee on 8 July 2011 were required.
- 4.2 The main parts of the review were:
- (a) **Assurances provided by Internal Audit during the year:** All key officers and the Officer Group are informed of the outcomes of all audits completed during the year and any impact upon the ITA's operations. Key officers also receive a copy of all final reports. A summary of all Internal Audit work completed in the year is provided in the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk which is included on this agenda. As part of this report the effectiveness of Internal

¹ Local Government Act 1999

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

Audit and its compliance with CIPFA Code for Internal Audit is considered.

- (b) **Assurances provided by External Audit (Deloitte) during the year:** officers attend regularly meetings with the external auditors which enables continuing feedback. The “Value for Money Conclusion” reached as part of the audit of the accounts has also been taken into account as part of the review.
- (c) **Local Transport Plan Partnership:** a review of the main governance and internal control arrangements through an assurance statement.
- (d) **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.
- (e) **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.
- (f) **Newcastle City Council’s 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.
- (g) **ITA Strategic Risk Register:** officers considered risks set out in the Strategic Risk register. The Risk Register was also shared, for comment, with the ITA Scrutiny Committee Chair and Vice-Chair.
- (h) **Views of the Officer Group:** the group is represented by policy and management, finance, legal, internal audit, risk management, project management and democratic / member services, all working on behalf of the ITA. Membership is:

Director of Finance and Resources

Head of Corporate Law

Head of Strategy, Planning and Performance

Policy and Information Officer (with scrutiny responsibility)

Project Director, New Tyne Crossing

Team Manager Transport, ITA LTP City Region

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

- 4.4 The Committee carried out a self-assessment of its effectiveness in September 2010 and an action plan was developed to improve where the Committee felt it was necessary.

5. Conclusions of the Review

- 5.1 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.
- 5.2 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.
- 5.3 Significant weaknesses:
- There are no areas of significant weakness that have been identified in the review in 2010/11.
- 5.4 Significant improvements needed:

Business Continuity, Planning and Testing: this is linked to the Lead Authority's arrangements –

Summary

Following an audit of the function in 2010 and a recent interim check in 2011 it has been judged that reasonable progress is being made to implement the audit recommendations with most recommendations either fully or partially implemented. Those that have not yet been started are dependant on other recommendations being completed first.

Issues

The move to embed ownership of the plans and arrangements in each of the Directorates continues with close working taking place between the Business Continuity officers and the co-ordinators in the Directorates. This network has been expanded to include other relevant colleagues from across the council e.g. ICT, HR, Risk Management, Insurance etc This has been helped by simplifying the process and working to put in place cross-cutting strategic arrangements that will support the

Council in the event of a Business Continuity incident occurring. This has been done against a back-drop of unprecedented change for the organisation which has made gathering data challenging. The review of the Resilience function across Tyne and Wear has also created some uncertainty about the how the central function will be filled in the future. The resolution of this is imminent.

2011/12 Actions

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

6. Monitoring

The ITA Officer Co-ordination Group will monitor progress in addressing the issues highlighted in Paragraph 5 and provide a monitoring report to this committee in December 2011.

7. Next Steps

6.1 The ITA will consider and approve the AGS, as recommended by this Committee, on 22 September 2011.

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

7. Further comments by the:

- **Clerk** (none);
- **Treasurer** –
- **Legal Advisor** The Legal Advisor to the ITA is a member of the Co-ordination Group and has been involved in the preparation of this report. He has nothing to add;
- **Director General** (none).

8. Background Papers

8.1 None.

9. Contact Officer (s):

Richard Elliott – Head of Strategy, Planning & Performance, Newcastle City Council
0191 277 7669

Roger Gill – ITA Policy Manager – 0191 211 4805

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.

ANNUAL GOVERNANCE STATEMENT 2010/11

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 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 2011 and up to the date of approval of the Annual Report and Accounts.

This Annual Governance Statement explains how we have complied with the Local Code and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a “statement on internal control”.

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.

We consulted with our Members, residents and businesses during 2010 on the vision and objectives which helped inform our adopted vision and objectives.

There is a policy work programme enabling us to secure effective and forward looking decision making, the work programme for the current year will be presented to ITA Members in July 2011.

The ITA has produced a short summary outlining its vision and new direction of travel, explaining the progress of the former PTA into becoming the ITA.

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.

In 2009 we aligned our key output measures closely to the National Indicators used for Local Area Agreements and members will be informed of progress annually. The Passenger Transport Policy Statement will change in nature and will be incorporated into the broader ITA vision.

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 have established 3 ITA Member Working Groups to help the ITA discharge its broader remit. These are the LTP Working Group, the Equality and Diversity Working Group and the Bus Strategy Working Group. In addition Members have established a Metro Sub Committee, these have been embedded now.

We have been closely involved in the review of transport governance across the Tyne and Wear City Region which has strengthened the role of the ITA in developing

transport strategy and policy at the City Region level, and looking forward to the emerging North East Local Enterprise Partnership.

The role of Standards and Audit Committee has been further embedded over the last year. The Scrutiny Committee has an agreed annual work programme which has been implemented. The Scrutiny Committee moved from themed meetings around national policy goals to more timely scrutiny of issues in the ITA's own forward plan. Regular review enabled the committee to take account of the balance of the work programme, new and emerging issues, changing scrutiny priorities and discussion at meetings. We have undertaken a partnership governance review of the Local Transport Plan.

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.

We measure value for money by an annual self-assessment that we submit to our external auditors. This assesses 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 two theme areas and the specific KLOE which will be considered in 2010/11 are:

- managing finances
 - financial planning and financial health
 - understanding costs and achieving efficiencies
 - financial reporting
- governing the business
 - risk management and internal control.

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.

Performance measurement and management information includes our key output measures linking to the set of National Indicators and local performance indicators. Targeting for all indicators includes analysis of past performance, comparative performance, priorities identified through consultation and financial plans, and checks on achievability. These will be reviewed over the next year to align with the LTP measures. 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.

Performance is reported to the ITA.

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.

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 members are clearly set out in the ITA's constitution, and are reviewed annually.

There is a clear scheme of delegation to officers.

The roles of Scrutiny and Standards and Audit Committees are set out within their Terms of Reference. The role of Standards and Audit Committee was reviewed in 2008/09 and the new terms of reference embedded within the ITA. .

Membership of the ITA Scrutiny Committee is reviewed to ensure it provided effective measures to hold the ITA to account.

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 and Audit 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.

Standing Orders were reviewed in May 2009, Financial Regulations have been reviewed and considered by members in May 2010. 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 2011.

Policy and decision making is undertaken by the ITA and its advisory groups. Officers from the ITA, the districts 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 Committee consists of members who are not ITA Members, so are able to provide independent scrutiny. Scrutiny Committee membership is made up of two Councillors from each of the Tyne & Wear Districts, for equality of representation.

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 a Standards and 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 and other senior managers are responsible for advising the ITA and associated committees on legal, financial and other 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 & 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.

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 and Sunderland Station development.

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

The consultation and involvement strategy sets out how Nexus on behalf of the ITA are engaging with their partners and stakeholders. The ITA has reviewed and refreshed its website to ensure it is easier to use and with more up to date information. The ITA website contains all Committee papers so that the public can access them and we have incorporated a feedback mechanism. The Nexus website encourages people to submit questions and offer feedback.

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.

We have strengthened partnerships with city region colleagues through the Transport Governance Review with ITA officers playing a significant role in the development of an emerging City Region Transport Strategy. We continue to work with and liaise with individual Local Strategic Partnerships in the districts to raise the profile of the ITA.

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 existing Tyne Tunnel and the construction of a New Tyne Crossing.

The NESTI partnership is made up from all local authorities across the North East in order to provide a smart ticketing transport infrastructure across the region. The ITA is leading on this. 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. 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 Co-ordination Group and the outcomes are reviewed by the Standards and 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 regularly reported to Standards and 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 Value for Money Self-Assessment which assesses our performance and the services we provide
- (h) The ITA's Strategic Risk Register, which captures the most significant risks associated with delivery of the ITA's objectives
- (i) The Lead Authority's own annual review of its Governance Framework
- (j) The views of members through the ongoing work of the Standards and Audit Committee and the ITA
- (k) The work of the ITA Officer Co-Ordination Group – this group consists of Lead Authority officers who meet monthly to monitor ongoing 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 2010/11:

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

The review also identifies Issues that may need significant improvement but which do not constitute "significant weaknesses" in our governance and internal control arrangements. These are:

- (i) **Business Continuity, Planning and Testing:** this is linked to the Lead Authority's arrangements –

Summary

Following an audit of the function in 2010 and a recent interim check in 2011 it has been judged that reasonable progress is being made to implement the audit recommendations with most recommendations either fully or partially implemented. Those that have not yet been started are dependant on other recommendations being completed first.

Issues

The move to embed ownership of the plans and arrangements in each of the Directorates continues with close working taking place between the Business Continuity officers and the co-ordinators in the Directorates. This network has been expanded to include other relevant colleagues from across the council e.g. ICT, HR, Risk Management, Insurance etc This has been helped by simplifying the process and working to put in place cross-cutting strategic arrangements that will support the Council in the event of a Business Continuity incident occurring. This has been done against a back-drop of unprecedented change for the organisation which has made gathering data challenging. The review of the Resilience function across Tyne and Wear has also created some uncertainty about the how the central function will be filled in the future. The resolution of this is imminent.

2011/12 Actions

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2010/11 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. A number of weaknesses and issues have been identified and these are set out in Section 5 above. Implementing the action plans is a priority.

Systems are in place to continually review and improve the governance and internal control environment. A number of additional mid-year checks will be undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that, with the exception of those items listed in Section 5, the arrangements are in place and operating as planned.

We have been advised on the implications of the review by the ITA Officer Co-ordination Group. We propose over the coming year to improve our governance and internal control arrangements as noted in this statement and are satisfied that this will address the need for the required level of improvement. We will monitor the implementation and operation of the improvements, as part of our next annual review.

Barry Rowland
Clerk

Councillor David Wood
Chair of the ITA

Paul Woods
Treasurer and Deputy
Clerk

Date:

Date:

Date:

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

DATE: 16 September 2011
TITLE: Revenue Budget Monitoring Report to August 2011
REPORT OF: Deputy Clerk and Treasurer

Not confidential

District Implications - all

1. Summary / Purpose of Report

- 1.1 The purpose of this report is to provide members with a revenue budget monitor report for the period 1 April 2011 to 31 August 2011.
- 1.2 The monitor includes current financial information relating to ITA administration and financing and the Tyne Tunnels.
- 1.3 The report sets out expenditure to date and compares this with the budget for the year presented to the ITA at its meeting of 27 January 2011. It shows that the likely outturn position is anticipated to be within the budget.
- 1.4 The report also provides an update on the level of the ITA's borrowing and lending for information.

2. Recommendations

- 2.1 The committee is recommended to receive this report for information and comment.

3. Introduction / Background

- 3.1 The budget monitor has been prepared by comparing the actual income and expenditure (analysed into ITA and Tyne Tunnels) from April 2011 to June 2011 with the original budget for 2011/12. Appendices 1 and 2 summarise the recorded spending position as at 31 August 2011.
- 3.2 For the ITA, expenditure at £30.99m is 42% of the budget for the year, with no significant unexpected costs incurred to date. There is some variation in the

percentage spend on individual budget items, but this is broadly in line with expectations.

Forecast expenditure, revenue and grant levels in 2011/12 indicate that the latest anticipated net spending of the ITA itself will be within the original budgeted resources available for the year.

In response to suggestions made by ITA members, a policy of charging support services costs to the ITA on a more regular basis is being put in place, rather than charging the majority of costs at the end of the financial year. This will help provide a clearer budget monitoring position for members.

3.3 2011/12 is the third full year of the contract with TT2 for the operation of the Tyne Tunnels. Payment to TT2 is linked to the tolls income. For the period from 1 April 2011 to 31 August 2011, the position is summarised in Appendix 2, with key bullet points shown below -

- Toll income is collected by TT2 and paid to the ITA within 4 working days of being actually received. The monthly payment to TT2 is paid within 30 working days after the end of the relevant month.
- The expected tolls income by the end of the year is slightly below budgeted at present, due to lower traffic levels than anticipated. The situation is being carefully monitored by Tyne Tunnels officers.

Costs are in line with expectations under all other budget heads at present.

Treasury Management Update – Borrowing and Lending

Borrowing

3.4 The ITA's approved Authorised borrowing limit for the 2011/12 year is £243 million and its Operational borrowing limit is £238 million. The level of external borrowing as at 31 August 2011 is £176 million. This is well within the limits agreed by ITA and has been throughout the year to date. This includes the money that the ITA needs to borrow to fund its share of the new Tyne Tunnel contract. The average interest rate payable on the ITA's loans this year is estimated at 4.40%.

Lending

3.5 Some additional borrowing was undertaken recently to take advantage of falls in Public Works Loan Board rates caused by the Eurozone crisis affecting gilt yields. The funds have been invested to meet capital construction payments on the New Tyne Crossing due in 2011/12.

4. **Next Steps**

4.1 The budget and the ITA's treasury management position will continue to be monitored carefully by the Treasurer. The next update on the budget position will be brought to the November meeting of the ITA.

5. Further comments by the:

- **Clerk** none
- **Treasurer** see main report
- **Legal Advisor** none
- **Director General** none

6. Background Papers

6.1 Revenue Monitoring reports to August 2011

7. Contact Officer (s)

7.1 Eleanor Goodman, Senior Accountant 0191 277 7518

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Revenue Budget Monitor
April - August 2011

ITA	Spend to 31/08/11	Budget	Spend Against Budget	Traffic Light	Notes
	£000	£000	%		
Revenue Expenditure					
Members' Allowances and Expenses					
Travel Costs	38	86	44%	G	
Supplies & Services	1	3	33%	G	
Support Services	1	23	4%	G	
ITA Website Charges	143	342	42%	G	
	22	22	100%	G	This is a one-off annual payment made at the beginning of the year.
Pension Costs	180	432	42%	G	
Grant to Nexus	29,301	70,323	42%	G	
GA Subscription	31	33	94%	G	This is a one-off annual payment made at the beginning of the year.
Financing Charges	1,289	2,662	48%	G	
Total	31,006	73,926	42%	G	
Income					
Levy Income	(30,747)	(73,793)	42%	G	
Interest on Balances	-	(31)	0%	G	Interest on average balances is calculated and allocated at the year end.
Total	(30,747)	(73,824)	42%		
Contribution from Reserves	258	102			

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Revenue Budget Monitor
April - August 2011

Tyne Tunnels	Spend to 31/08/11 £000	Original Budget for Year £000	Spend as a % of Original Budget %	Traffic Light	Notes
TT2 Contract					
Toll Income	(5,645)	(15,000)	38%	A	
Contract Payments to TT2	1,532	5,807	26%	G	Timing of the preparation of this report - August payment to TT2 not yet due.
Total	(4,113)	(9,193)	45%		
Other					
Employee Costs	14	33	43%	G	
Other Expenses	21	55	38%	G	
Community Fund	5	10	50%	G	
Renison Costs	208	499	42%	G	
New Tyne Crossing Support Services	60	145	42%	G	
Financing Charges	2,430	5,833	42%	G	Indicative position - charges allocated at year end
Interest on Balances	-	(338)	0%	G	Interest on average balances is calculated and allocated at the year end.
Total	2,739	6,237	44%		
Net Surplus on Existing Tunnels	(1,374)	(2,956)	46%	G	

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Tyne and Wear Integrated Transport Authority

Standards and Audit Committee

Date: 16 September 2011
Title: Internal Audit Progress Report
Report of: Head of Audit and Strategic Risk

Reasons for confidentiality – N/A
District Implications – All

1. Summary / Purpose of Report

- 1.1 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 Standards and 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 2011/12.
 - The position on the implementation of audit recommendations.

2. Recommendations

- Standards and Audit Committee is recommended to note:
- 2.1
- Progress against the 2011/12 Audit Plan.
 - The position on the implementation of audit recommendations 2010/11.

3. Introduction / Background

- 3.1 This report shows Internal Audit activity since the last Committee meeting in July 2011 and summarises the following:

Details	Assessment	Comments
Progress against the Annual Audit Plan 2011/12 (see 4.1)	Satisfactory and on target	Terms of reference and timing of audits agreed for 4 out of 5 audits with the remaining audit in the planning stage.
Implementation of recommendations (see 4.2)	Good	1 recommendation relating to 2010/11 remains outstanding but is in line with the revised timetable agreed with management.
Internal Audit Performance Indicators (see 5)	N/A	No audits completed and thus limited performance information to report.

4. Information

4.1 Progress against the 2011/12 Audit Plan

Audit	Status
North East Smart Ticketing Initiative	Terms of reference issued. Expected start October 2011.
Strategic Business Planning	Terms of reference issued. Expected start November 2011.
Budgetary Control	Terms of reference issued. Expected start December 2011.
Treasury Management	Terms of reference issued. Expected start February 2012.
Concessionary Travel	Planning stage. Expected start early 2012.

4.2 Recommendations Follow Up

4.2.1 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.

4.2.2 The recommendation raised in the 2010/11 Performance Management audit relating to incorporating updated performance measures into the ITA Policy Statement has been deferred to 31 December 2011. This is in line with a revised review of the Policy Statement to enable the full impact of the introduction of Local Enterprise Partnerships to be established. In the meantime LTP3 has been agreed and sets specific performance measures within its remit and therefore performance continues to be monitored.

5. Internal Audit Performance Indicators 2011/12

Internal Audit has a number of internal performance indicators agreed with the Committee. The table below shows the indicators used and our performance in 2011/12 to date. The figures shown in brackets represent the number of audits to which the performance indicator relates.

Description	Target	Actual
Number of audits completed, i.e. delivery of annual audit plan. (Note 1)	100% (5)	0% (0)
Number of audit days provided in line with SLA activity, i.e. both direct and indirect audit work.	30	2.5
Number of satisfaction surveys returned.	100%	N/A

	(5)	
Average satisfaction survey score (maximum score 5).	4	N/A

Note 1

The Internal Audit Plan 2011/12 was agreed with the Committee in March 2011. At the July 2011 Audit Committee completion of the 2010/11 audit plan was reported. Initial audit work has commenced for the 2011/12 audits and discussions have taken place with responsible officers over detailed coverage and the timing of audits which has resulted in no audits being completed at this point in the year. The plan remains on target for full completion during 2011/12.

6. Further comments by the:

- **Clerk** (none);
- **Treasurer** – the Treasurer has seen this report and is satisfied with its contents
- **Legal Advisor** (none);
- **Director General** (none).

7. Background Papers

All appropriate background papers to support this report are retained by Internal Audit.

8. Contact Officer (s)

Philip Slater – Head of Audit and Strategic Risk – telephone 0191 2116511
 Ian Pattison – Principal Auditor – telephone 0191 2116885

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**Tyne and Wear Passenger Transport Authority
Standards and Audit Committee
Proposed Work Programme 2011/2012**

	Terms of Reference item	Details	Meeting 1 (July)	Meeting 2 (Sept)	Meeting 3 (Feb)
		Standards			
1	6	Consider and determine allegations of members' misconduct (if any)	√	√	√
2	1 - 7	Consider any general conduct issues arising	√	√	√
		Governance			
3	10.4	Review the risk update report (including consideration of the Annual Risk Management Review).		√	√
4	10.5	Review the Authority's anti-fraud and anti-corruption arrangements			√
5	10.6	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority.	√	√	
6	10.8	Review budget monitoring reports for the Authority.	√	√	√
7	10.9	Review the value for money self assessment.	√		
		Audit			
8	11.1	Approve Three Year Strategic Internal Audit Plan, including Annual Internal Audit Plan for the following financial year.			√
9	11.1	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any)	√	√	√
10	11.1	Consider Internal Audit Annual Report and Opinion of the Head of audit and Strategic Risk	√		
11	11.2	Consider External Audit Annual Plan	√		√

**Tyne and Wear Passenger Transport Authority
Standards and Audit Committee
Proposed Work Programme 2011/2012**

12	11.2	Consider External Audit Progress Report	√	√	√
13	11.2	Consider External Audit Inspection Letter			√
14	12.2	Consider External Audit Governance Report		√	
Accounts					
16	12.1	Approve the Authority's accounting policies			√
17	12.1	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report and Accounts by the ITA.	√	√	
Governance and Risk Management					
18		Annual Review of Standards and Audit Committee's Terms of Reference		√	
19	9.4	Agree Standards and Audit Committee's Annual Report to the Authority	√		

Also:

- a) Concessionary fares (requested 18 March 2011)
- b) The analysis of the administration and accountability arrangements in relation to grants to bus operators, including grants for concessionary travel (requested 18 March 2011 and 8 July 2011)
- c) An update on the future of external audit, given the government's decision to abolish the Audit Commission, be brought to the September 2011 meeting (requested 8 July 2011)