



North East Combined Authority, Governance Committee

Friday 11th September, 2015 at 2.00 pm

Meeting to be held in a Durham County Council, County Hall, Durham, DH1 5UZ

www.northeastca.gov.uk

AGENDA

Page No

1. **Apologies for absence**

2. **Declarations of Interest**

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.

3. **Minutes of Previous Meeting held on 10 July 2015**

1 - 4

4. **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. **External Auditors Report**

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

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|----|---------------------------------------|----------------|
| 6. | Annual Governance Statement | 5 - 14 |
| 7. | Internal Audit Progress Report | 15 - 30 |
| 8. | Date and Time of Next Meeting | |

Friday 11 December 2015 at 2.00pm at Gateshead Council

Contact Officer: Christine Patterson Tel: 0191 211 6156
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To All Members

North East Combined Authority, Governance Committee

10 July 2015

(2.00 pm - 4.05 pm)

Meeting held Sunderland Civic Centre, Burdon Road, Sunderland, Tyne and Wear, SR2 7SN

Present:

Independent Member: M Scrimshaw (Chair)

Councillors: G Clark, E Bell, B Coates, A Dale, H Franks, G Hobson, J O'Shea
and H Trueman

1 WELCOME AND INTRODUCTIONS

V Geary advised the Committee about the newly appointed positions of the Chair and Vice Chair of Governance Committee, stating that Mark Scrimshaw had been appointed as Chair and George Clarke had been appointed as Vice Chair. Both appointments were for a three year period.

The Chair explained that both he and the Vice Chair had also been appointed as Independent Chair and Vice Chair of NEXUS Board. He then welcomed everyone to the meeting, particularly Councillor G Hobson, South Tyneside representative and Adam Wilkinson, newly elected Head of Paid Services. Brief introductions were provided.

2 APOLOGIES FOR ABSENCE

Apologies for absence were received from Ms Gardner, Independent Person

3 DECLARATIONS OF INTEREST

None

4 MINUTES OF PREVIOUS MEETING HELD ON 27 FEBRUARY 2015

RESOLVED – That the Minutes of the previous meeting held on 27 February 2015 were agreed as a correct record and signed by the Chair.

5 OUTTURN AND DRAFT FINANCIAL STATEMENTS 2015/16

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided the Committee with a summary of the NECA financial results for 2014-15; the draft accounting statements and an overview of significant financial matters, which occurred during the year. In addition, the report of the External Audit, Deloitte, which set out the plan for the Audit and the particular risk areas they had focussed on.

P Woods introduced the report summarising the key points.

Clarification was given around the Government funding; timescales; allocations and the monitoring arrangements. P Woods indicated that there were numerous documents that could be shared with the Committee and agreed to have a conversation with the Chair and Vice Chair on what assurance information should be circulated to the Committee.

An explanation was provided about the NELEP investment appraisal and prioritising model tool, with a request being made for a copy of this to be circulated to the Committee.

An explanation was provided about the controls and risks associated with project funding. It was suggested that information on this should be provided to Committee.

At this part of the discussions, the two representatives from Deloitte summarised the key developments and the more significant matters that had been considered by them in producing the Audit Plan. In addition, they appraised the Committee about their approach and commented on the significant audit risks that had been identified. Questions were raised and responses provided on the accounting periods; the proposals around managing any fraud attempts to override controls; the risks associated with the transfer of opening balances of the LEP to NECA and how this should be tested to ensure accuracy.

RESOLVED – That the report be received and noted.

6 **INTERNAL AUDIT PLAN 2015/16 - 2017/18**

Submitted: Report by Audit Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes) which provided members with a draft internal audit annual plan for the Combined Authority for 2015-16 and 2017/2018.

P Slater introduced the report, drawing member's attention to the detail contained within Appendix 1. He confirmed that there was sufficient time allocated to the proposed Audits as additional time was always included as a contingency.

Clarification was provided on the delivery of the concessionary travel audit by NEXUS, particularly in light of the Durham and Northumberland arrangements and costs.

A query was raised around the scope of the Tyne Tunnel audit. It was explained that this had not yet been established as information was awaited from the conclusion of the annual review scheduled in 2016.

RESOLVED – That:

- (i) The Annual Internal Audit Plan for 2015-16 be approved.
- (ii) The proposed audits for 2016-17 and 2017-18 be noted.

- (iii) The Committee agreed to receive regular reports on activity undertaken against the audit plan during the year.

7 **ANNUAL GOVERNANCE STATEMENT 2014/15**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes) which provided a draft annual governance statement for the Committee to consider for its inclusion into the accounts.

P Slater introduced the report and provided clarification on the arrangements for the management of risks. He confirming that the risks considered at the previous meeting had been agreed and further details attached to them by the Economic Directors Statutory Officer Group.

(Councillor H Trueman left the meeting at 3.20pm)

A discussion took place around the need to highlight somewhere within the Annual Governance Statement the risks and their levels of assurance for public transparency. It was suggested that a website link be included in the Statement, directing the public to the published Risk Register. As this was not yet established, it was agreed a website link to the Governance Committee minutes should suffice.

RESOLVED – That the Annual Governance Statement be agreed subject to review in September 2015 before being signed by the Head of Paid Service and Leader of the Combined Authority.

8 **INTERNAL AUDIT ANNUAL REPORT INCLUDING QUARTER 4 PROGRESS**

Submitted: Report by the Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided members with the progress against the delivery of the 2014-15 internal audit plan; information on the implementation of audit recommendations and an opinion on the effectiveness of NECA's control environment during 2014-15.

P Slater introduced the report, summarising the audit activity and respective recommendations arising.

On a point of clarification, P Woods reported upon the current arrangements for financial management audit activity. In addition, he briefly explained some of the difficulties around the collation of information from all the Combined Authority Councils and the problems around the compilation of the financial records the budget monitoring. He pointed out the need to formalise current service level arrangements.

A Wilkinson informed the Committee about the review of the current position and the work being undertaken on resource mapping and costs which would explain whether the current NECA support arrangements were fit for purpose. Reference was made to the devolution agenda and a brief discussion took place on the need to establish clarity on the direction of travel for devolution and the associated risks.

Reference was made to the terminology being used for indicating the level of assurances against audit activities, with a request for consistency to be established.

P Slater indicated that there was a requirement to have an Audit Charter to comply fully with controls, explaining that this would be drafted and presented to Committee for approval.

RESOLVED – That the internal audit activity to date be noted.

9 **STRATEGIC RISKS AND OPPORTUNITIES - DEVELOPMENT OF A STRATEGIC RISK REGISTER AND NEXT STEPS**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes) which provided the Committee with a summary of the risks and opportunities endorsed by the Economic Directors Group and the Statutory Officers.

P Slater introduced the report, summarising the risks and opportunities detailed in Appendix 1.

In response to points raised, it was suggested that a copy of the Risk Score Matrix should be circulated to the Committee, alongside a copy of the Risk Management Policy and Strategy, which had previously been discussed by the Committee. It was also agreed that a copy of all NECA Risks should be presented at the next meeting of the Committee and regular updates to be provided to Committee on their direction of travel.

RESOLVED – That the Committee:

- (i) Acknowledged and agreed the strategic risks and opportunity areas that have been identified.
- (ii) Agreed to a summary of the Combined Authority risks and opportunities being circulated to the Chief Executives and Leadership Board.
- (iii) Instructed Newcastle City Council's Audit, Risk and Insurance Service Manager to engage with lead officers to ensure mitigation plans (Next steps) were delivered.

10 **DATE AND TIME OF NEXT MEETING**

The Chair thanked the officers for all their efforts in producing the reports.

Friday 11 September 2015 at 2.00pm at Durham.

North East Combined Authority

Governance Committee

DATE: 11 September 2015

SUBJECT: Annual Governance Statement 2014/15

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The purpose of this report is to bring the final Annual Governance Statement to Members to consider its inclusion in the accounts.

RECOMMENDATION

It is recommended that the Committee agree the Annual Governance Statement for inclusion in the annual accounts.

North East Combined Authority

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1 Background Information

- 1.1 The Authority has a statutory duty under the Accounts and Audit Regulations 2011 to do the following on an annual basis:
- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
 - Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
 - Report these to the public in the Annual Governance Statement which is part of the Accounts.
- 1.2 An assurance framework was discussed at the December 2014 Governance Committee and evidence has been gathered against this to assess the effectiveness of governance and the internal control environment operating during 2014/15. The draft Annual Governance Statement was presented to the July 2015 meeting of the Committee for consideration.

2 Proposal

- 2.1 The evidence supporting the Annual Governance Statement, based on the following sources, was presented to the Committee in July 2015 at which point one partnership return relating to Nexus had not been received. This has now been received and has identified no issues.
- Governance Arrangements
 - Statutory Officers
 - Members
 - Internal Audit Activity
 - Risk Management
 - Performance Management
 - External Auditor
 - Key Partnerships
- 2.2 The Combined Authority's control environment has been kept under review since the last meeting and no significant weaknesses have been identified which would require inclusion in the Annual Governance Statement. The document for approval at Appendix A therefore is the same as that presented in July 2015 although a small change to record the location of risk information has been made as required by the July 2015 Committee.

3 Next Steps

- 3.1 The final Annual Governance Statement will be signed by the Leader of the Combined Authority and the Head of Paid Service and included with the Annual Accounts.

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4 Potential Impact on Objectives

4.1 No direct impact on objectives.

5 Finance and Other Resources

5.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council under the Service Level Agreement for 2014/15.

6 Legal

6.1 No direct legal implications arising specially from this report.

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

7.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report.

7.4 Risk Management

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the report.

7.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 There are no background documents

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9 Links to Plans in the Policy Framework

9.1 No direct link to the Policy Framework

10 Appendices

10.1 Appendix 1 - Annual Governance Statement

11 Contact Officers

11.1 Philip Slater, Audit, Risk and Insurance Service Manager

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12 Sign off

- Head of Paid Service
- Monitoring Officer
- Chief Finance Officer

13 Glossary

CIPFA Chartered Institute of Public Finance Accountancy

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Appendix 1

Annual Governance Statement 2014/15

Section 1	Scope of Responsibility
Section 2	The Purpose of the Governance Framework
Section 3	The Governance Framework
Section 4	Annual Review of Effectiveness of Governance Framework
Section 5	Significant Weaknesses in Governance and Internal Control
Section 6	Conclusion

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. We are able to bring together a democratic mandate with a strong business voice which will enable us to plan for growth in the long-term in a global context

We (the North East Combined Authority) are responsible for ensuring that our 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.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are 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 (ii) the Authority 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, aims and objectives and can therefore only provide reasonable and not absolute assurance of

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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, aims and objectives; and
- b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and is developing a strategic risk register which will be reported to regular meetings of the Authority's Governance Committee. This information can be found under the Governance Committee at <http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers> on the Authority's web-site.

Section 2: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, and lead the community. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2015 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 which requires all relevant public bodies to prepare an annual governance statement.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014, and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives. In this early stage of the development of the organisation there continues to be a challenge to understand the resources available and therefore to fully utilise them to support the Leadership Board.

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on our objectives and the intended outcomes for residents and service users, ensuring these are effectively communicated internally and externally.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

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Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by the Combined Authority.

We promote high standards of conduct and behaviour

3.1 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for members and officers working on behalf of the Authority. Governance Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board.

Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The interim Monitoring Officer (Head of Law and Governance, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public.

Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

Section 4: Annual Review Of Effectiveness Of Governance Framework

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We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by officers and Members of Governance Committee who provide independence and challenge. The outcomes of the review are considered by the Governance Committee.

The review is informed by

- (a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.
- (b) An annual review of the effectiveness of internal audit (as required by Regulation 6(3) of the Accounts and Audit Regulations (England) 2011).
- (c) The views of our external auditors, regularly reported to Audit Committee through regular progress reports, and the Annual Governance Report.
- (d) The activities and operations of the themes (economic development and regeneration, employability and inclusion, and transport) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner.
- (f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee providing independent assurance on the effectiveness of the governance and internal control environment and a Standards Committee which ensures that effective arrangements are in place to maintain high standards of conduct and behaviour).
- (g) The Risk Management Process, particularly the Strategic Risk Register
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.

Section 5: Significant Weaknesses In Governance and Internal Control

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, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review highlighted no significant weaknesses in governance or internal control during 2014/15.

Section 6: Conclusion

We consider the governance and internal control environment operating during 2014/15 to

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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.

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 Governance Committee. We propose over the coming year to continue to improve our governance and internal control arrangements. We will monitor the implementation and operation of the improvements, as part of our next annual review.

Head of Paid Service

Leader of the Authority

Date:

Date:

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North East Combined Authority

Governance Committee

DATE: 11 September 2015

SUBJECT: Internal Audit Progress Report

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2015/16 internal audit plan
- Information on the implementation of audit recommendations
- An Audit Charter, which details the roles and responsibilities of internal audit within the Combined Authority, and seek its approval

RECOMMENDATIONS

It is recommended that the Committee note the internal audit activity to date and approve the Audit Charter.

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1 Background Information

Progress with Delivery of the Plan

- 1.1 Since the last committee in July 2015 one audit has commenced relating to Treasury Management arrangements.
- 1.2 Management is responsible for implementing all audit recommendations. Internal Audit will follow 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. The current position as regards recommendations raised in 2014/15 is detailed below:

Audit and Recommendation	Implementation due date	Progress update
Tyne Tunnel Toll Income		
The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)	September 2014	Implemented
Governance and Performance Arrangements		
An appointment to the post of Senior Information Risk Owner for the Combined Authority has not been made. (Medium)	31 January 2015	Implemented
Service Level Agreements covering the support services provided to the Combined Authority have not been finalised or agreed. (Medium)	April 2015	See Financial Management Audit below.
A Register of the Combined Authority's Partnerships does not exist. (Medium)	Original date - 31 January 2015 Revised date – 30 March 2015	Implemented

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Financial Management		
Financial systems and processes are the responsibility of the interim Chief Finance Officer and compilation of the financial records and routine budget monitoring etc. is carried out by the Senior Accountant only. Financial responsibilities will increase in 2015/16 and there are no contingency arrangements in place to cover these roles (Medium).	September 2015	The Chief Finance Officer has discussed solutions with the Head of Paid Service. A secondment agreement has been formalised with the Senior Accountant. Deputising arrangements have been put in place for the Chief Finance Officer and a one month notice period is proposed. Additional resources to support the Senior Accountant will be proposed as part of the review of NECA Capacity and Resources.
Formal Service Level Agreements were not in place for 2015/16 services provided to the Combined Authority by member authorities (Medium)	Original date - September 2015 Revised date - November 2015	The Chief Finance Officer will review these and agreements will be put in place once the Service Level Agreements arrangements have been revised to reflect the outcome of the NECA resource mapping exercise.
Information is obtained from across the Councils making up the Combined Authority and there is a risk this fragmentation can reduce effectiveness going forward. (Medium)	Original date - September 2015 Revised date - November 2015	The Chief Finance Officer and the Head of Paid Service are considering options to mitigate this position. Proposals to address this will be reflected in a future report on NECA capacity and resources
Risk Management		
The risk section of reports to Leadership Board and other committees are not always completed fully. (Medium)	October 2015	Guidance will be prepared for Democratic Services to provide for report authors
Theme leads are unaware of the agreed risk classification criteria for Combined Authority. (Medium)	October 2015	Guidance will be issued to theme leads to develop this area.

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Theme leads are unfamiliar with the agreed risk reporting and escalation routes. (Medium)	October 2015	Guidance will be issued to theme leads to develop this area.
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Appendix 2 includes definitions for the overall assessments and recommendation ratings used in the audit reports. These definitions have been developed for the Combined Authority and will be used in all reports regardless of which Council's Internal Audit Service has delivered the work

Audit Charter

- 1.3 As advised at the July 2015 committee the Combined Authority's Internal Audit function was not fully complying with the Public Sector Internal Audit Standard as an internal audit charter had not been approved. The Audit Charter is needed to provide detailed terms of reference and responsibilities for the Combined Authority's internal audit function and covers such areas as ethics, resources, access and independence.
- 1.4 The Combined Authority's Constitution sets out high level terms of reference but a charter is also required to cover roles and responsibilities etc. in greater detail. This has now been drawn up and is attached at appendix 3. The Audit Charter will be reviewed annually and reported to Governance Committee when changes are required.

2 Next Steps

- 2.1 The internal audit work feeds into the Internal Audit Annual Report and Annual Governance Statement for 2015/16.

3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

4 Finance and Other Resources

- 4.1 Internal Audit is provided principally by Newcastle City Council and a Service Level Agreement has been developed to cover this, as well as risk management and preparation of the Annual Governance Statement. Sunderland has developed a Service Level Agreement with the North East Local Enterprise Partnership and Durham and Northumberland's internal audit work will be covered through devolved funding.

5 Legal

- 5.1 No direct legal implications arising specifically from the report.

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6 Other Considerations

6.1 Consultation/Community Engagement

No external consultation or community engagement required.

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report.

6.4 Risk Management

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if key risks are covered by the planning process.

6.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

6.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

7 Background Documents

7.1 Final Internal Audit Reports

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

- 9.1 Appendix 1 – Audit Plan 2015/16
- Appendix 2 – Definitions
- Appendix 3 – Audit Charter

10 Contact Officers

- 10.1 Philip Slater, Audit, Risk and Insurance Service Manager
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North East Combined Authority

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11 Sign off

- Head of Paid Service
- Monitoring Officer
- Chief Finance Officer

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Appendix 1 – 2015/16 Audit Plan					
Audit	Delivered by	Audit scope and coverage	Days	Status	Date to report to Governance Committee
Governance of Major Projects	Newcastle City Council	To review a sample of major projects across themes to ensure adequate governance is in place, particularly in the following areas: <ul style="list-style-type: none"> • Reporting to officers and members • Risk assessment • Remedial action • Assessment of value for money • Achievement of outcomes 	8	To start	December 2015
Treasury Management	Newcastle City Council	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cashflows and investment / borrowing activity.	5	In progress	December 2015 (revised from September 2015)
Tyne Tunnels	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.	4	To start	December 2015
Information Governance	Newcastle City Council	To determine the level of assurance being provided from the current operating models within the Combined Authority and compliance with standards and legislation.	5	To start	July 2016
Budget Setting and Monitoring	Newcastle City Council	To assess the adequacy and effectiveness of budget setting and budgetary control	4	To start	February 2016

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		arrangements.			
Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	To start	July 2016
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	To start	July 2016
Contingency	Newcastle City Council	Provision to cover emerging risks, fraud investigation and general advice.	5	As required	
Governance Committee Support	Newcastle City Council	<ul style="list-style-type: none"> • Development and monitoring delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations made within Internal Audit reports. 	4	As required	

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* Nexus – this work is undertaken as part of Nexus's internal audit plan delivered by their Internal Audit Service but the outcomes of the work are provided to Newcastle City Council for the Combined Authority.

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Appendix 2 - Definitions

Overall Opinion

Full Assurance

There is a highly effective system of internal control in place designed to achieve the Authority's objectives with no issues being identified.

Substantial Assurance

There is an effective system of internal control in place designed to achieve the Authority's objectives with only minor issues being identified which require improvement.

Moderate Assurance

There is a sound system of internal control in place with some weaknesses being present which may put some of the Authority's objectives at risk. Issues require management attention.

Limited Assurance

The system of internal control in place has some major weaknesses which may put the achievement of the Authority's objectives at risk. Issues therefore require prompt management attention.

No Assurance

There are significant weaknesses in the system of control which could result in failure to achieve the Authority's objectives. Immediate management action is therefore required.

Findings and Recommendations

High

A fundamental control weakness which could have a significant impact on the achievement of the Authority's objectives and reputation.

Medium

A control weakness which could have a major impact on the achievement of the Authority's objectives and reputation.

Low

An issue which if addressed would bring some improvement to the effectiveness of the control system.

Internal Audit Charter

INTRODUCTION

This Charter describes the purpose, authority, and principal responsibilities of the North East Combined Authority's Internal Audit Service. The Charter will be reviewed annually and any significant changes reported to Governance Committee.

DEFINITION OF INTERNAL AUDIT

The Authority's Internal Audit Service has adopted the Public Sector Internal Audit Standard which defines Internal Audit as

"Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

PURPOSE

Internal Audit is an independent appraisal function to examine and evaluate activities as a service to the organisation and to contribute advice at an early stage in the implementation of any developments/amendments to processes. The objective of Internal Audit is to help members and officers of the Authority in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analysis, appraisals, recommendations, advice and information concerning the activities reviewed.

SCOPE OF INTERNAL AUDIT

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state in respect of Internal Audit that:

"A relevant body shall maintain an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to Internal Control.

Any officer or member of a relevant body must, if the body requires—

- (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

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The findings of the review referred to in the paragraph above must be considered, as part of the consideration of the system of internal control referred to in these regulations, by the committee or body referred to in that paragraph.”

The statutory role is recognised and endorsed within the Authority’s Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

To deliver the statutory role and provide assurance on the Authority’s system of internal control, Internal Audit’s remit extends to the entire control environment of the Authority including its systems being operated in constituent councils.

In addition to its statutory role internal audit can provide consulting services to the Authority. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The operation and delivery of the Internal Audit Service will be in compliance with the requirements of the Public Sector Internal Audit Standard which are mandatory for local government internal audit functions.

AUTHORITY AND REPORTING

The internal audit function, provided by Newcastle City Council is led by the Audit, Risk and Insurance Service Manager who reports functionally to the Governance Committee with direct interaction with the Head of Paid Service, Monitoring Officer, Chief Finance Officer and Chair of Governance Committee as required. Internal Audit’s authority is derived from Financial Regulations (included within the Combined Authority’s Constitution).

The Governance Committee has delegated authority to advise the Leadership Board on a number of control and governance related activities including Internal Audit work. As such the Committee perform most of the roles required of the “Board” within Public Sector Internal Audit Standard such as:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Audit, Risk and Insurance Service Manager on internal audit activity
- performance relative to its plan and other matters; and
- making appropriate enquiries of management and the Audit, Risk and Insurance Service Manager to determine whether there is inappropriate scope or resource limitations.

Other functions required of the “Board” such as agreeing the service level agreement remuneration will be carried out by the Leadership Board.

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The Internal Audit Service will comply with the standards promoted by external bodies including the Chartered Institute of Public Finance and Accountancy and the Institute of Internal Auditors. The authority for the production and execution of the audit plan and subsequent audit activities rests with the Audit, Risk and Insurance, Service Manager. The annual audit plan will be presented to the Chief Finance Officer and Monitoring Officer and for approval to the Governance Committee.

INTERNAL AUDIT RESOURCES

Internal Audit must have adequate budgetary resources in order to achieve its objectives and comply with audit standards. If the Audit, Risk and Insurance Service Manager considers that the level of audit resources limits the scope of Internal Audit, or prejudices its ability to deliver a service consistent with the definition of Internal Audit, s/he should advise the Chief Finance Officer and the Governance Committee.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Audit, Risk and Insurance Service Manager should be professionally qualified. He/she should be sufficiently experienced and have the calibre to liaise effectively both internally and externally with Members, senior management and professionals. The Audit, Risk and Insurance Service Manager should have wide experience of internal audit and management.

The Audit, Risk and Insurance Service Manager is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Section maintains a Learning and Development Plan (informed by the organisation's staff appraisal and development process) which sets out an ongoing development programme for Internal Audit staff.

ACCESS

Internal Audit shall have unrestricted access to all Combined Authority records (whether manual or computerised systems), cash, stores and other property, to obtain explanations and to enter Combined Authority property or land. Such access shall be granted on demand and not subject to prior notice. Rights of access will extend beyond the Combined Authority to other bodies as written into the appropriate agreements. This will include:-

- organisations to whom the Combined Authority has given grants;
- organisations with whom the Combined Authority contracts; and
- partner organisations where the Combined Authority is the accountable body.

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RESPONSIBILITIES

Internal Audit work is, as far as possible, planned in conjunction with management. Management is responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services. The existence of Internal Audit does not diminish the responsibility of management to ensure that internal control arrangements are in place and are operating.

Internal Audit responsibilities include but are not limited to:

- (a) Preparing a rolling 3 year Audit Strategy and Risk Based Audit Plan which shows how Internal Audit intends to deploy its resources and fulfil its responsibilities over that period. In developing the plan Internal Audit will consult with, the External Auditor, Statuary Officers, Directors, Managers and the Governance Committee;
- (b) Examining and evaluating the adequacy of the Combined Authority's system of internal control, and providing an annual opinion;
- (c) Undertaking consultancy work to assist in the Combined Authority's particularly with the development of Council processes;
- (d) The investigation of instances of fraud and corruption;
- (e) Appraising the economy, efficiency and effectiveness with which resources are employed;
- (f) Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- (g) Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- (h) Assessing the adequacy of corporate governance within the Combined Authority including risk and performance management.
- (i) Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- (j) Working in partnership with other bodies to secure robust internal controls that protect the Combined Authority's interests;
- (k) Liaising with other review agencies;

In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Combined Authority priorities and established policies and procedures.

INDEPENDENCE

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal Auditors will have no operational responsibilities and are required to make an annual declaration of any interests which could be seen as affecting their independence e.g. family relationships. If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties e.g. Audit, Risk and Insurance, Service Manager or if impairment is to organisational independence Governance Committee and the Head of Paid Service.

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The Audit, Risk and Insurance Service Manager has responsibility for the co-ordination of the Combined Authority's strategic risk register, production of the Annual Governance Statement and insurance functions as well as Internal Audit. Measures have been put in place to ensure the independence of any assurance work in these areas is maintained, this includes external review of the insurance function from the insurance provider.

ETHICS OF INTERNAL AUDITORS

Internal Audit staff should demonstrate the following principles in relation to performance and conduct:

Integrity - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement

Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

The Combined Authority's internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

AUDIT REPORTING

All audit assignments will be the subject of formal reports. Where appropriate draft reports will be sent to the managers responsible for the area under review to agree their factual accuracy. Final reports will show actions to be taken by management in response to audit recommendations. After agreement, final reports will be issued to the relevant Director and copied to the Chair of Governance Committee.

Internal Audit regularly informs Governance Committee on:-

- the results of its work, highlighting significant risks which are not adequately controlled;
- follow up of Internal Audit recommendations;
- progress against the Audit Plan;
- Internal Audit performance against agreed key indicators.

FRAUD AND CORRUPTION

Internal Audit will undertake specific and proactive fraud related work as part of its work programme and will be alert, in all other audit work, to risks and exposures that could result in fraud or corruption. Internal Audit does not, however, have responsibility for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit may be requested by management to assist with fraud related work.

The Audit, Risk and Insurance Service Manager has made arrangements to be informed of all suspected or detected fraud, including from the housing benefit fraud team, corruption or improprieties so that he/she can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his /her opinion on the internal control environment.

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