

## **Audit and Standards Committee**

Tuesday 2nd April, 2019 at 10.00 am

Meeting to be held: County Hall, Durham, County Durham, DH1 5UL

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## **AGENDA**

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**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 4 December 2018** **1 - 6**
4. **Delegated Authority to Grant Dispensation to Councillors under the Localism Act 2011** **7 - 14**
5. **2018/19 Accounting Policies and Closure of Accounts Update** **15 - 40**
6. **External Audit Progress Report** **41 - 62**
7. **Draft Annual Governance Statement 2018/19** **63 - 84**
8. **Internal Audit Progress Report** **85 - 96**
9. **Strategic Risk Register** **97 - 112**

10. **Date and Time of Next Meeting**

To be confirmed at Annual Meeting.

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail:  
christine.patterson@northeastca.gov.uk

**To: All Members**

## **Audit and Standards Committee**

### **DRAFT MINUTES TO BE APPROVED**

4 December 2018

(10.00 - 11.25 am)

Meeting held Sunderland City Council, Civic Centre, Burdon Rd, Sunderland SR2 7DN

#### **Present:**

Independent Members: M Scrimshaw (Chair)

Councillors: G Hobson, J McClurey and P Stewart

#### **12 APOLOGIES FOR ABSENCE**

Apologies for absence were received from G Clark (Vice Chair) and C Waddell and J Dafter (External Auditor).

#### **13 DECLARATIONS OF INTEREST**

None

#### **14 MINUTES OF PREVIOUS MEETING (PART INQUORATE) HELD ON 30 JULY 2018**

**RESOLVED** – That the Minutes of the previous meeting (part inquorate) held on 30 July 2018 were agreed as a correct record and signed by the Chair.

#### **Matters Arising:**

Reference was made to Minute 5: Minutes of Governance Committee – 3 April (iii) Minutes 42 – Draft Annual Governance Statement 2017/18 – and a query raised about whether Toby Hughes (NEXUS) had been invited to this meeting. The committee was informed that it was too early for him to attend to appraise the committee on decision making process/governance arrangements for Transport for the North, but he would be invited to the April meeting.

#### **15 DISPENSATIONS UNDER THE LOCALISM ACT 2011**

Submitted: Report by Monitoring Officer (previously circulated and a copy attached to official minutes)

Submitted: Applications for a Dispensation (circulated as a supplemental appendix)

The Monitoring Officer introduced the report and invited the committee to grant dispensations to the Members and Substitute Members of the NECA Leadership

Board in relation to directorships they hold because of their offices within their relevant Constituent Authority. In addition, he invited the committee to agree a process for granting dispensations between meetings, specifically to allow the granting of dispensations and renewals of dispensations by the Monitoring Officer when they were in accordance with the parameters agreed by the committee or when it was impracticable for the committee to consider the matter before the conflict of interest arises. He indicated that there was one outstanding application and asked the committee to grant him the authority to deal with this application in the same manner as the others once it was received.

**RESOLVED** – That the Committee:

- i. Agreed the request for dispensations received from the Members and Substitute Members of the Leadership Board and the North East Joint Transport Committee (circulated as a supplemental appendix to this paper and the outstanding request still to be received).
- ii. Authorised the Monitoring Officer to issue a Certificate of Dispensation to the Members concerned where a dispensation was granted.
- iii. Delegated authority to the Monitoring Officer to determine dispensations for Members of the Leadership Board and its committees or sub-committees to grant dispensations or renewals of dispensations (and issue Certificates of Dispensation) when they were in accordance with the parameters determined by this committee (as set out in section 2.7 of the report).
- iv. The Monitoring officer must report the use of the delegation given in resolution (iii) as soon as possible to the Chair of the Audit and Standards Committee and to the committee at its next meeting. The committee could choose to confirm, terminate or amend any dispensation given under this delegation.
- v. Agreed the process for granting dispensations between meetings, specifically allowing the granting of dispensations and renewals of dispensations by the Monitoring Officer when they were in accordance with the parameters agreed by the committee or when it was impracticable for the committee to consider the matter before the conflict of interest arose.

16 **ANNUAL AUDIT LETTER 2017/18**

Submitted: Report by External Auditor (previously circulated and a copy attached to official minutes), which presented the Annual Audit Letter for 2017/18, the final reporting requirement in relation to the audit of the 2017/18 accounts.

The Chief Finance Officer on behalf of the External Auditor introduced the report, referring the committee's attention to Appendix 1, which set out the findings and conclusions of the audit and Appendix 2, which confirmed that an additional fee of £2,000 would be charged in relation to the 2017/18 Audit where extra work was required to ensure the opinion on the 2017/18 accounts was given by the earlier deadline of 31 July 2018. The Chief Finance Officer appraised the committee about the challenges in meeting this earlier deadline and the resources being put in place

to ensure arrangements were smoother in future years. During discussions the following points/comments were made:

- Additional work on the accounts was required this year in respect of changes resulting from Devolution. Independent advice had been sought from Deloitte Auditors about these requirements and both the combined authority statutory officers and the External Auditor were satisfied with the advice provided. A copy of this advice would be circulated to the committee for information.
- A briefing session was suggested to update the committee on the organisation, budget and staffing arrangements. It was agreed that this be organised at the start of the next scheduled meeting with both committee members and substitute members being invited to attend.

**RESOLVED** – That the report be received.

## 17 **TREASURY MANAGEMENT 2018/19 MID-YEAR UPDATE**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which provided a summary of the Treasury Management activity during 2018/19 and an update on borrowing and investing activity.

The Chief Finance Officer introduced the report. During discussions the following points and comments were made:

- The committee noted that interest payments and receipts were in line with the original budget for the year and no changes were proposed to the current list of investment counter-parties.
- Clarification was provided on the capital finance requirement and external loans outstanding; in addition to the proposals around borrowing. Reference was made to NEXUS metro car fleet replacement and the mitigating of the associated risks. The Chief Finance Officer provided a verbal update but agreed to circulate a briefing note to the committee on this specific issue.

**RESOLVED** – That the report be received.

## 18 **BUDGET PROPOSALS 2019/20**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which sought views of the committee on proposals for the setting of the 2019/20 NECA budget, as part of its consultation process and to develop the detailed budget report to the Joint Transport Committee and the NECA Leadership Board when they set the budgets and Transport Levies for 2019/20 in January and February 2019.

The Chief Finance Officer introduced the report. During discussions the following points and comments were made:

- A query was raised about the North East England Team (INEE) activities. It was explained that a report had been presented to the LEP Board as they had provided funding to the team. The report had highlighted the activities and

achievements and a copy would be circulated to the committee for information. In addition, the Chair suggested that the Head of the INEE Team should be invited to attend the next meeting to provide some background information on the activities.

- A request was made for the Budget Proposals 2019/20 to be presented to the Leadership Board in January to be circulated to the committee.
- Concern was expressed about the assurance statement that the budget savings to be made by NEXUS in 2019/20 to deliver the proposals set out in Appendix 2 which would be done without significant impact on transport services was not an assurance shared by this committee.
- The Chair requested hard copies of the reports detailing the Budget Proposals 2019/20 to be submitted to the Joint Transport Committee January 2019 (transport levies) and the Leadership Board February 2019 (non-transport and outcomes of the JTC) be sent to him.
- Clarification was provided on the pay awards and gap between the Trade Unions pay claim and that which NEXUS had offered.
- Information was provided to the committee on the Tyne Tunnel tolls and the complicated process to determine the level to be set. The committee noted that consideration was to be given to streamlining this process.

**RESOLVED** – That the report be received.

19

**ANNUAL GOVERNANCE STATEMENT 2017/18 PROGRESS UPDATE AND ASSURANCE FRAMEWORK FOR THE PRODUCTION OF THE 2018/19 STATEMENT**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided the committee with an overview of progress on governance and internal control issues included in the 2017/18 Annual Governance Statement (AGS) and introduced the assurance framework to produce the 2018/19 Statement.

The Audit, Risk and Insurance Manager introduced the report and provided further clarification on two of the areas where improvements had been required. The committee noted the removal of the committee quorum from the AGS and the revised implementation date around the Tyne Tunnel area for improvement, confirming that this had resulted from the lack of a Transport Officer lead. Assurances were given to the committee that the three statutory officers had increased their involvement in the client overview, attending meetings with the TT2 Senior Staff as a result.

**RESOLVED** – That the committee:

- i. Considered the updates provided for the two areas identified as requiring improvement in the 2017/18 AGS. This included the removal of the Committees Quorum item as per Appendix A.
- ii. Agreed the approach to be taken to produce the 2018/19 AGS, including NECA's assurance framework.

## 20 INTERNAL AUDIT PROGRESS REPORT

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided the committee with an update on 2017/18 audits and the current position about the 2018/19 internal audit plan.

The Audit, Risk and Insurance Manager introduced the report, highlighting that revised implementation dates on the outstanding recommendations centred around issues with service level agreements. A brief discussion took place on the issues with the committee noting that these had been reflected in the risk register.

Reference was made to the pedestrian and cycle tunnels audit report planned to start in 2018/19, with a request that once the audit was concluded and ready to be submitted to this committee, the report that was submitted to the NECA Transport Tyne and Wear Sub Committee on the delays and lessons learned on the project be included as supplemental information.

**RESOLVED** – That the committee noted the current position about to the 2017/18 and 2018/19 audits.

## 21 STRATEGIC RISK AND OPPORTUNITIES REGISTER

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided members with an update of the Strategic Risks for the Combined Authority.

The Chief Finance Officer introduced the report, highlighting the risk change to Red 16 for operational capacity and resourcing and the reasons behind the change and controls being put in place to mitigate the risks. A brief discussion took place on the issues and the uncertainties around service level agreements. The Chair suggested that the Head of Paid Service should be invited to attend a future meeting to update the committee on her assessment about how matters were progressing, particularly in terms of the risks scored as Red.

**RESOLVED** – That the report be received.

## 22 DATE AND TIME OF NEXT MEETING

Tuesday 2 April 2019 at 10.00am in Durham County Council.

A training session as detailed above (Minute 14 refers) be arranged at the start of the next meeting.

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## Audit and Standards Committee

**Date:** 2 April 2019

**Subject:** Delegated Authority to Grant Dispensations to Councillors Under the Localism Act 2011 Update

**Report of:** Monitoring Officer

### Executive Summary

This report provides an update on the use of the Authority delegated to the Monitoring Officer by the NECA Audit and Standards Committee on 4 December 2018 and invites the Committee to grant longer term dispensations to the Councillors who have requested them.

### Recommendations

The NECA Audit and Standards Committee is recommended to:

- (i) Note that in accordance with the delegation given to the Monitoring Officer by the Committee on 4 December the following temporary dispensations have been granted to:
  - a. Councillor Alan Kerr (South Tyneside Council) temporary dispensation granted 4 December 2018 expiring 30 April 2019.
  - b. Councillor Mark Walsh (South Tyneside Council) temporary dispensation granted on 19 December 2018 expiring on 30 April 2019.
  - c. Councillor Carl Marshall (Durham County Council) temporary dispensation granted 19 December 2018 expiring on 30 April 2019.
  - d. Councillor Iain Malcolm (South Tyneside Council) temporary dispensation granted 19 December 2018 expiring 30 April 2019.
  - e. Councillor John Eagle (Gateshead Council) temporary dispensation granted on 12 March 2019 expiring 30 April 2019.
- (ii) Note that, in accordance with the terms of the delegation given by the Committee, the Chair has been informed immediately that these temporary dispensations have been given.
- (iii) To consider the requests of each of the following Councillors for longer term dispensations:
  - a. Councillor Alan Kerr
  - b. Councillor Mark Walsh

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- c. Councillor Carl Marshall
- d. Councillor Iain Malcolm
- e. Councillor John Eagle

## **Audit and Standards Committee**

### **1. Background Information**

- 1.1 The Localism Act 2011 sets out responsibilities for the declaration and recording of Members' interests. By Section 31(4) of the Localism Act 2011, a Member with a pecuniary interest may not participate or vote in relation to any matter in which they are interested. The procedures are set out in NECA's Code of Conduct for Members. Interests may relate to any item of business considered at a NECA meeting and may mean that a Member is required to declare an interest in an item of business and leave the meeting. Obviously, having left the meeting, they cannot count towards the meeting's quorum.
- 1.2 As a result of the change in the NECA boundary and the creation of the North East Joint Transport Committee Structures on 2 November 2018 (as a result of the Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018), membership of various committees changed. The NECA Audit and Standards Committee considered and granted certain dispensations at its meeting on 4 December 2018. The Committee also delegated authority to the Monitoring Officer to grant temporary dispensations in certain circumstances.
- 1.3 It is noted that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below, but these are not areas that are likely to be considered by the NECA Leadership Board or Members of the Constituent Authorities, save perhaps, for indemnities to Members and the setting of the annual precept. The pre-existing dispensations are:
- Housing;
  - School meals or transport;
  - Statutory sick pay;
  - An allowance, payment or indemnity given to Members;
  - Any ceremonial honour given to Members; and
  - Setting the Council Tax or precept.
- 1.4 Section 33 of the Localism Act 2011 is set out in full in the appendix of this paper. It makes it clear that following a written request, the Authority may grant a dispensation only if, after having had regard to all relevant circumstances, the authority:
- a) considers that, without the dispensation, the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,
  - b) considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,

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- c) considers that granting the dispensation is in the interests of persons living in the authority's area,
  - d) [not applicable to NECA] or
  - e) considers that it is otherwise appropriate to grant a dispensation.
- 1.5 Dispensations should be granted for a defined period not exceeding four years.
- 1.6 Various requests for dispensations have been received since the NECA Audit and Standards Committee meeting 4 December 2018 and temporary dispensations have been granted to the following Councillors in respect of their requests:
- a) Councillor Alan Kerr (South Tyneside Council) temporary dispensation granted 4 December 2018 expiring 30 April 2019.
  - b) Councilor Mark Walsh (South Tyneside Council) temporary dispensation granted on 19 December 2018 expiring on 30 April 2019.
  - c) Councillor Carl Marshall (Durham County Council) temporary dispensation granted 19 December 2018 expiring on 30 April 2019.
  - d) Councillor Iain Malcolm (South Tyneside Council) temporary dispensation granted 19 December 2018 expiring 30 April 2019.
  - e) Councillor John Eagle (Gateshead Council) temporary dispensation granted on 12 March 2019 expiring 30 April 2019.
- 1.7 Members will note the following short particulars about each applicant:
- Councillor Alan Kerr is the substitute member of the NECA Leadership Board nominated by South Tyneside Council.
  - Councillor Mark Walsh is substitute member for the North East Joint Transport Committee and substitute member for the Joint Transport Committee, Tyne and Wear Sub-Committee, nominated by South Tyneside Council.
  - Councillor Carl Marshall is a member of the North East Joint Transport Committee and substitute member of the NECA Leadership Board nominated by Durham County Council.
  - Councillor Iain Malcolm is a member of the NECA Leadership Board and member of the North East Joint Transport Committee and nominated by South Tyneside Council.
  - Councillor John Eagle is a member of the Joint Transport Committee, Overview and Scrutiny Committee and member of the NECA Overview and Scrutiny Committee nominated by Gateshead Council. Councillor Eagle is also an employee of NEXUS.
- 1.8 Members will recall that the Joint Transport Committee's Audit Committee has no standards function. Accordingly questions of standards, and conduct, including the granting of dispensations fall to be determined by the relevant combined authority.

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The NECA Audit and Standards Committee discharges this function on behalf of the NECA Leadership Board.

### **2 Proposals**

- 2.1 In the past, dispensations have been granted where, for example, a Member holds a directorship as a consequence of their office with the relevant constituent authority. For example, each Leader is a member of the Newcastle International Airport Limited Board. The NECA Audit and Standards Committee (formerly called the Governance Committee) has previously granted dispensations for a period of two years, renewable at the end of that period. At its meeting on 4 December 2018, the NECA Audit and Standards Committee granted dispensations to various Councillors who had applied in advance of that meeting. The dispensations were granted for a period of 2 years in each case.
- 2.2 It is also noted that constituent authorities themselves, or bodies for which they are responsible, (for example the Port of Sunderland, a Sunderland City Council controlled company), may be recipients of grant funding in relation to North East Local Enterprise Partnership or Regional Transport projects. Dispensations have been granted to permit Members to participate and vote notwithstanding such interests.
- 2.3 The Committee has previously determined that there are adequate grounds under Section 33(2)(c) (*considers that granting the dispensation is in the interests of persons living in the authority's area*) and (e) (*considers that it is otherwise appropriate to grant a dispensation*) to grant dispensations for two years.
- 2.4 The dispensations are of assistance because they support effective decision-making. The quorum for the NECA Leadership Board is 3 out of 5 Members, the quorum for the North East Joint Transport Committee is 4 out of 7 Members and the quorum for Joint Transport Committee, Tyne and Wear Sub-Committee is high at 4 out of 5 Members. Noting a Member's obligation to their electorate and the organisations on which they participate as a consequence of their role with the authority, it is considered appropriate that Members should be able to support projects which are in the best interests of their constituents or the organisations they represent. It would be unfortunate if, for example, a project could not proceed because of the inability for the representative to participate or vote.

### **3. Reasons for the Proposals**

- 3.1 The decision will:
- a. Support the proper functioning of the NECA Leadership Board, its committees and the authority's governance and respect for the statutory requirements;
  - b. Provide parity of participation of all Authority Members and Substitute Members of the NECA Leadership Board (and Members and substitutes of

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committees and sub-committees, including the North East Joint Transport Committee and its Committees and Sub-Committees).

### **4. Alternative Options Available**

4.1 Not to grant dispensation or to make alternative decisions in relation to dispensations.

### **5. Next Steps and Timetable for Implementation**

5.1 Certificates of Dispensation will be issued by the Monitoring Officer if dispensations are approved. The delegation will be effective immediately and will remain in force for the period determined by the Committee when granting any dispensation or until varied or terminated by the Audit and Standards Committee.

### **6. Potential Impact on Objectives**

6.1 The issue of dispensations relates to the good governance of the Authority and its decision-making.

### **7. Financial and Other Resources Implications**

7.1 There are no specific financial implications arising in relation to this report.

### **8. Legal Implications**

8.1 Where a written request for a dispensation is submitted by a Member to the Monitoring Officer, the Audit and Standards Committee may grant a dispensation to enable a Member to participate or, participate and vote, where they have an interest in an item which would otherwise require them to leave the meeting. The power to grant such dispensations is contained within the Localism Act 2011.

### **9. Key Risks**

9.1 There are no risk management implications directly arising from this report.

### **10. Equality and Diversity**

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

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

12.1 Chief Officers have been consulted on the paper. Chief Legal Officers have been requested to renew dispensation requests through their Member's offices.

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### **13. Other Impact of the Proposals**

13.1 None.

### **14. Appendices**

14.1 Extract from Section 33 of the Localism Act 2011.

### **15. Background Papers**

15.1 Governance Committee paper “Request for Dispensation” dated 9 December 2014, considered by that committee on 27 February 2015.

Audit and Standards Committee paper “Dispensations under the Localism Act 2011” dated 4 December 2018.

Localism Act 2011

NECA Constitution

### **16. Contact Officers**

16.1 Peter Judge, Monitoring Officer

Tel: 0191 338 7455

Email: peter.judge@northeastca.gov.uk

### **17. Sign off**

- 17.1
- Head of Paid Service: ✓
  - Monitoring Officer: ✓
  - Chief Finance Officer: ✓

### **18. Glossary**

18.1 Authority – North East Combined Authority

NECA – North East Combined Authority

NIAL – Newcastle International Airport Limited

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## **Audit and Standards Committee**

**Date:** 2 April 2019

**Subject:** 2018/19 Accounting Policies and Closure of Accounts Update

**Report of:** Chief Finance Officer

### **Executive Summary**

The purpose of this report is to update the Audit and Standards Committee on key accounting changes in the Code of Practice for Local Authority Accounting in the UK (The Code) which are relevant for the preparation of the 2018/19 NECA accounts.

The report also updates the committee on the accounting policies which will be applied in the preparation of the 2018/19 accounts and seeks confirmation from the Audit Committee that appropriate policies are being applied. The majority of the accounting policies approved in previous years remain applicable and are unchanged, but two require updating as a result of changes to the Code. Details of the changes are set out in sections 2.1 and 2.4, with a summary list of accounting policies in Appendix 2 and the full policies detailed in Appendix 3.

The report also provides an update on Closure of Accounts, including changes required to the presentation of the 2018/19 accounts as a result of the establishment of the North of Tyne Combined Authority (NTCA).

### **Recommendations**

The Audit and Standards Committee is recommended to:

- i. Note the changes to the Code of Practice for Local Authority Accounting which apply for the 2018/19 accounts;
- ii. Review the accounting policies and approve their use in the preparation of the 2018/19 financial statements.
- iii. Note the changes required to the NECA accounts for 2018/19 as a result of the creation of the North of Tyne Combined Authority;

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### **1. Background Information**

- 1.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

### **2 Proposals**

#### **Code of Practice Changes 2018/19**

- 2.1 There are two main changes to the Code for 2018/19:

##### **a) Adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers**

The adoption of IFRS 15 affects the way that authorities recognise income from contracts with their customers, setting out an approach to the recognition of income which involves recognition only at the point performance obligations within contracts are satisfied. This is not expected to affect NECA since it does not receive income from contracts of this nature and income is already recognised on an accruals basis.

##### **b) Adoption of IFRS 9 Financial Instruments**

IFRS 9 specifies how an entity should classify and measure financial assets and liabilities. IFRS 9 requires that when an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

- Amortised cost – a financial asset is measured at amortised cost if both of the following conditions are met:
  - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

IFRS 9 also leads to changes in the way NECA must account for impairment of

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financial instruments. Previously, impairments were only recognised once there was objective evidence of an impairment having taken place. Under IFRS 9, NECA must calculate an impairment loss to reflect the expectation that a future cash flow might not take place because the borrower could default on their obligations. This assessment must take into account credit risk and conditions in the wider business environment in which the borrower is operating. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

- 2.2 There are some further minor updates to the Code set out in Appendix 2.

### **Accounting Policies Update**

- 2.3 Accounting policies provide the framework used by an entity to prepare its financial statements. The accounting policies themselves are included within the statement of accounts as a note, so a user of the accounts can understand the basis on which the accounts have been prepared. Typically accounting policies change in response to a change in national or international guidance and standards or where a change enhances the relevance and reliability of information contained within the financial statements.
- 2.4 The majority of the accounting policies for 2018/19 remain unchanged, and two have been updated in response to the changes to the Code set out in section 2.1 above. The updated accounting policies are number 2 *Accruals of Income and Expenditure* and number 11, *Financial Instruments*. *Accruals of Income and Expenditure* has been updated to give a fuller description of when income in particular is recognised. *Financial Instruments* has been updated to describe the three new classifications of financial assets required by IFRS 9 and the approach which will be taken to the calculation of impairment losses.

There are no new accounting policies for 2018/19. Minor changes have been made to the wording of some policies, to improve readability and clarity.

### **Closure of Accounts Update**

- 2.5 On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new mayoral combined authority.
- 2.6 NECA commissioned Deloitte to provide independent accounting and reporting advice regarding how the reconfiguration of NECA should be reflected in its financial statements. The advice concluded that the transfer of services set out in the Order should be accounted for as a transfer by absorption meaning:
- NECA should account for the transactions under its control up to the date of the reconfiguration albeit with clear disaggregation of the financial

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- results relating to the functions being transferred; and
- Assets and liabilities should transfer at book value.

2.7 The Order establishing the NTCA also required the seven local authorities to establish the Joint Transport Committee (JTC). Under the CIPFA Code, the JTC meets the definition of a 'joint operation', which determines its accounting treatment. Where a Joint Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements.

2.8 In order to comply with the CIPFA Code, NECA must:

- Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).
- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

2.9 The Order gives no clear instruction on the basis of division of revenues, but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area provides that "those costs and liabilities which are attributable to the exercise of functions exclusively in the area of the Tyne and Wear Authorities...shall be shared between the Tyne and Wear Authorities on a per capita basis relating to their resident populations at that time."

By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

2.10 In its role as accountable body for the Joint Transport Committee, NECA will complete the accounting work for this and provide the required financial information to NTCA for inclusion within their accounts. Meetings have already taken place with NTCA finance officers to agree timetables and formats for the provision of this information.

2.11 Following the 2017/18 audit, the External Auditor raised that a significant number of amendments to the draft accounts had been identified, which had created additional audit work. They highlighted the need to improve quality assurance processes and review the level of staffing support allocated to the Principal

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Accountant. To tackle this, NECA has identified senior capacity to review and provide quality assurance and resource has been identified to assist with initial checking of working papers and the financial statements.

- 2.12 A protocol for the financial statements audit arrangements and working paper requirements has been agreed between NECA and the External Auditors. This includes a detailed listing of working papers to be provided in advance of the audit, requirements around variance analysis (analytical review), timescales for responses to audit queries (within 1 week) and key principles for both NECA and the External Auditors to adhere to.
- 2.13 In addition, more interim audit work has been completed ahead of the year end than in previous years, which will ease some of the pressure on the audit period in June and July.

### **3. Reasons for the Proposals**

- 3.1 Information about updates to the Code is provided in line with point 12 of the Audit and Standards Committee Terms of Reference as set out in the NECA Constitution: “The Audit and Standards Committee will review key information relating to NECA’s Statement of Accounts”.
- 3.2 The Accounting Policies are presented in line with point 11 of the Audit and Standards Committee Terms of Reference as set out in the NECA Constitution: “The Audit and Standards Committee will review the accounting policies used to compile NECA’s Statement of Accounts”.

### **4. Alternative Options Available**

- 4.1 Option 1 – The Committee is recommended to review the accounting policies and approve their use in the preparation of the 2018/19 accounts.
- Option 2 – the Committee may suggest alternative accounting policies for consideration.
- Option 1 is the recommended option.

### **5. Next Steps and Timetable for Implementation**

- 5.1 The accounting policies and revised accounting standards described in this report will be used in the preparation of the 2018/19 Statement of Accounts. This will be presented to the committee in July 2019.
- 5.2 The draft accounts must be signed off by the Chief Finance Officer by 31 May 2019 and the audited accounts must be signed off by the NECA Leadership Board by 31 July 2019.

### **6. Potential Impact on Objectives**

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6.1 The accounting policies and practices set out in the report enable the Authority to meet its statutory requirements in relation to financial reporting.

### **7. Financial and Other Resources Implications**

7.1 There are no financial implications in cash terms arising from this report. Application of the accounting policies specified enables the Authority to meet its statutory requirements in relation to financial reporting.

There are no Human Resources or ICT implications arising from this report.

### **8. Legal Implications**

8.1 The Authority is required by the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 to produce a Statement of Accounts in accordance with proper accounting practices.

### **9. Key Risks**

9.1 There are no risk management implications arising from this report.

### **10. Equality and Diversity**

10.1 There are no equality and diversity implications arising from this report.

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

12.1 Consultation has taken place with NECA statutory officers.

### **13. Other Impact of the Proposals**

13.1 There are no other impacts arising from the proposals.

### **14. Appendices**

14.1 Appendix 1 – Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 and applicability to the NECA Accounts

Appendix 2 – Summary of Accounting Policies for 2018/19 Accounts

Appendix 3 – Accounting Policies for the 2018/19 Accounts

### **15. Background Papers**

15.1 Code of Practice on Local Authority Accounting 2018/19

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### **16. Contact Officers**

16.1 Eleanor Goodman, Principal Accountant NECA,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

### **17. Sign off**

- 17.1
- Head of Paid Service:
  - Monitoring Officer:
  - Chief Finance Officer:

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### Appendix 1: Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 and applicability to the NECA Accounts

The table below provides a summary of the changes in the 2018/19 Code of Practice

	Change	Relevance to NECA
1	Additional guidance on the principles of revenue recognition in section 2.1 (Concepts)	✓
2	A completely revised section 2.7 (Revenue from Contracts with Service Recipients) following the adoption of IFRS 15 Revenue from Contracts with Customers. There are also consequential amendments to sections: <ul style="list-style-type: none"> <li>• 5.1 (Inventories), to reflect the changes to the measurement of work in progress</li> <li>• 5.2 (Work in Progress (Construction Contracts)) has been withdrawn as a result of the withdrawal of IAS 11 Construction Contracts</li> <li>• 5.2 (Debtors), to reflect the new definition of income, and</li> <li>• 8.1 (Creditors), again to reflect the new definition of income as a result of the adoption of IFRS 15</li> </ul>	✓
3	Amendments to section 3.4 (Presentation of Financial Statements) to reflect the disclosure requirements under IAS 7 Statement of Cash Flows (Disclosure Initiative)	✓
4	An augmented section 3.4 to clarify the reporting requirements for debtors and creditors following removal of the disclosure requirements for the analysis of debtors and creditors across public sector organisations	✓
5	Amendments to section 3.4 to clarify the segmental reporting arrangements under the Code	✓
6	Amendments to section 4.1 (Property, Plant and Equipment) to reflect changes as a result of The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017	
7	Amendments to the new section 5.2 of the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9.	✓
8	Amendments to section 5.2 (Debtors) to remove the requirement to disclose the analysis of debtors across public sector bodies	✓
9	A fully revised chapter 7 (Financial Instruments) to reflect the Code's adoption of IFRS 9 Financial Instruments. There have also been consequential amendments to section 3.4 to reflect the amendments to the Comprehensive Income and Expenditure Statement as a result of the adoption of the standard.	✓

### Appendix 2: Summary of Accounting Policies for 2018/19 Accounts

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Accounting Policy	New policy	Amended policy	Policy Removed	No change	In line with Code
1. General Principles				✓	✓
2. Accruals of Income and Expenditure		✓			✓
3. Cash and Cash Equivalents				✓	✓
4. Exceptional Items				✓	✓
5. Prior Period Adjustments, changes in Accounting Policies and Estimates, and Errors				✓	✓
6. Charges to Revenue for Non-Current Assets				✓	✓
7. Employee Benefits				✓	✓
8. Pensions				✓	✓
9. Events after the Reporting Period				✓	✓
10. Fair Value Measurement				✓	✓
11. Financial Instruments		✓			✓
12. Government Grants and Contributions				✓	✓
13. Property, Plant and Equipment				✓	✓
14. Public Private Partnership (PPP) Contracts				✓	✓
15. Provisions				✓	✓
16. Contingent Liabilities				✓	✓
17. Reserves				✓	✓
18. Revenue Expenditure Funded from Capital Under Statute				✓	✓
19. VAT				✓	✓
20. Overheads				✓	✓
21. Tyne Tunnels Income				✓	✓
22. Group Accounts				✓	✓

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### **Appendix 3: Accounting Policies for the 2018/19 Accounts**

#### **1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Authority is required to prepare an Annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

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

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Authority will continue in operational existence for the foreseeable future.

#### **2. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probably that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

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- Where revenue and expenditure have been recognised by cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

### **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than 90 days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **4. Exceptional Items**

When exceptional items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Authority is not required to fund depreciation, revaluation and impairment losses or amortisations from its levy. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. This annual contribution is known as the Minimum Revenue Provision.

Depreciation, revaluation and impairment losses and amortisations are replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement for the difference between the two.

### **7. Employee Benefits**

#### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees directly employed by the Authority, the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end, which employees can carry forward into the next financial year, is immaterial and therefore no accrual will be made. This approach will be reviewed each year to ensure it is still appropriate.

#### **Termination Benefits**

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for

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pension enhancement termination benefits. These are replaced with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

### **8. Post-Employment Benefits**

Employees of the Authority are members of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at [www.twpf.info](http://www.twpf.info).

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities at current bid price.
  - Unquoted securities based on professional estimate.
  - Unitised securities at current bid price.
  - Property at market value.

The change in the net pensions liability is analysed into the following components:

- Current service cost – the increase in liabilities due to service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Net interest on the net defined benefit liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate

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used to measure the defined benefit obligation to the net defined benefit liability at the beginning of the period taking account any changes in the net defined benefit liability during the period taking account any changes in the net defined benefit liability during the period arising from contribution and benefit payments.

- Re-measurement comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability, charged to the Re-measurement of the defined benefit line in Other Comprehensive Income and Expenditure;
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Tyne and Wear Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **9. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

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### **10. Fair Value Measurement**

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

**Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

**Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3** – unobservable inputs for the asset or liability.

### **11. Financial Instruments**

#### **Financial Liabilities**

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and then carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

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Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of the financial instrument and are classified into three types using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

- Amortised Cost – assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through other comprehensive income (FVOCI) – assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

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The Authority can at initial recognition of the asset override the above classifications in the following circumstances and the decision is irrevocable:

- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading.
- Any financial asset can be designated as measured at FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

### **Amortised Cost**

Assets classified as amortised cost will usually write down over the expected life of the asset with interest being credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in line with the effective interest rate. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are impaired when it is determined that there is a likelihood arising that future cashflows due under the contract will not be made. A charge for the impairment value is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding reduction made in the Balance Sheet to the gross amortised cost of the asset.

The value of the impairment is determined by an assessment of the credit risk. If the risk has increased significantly the impairment loss allowance will be calculated on a lifetime basis. If there is no significant increase or remains low, the loss is assessed on the basis of the impact of an expected loss in the next 12 months.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Fair Value Through Other Comprehensive Income**

Changes in fair value are recorded against Other Comprehensive Income and Expenditure gain/loss by an entry in the Financial Instrument Revaluation Reserve through the Movement in Reserves Statement.

However, interest is charged to the Surplus/Deficit on the Provision of Services as though the asset had been measured at amortised cost

Where assets are identified as impaired because of a likelihood arising from a future event that cashflows due under the contract will not be made a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being

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recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

When the asset is de-recognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

### **Fair Value through Profit and Loss**

All changes in fair value are posted to the Surplus/Deficit on the Provision of Services.

Fair value is measured at market price where the instrument exists within an active market or using discounted cash flow where the instrument has fixed and determinable payments.

All gains and losses on de-recognition are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Soft Loans**

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Authority by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount is charged to the income and expenditure account under the relevant net cost of service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on usable reserves.

## **12. Government Grants and Contributions**

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

- The Authority will comply with the conditions attached to the payments.
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Funded by Capital

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Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced grants and contributions and capital grants used to fund expenditure on the Authority's own assets) in the Comprehensive Income and Expenditure Statement.

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

### **13. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the

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Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. These revaluations are detailed within the Notes to the Core Financial Statements.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line (s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **De Minimis Levels**

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The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level. For all capital expenditure the de-minimis level is £10,000.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2019, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels, it was assessed that, although Mechanical and Electrical Services and the Toll Plaza have an economic life of 20

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years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

### **Disposals**

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

### **14. Public Private Partnership (PPP) Contracts**

Public Private Partnerships are agreements to receive services and provide capital jointly with the private sector. The New Tyne Crossing Partnership is judged to be such an arrangement.

The Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC 12) 'Service Concessions'.

Arrangements fall in the scope of the Application where both of the following 'IFRIC 12' criteria are met:

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For any service concession within the scope of the Application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both of the IFRIC 12 criteria, and NECA therefore recognises the costs of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long-term liability in accordance with IAS17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However, in the New Tyne Crossing Project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. NECA may therefore have no long-term obligation to transfer economic resources to TT2 Ltd., and hence should not recognise a liability.

## **Audit and Standards Committee**

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

- In each month NECA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI;
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

NECA therefore has no exposure to any risk and reward associated with the Operator revenue, but only an executor contract to transfer the Operator's share of total revenues to the operator as it is collected.

It therefore follows from this conclusion that NECA has no long-term obligation to transfer economic resources to the Operator, since the Operator revenue is in substance transferred directly to it. NECA therefore should not recognise a long-term liability to finance the project assets.

In relation to such an arrangement, the Code and the accompanying guidance do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance. NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

### **15. Provisions**

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be

## **Audit and Standards Committee**

required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

### **16. Contingent Liabilities**

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

### **17. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

### **18. Revenue Expenditure Funded from Capital Under Statute**

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

### **19. VAT**

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

## **Audit and Standards Committee**

### **20. Overheads**

The costs of central support services e.g. Finance and Legal Services have been allocated to NECA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

### **21. Tyne Tunnels Income**

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued.

### **22. Group Accounts**

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of NECA and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2018/19 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2018/19 accounts and comparators for 2017/18. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

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## **Audit and Standards Committee**

**Date:** 2 April 2019

**Subject:** External Audit Progress Update

**Report of:** External Auditor

### **Executive Summary**

The purpose of this report is to present the Audit Strategy Memorandum of the External Auditors to NECA, Mazars. This sets out the strategy for the audit of the financial statements for the year ending 31 March 2019.

### **Recommendations**

The Audit and Standards Committee is recommended to note the External Auditor's strategy for the year ended 31 March 2019 which is attached as Appendix 1.

## **Audit and Standards Committee**

### **1. Background Information**

- 1.1 This report presents the report of the External Auditor, Mazars, which is attached as Appendix 1.

### **2 Proposals**

- 2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2019 and forms the basis for discussion at the Audit and Standards Committee.

### **3. Reasons for the Proposals**

- 3.1 The Audit Strategy Memorandum is provided in line with point 7 of the Audit and Standards Committee Terms of Reference as set out in the NECA Constitution: "The Audit and Standards Committee will receive external audit reports, including the Annual Audit Letter, Fee Letter, Annual Governance Report, and other external audit reports as appropriate".

### **4. Alternative Options Available**

- 4.1 The report is provided for information.

### **5. Next Steps and Timetable for Implementation**

- 5.1 The main audit of the NECA accounts will take place during June and July 2019, after which the external auditor will report their findings to the Audit and Standards Committee.

### **6. Potential Impact on Objectives**

- 6.1 This report has no specific impact on Objectives.

### **7. Financial and Other Resources Implications**

- 7.1 There are no new financial commitments arising from this report which is for information. The fees set out within the report for information are included within the approved budget for 2018/19. A verbal update on the proposed additional fee for 2018/19 will be provided at the meeting.

There are no Human Resources or ICT implications arising from this report.

### **8. Legal Implications**

- 8.1 The Authority is required by the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 to produce a Statement of Accounts in accordance with proper accounting practices and for these to be audited.

## **Audit and Standards Committee**

### **9. Key Risks**

9.1 There are no risk management implications arising from this report.

### **10. Equality and Diversity**

10.1 There are no equality and diversity implications arising from this report.

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

12.1 Consultation has taken place with NECA statutory officers.

### **13. Other Impact of the Proposals**

13.1 There are no other impacts arising from the proposals.

### **14. Appendices**

14.1 Appendix 1 – Audit Strategy Memorandum North East Combined Authority Year ending 31 March 2019.

### **15. Background Papers**

15.1 None.

### **16. Contact Officers**

16.1 Jim Dafter, Senior Manager, Mazars LLP, [jim.dafter@mazars.co.uk](mailto:jim.dafter@mazars.co.uk), 07815 876 042

### **17. Sign off**

- 17.1
- Head of Paid Service:
  - Monitoring Officer:
  - Chief Finance Officer:

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# Audit Strategy Memorandum

North East Combined Authority

Year ending 31 March 2019





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for money conclusion
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to the North East Combined Authority. It has been prepared for the sole use of the North East Leadership Group as those charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Leadership Board  
North East Combined Authority  
North Tyneside Council  
Quadrant  
The Silverlink North, Cobalt Business Park  
North Tyneside  
NE27 0BY

March 2019

Dear Members

### **Audit Strategy Memorandum – Year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for the North East Combined Authority (NECA) for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NECA which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0781 375 2053.

Yours faithfully

**Signed:** { {\_es\_:signer1:signature } }

Cameron Waddell, Partner

For and on behalf of Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed to perform the external audit of the North East Combined Authority (NECA) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

## Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of NECA for the year.

### Reporting to the NAO

We report to the NAO on the consistency of NECA's financial statements with its Whole of Government Accounts (WGA) submission.

### Value for money

We are required to conclude whether NECA has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to the value for money conclusion in section 5 of this report.

### Electors' rights

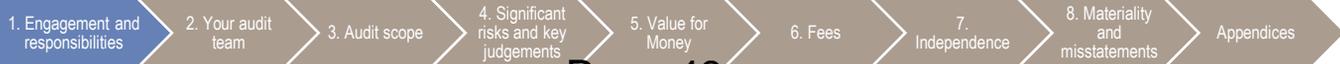
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NECA and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

NECA is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the NECA Leadership Board as those charged with governance.



## 2. YOUR AUDIT ENGAGEMENT TEAM



- Cameron Waddell, Partner
- [Cameron.Waddell@mazars.co.uk](mailto:Cameron.Waddell@mazars.co.uk)
- 0781 375 2053



- Jim Dafter, Senior Manager
- [Jim.Dafter@mazars.co.uk](mailto:Jim.Dafter@mazars.co.uk)
- 07815 876 042



- Holly Madin
- [Holly.Madin@mazars.co.uk](mailto:Holly.Madin@mazars.co.uk)
- 07881 283 718

# 3. AUDIT SCOPE, APPROACH AND TIMELINE

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

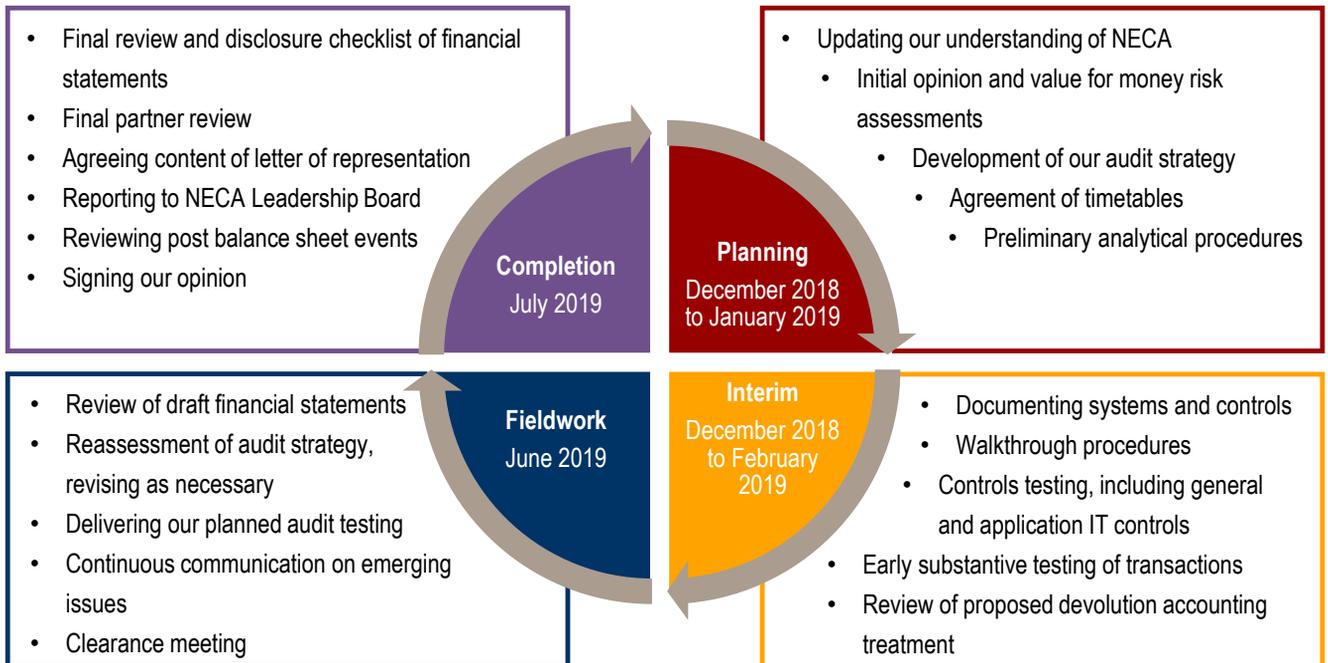
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that lead to a higher risk of material misstatement of the your accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

#### Management's and our experts

Management makes use of experts in specific areas when preparing NECA's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures (relevant to Group accounts only)	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Arlingclose	NAO
Accounting treatment in relation to the devolution	Deloitte	N/A

#### Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to NECA that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by NECA and our planned audit approach.

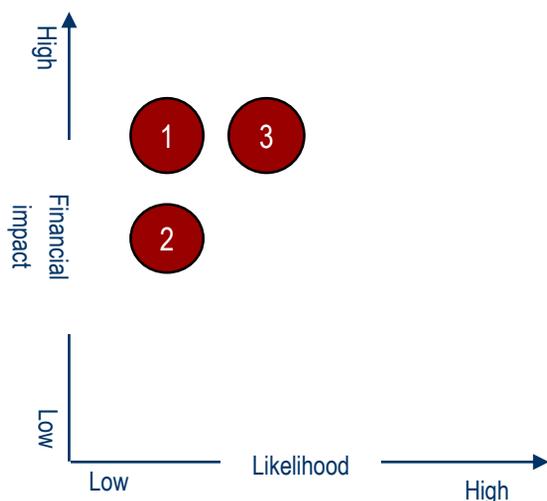
Items of account	Service organisation	Audit approach
All areas	Newcastle City Council	Review NECA's controls over: <ul style="list-style-type: none"> <li>the information provided to the service organisation; and</li> <li>the outputs provided by the service organisation to NECA.</li> </ul>

## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk**      A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.
- Enhanced risk**      An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
  - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk**      This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant risks. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Defined benefit liability valuation

## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the NECA Leadership Board.

### Significant risks

	Description of risk	Planned response
1	<p><b>Management override of controls (relevant to single entity and group accounts)</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>reviewing of material accounting estimates, which may be subject to management bias, included in the financial statements;</li> <li>consideration and review of unusual or significant transactions outside the normal course of business; and</li> <li>testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
2	<p><b>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</b></p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> <li>cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and</li> <li>grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.</li> </ul>	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>the judgements made by management in determining when grant income is recognised;</li> <li>for Tyne Tunnel toll income, perform a substantive analytical review; and</li> <li>for major grant income, obtaining counterparty confirmation.</li> </ul>
3	<p><b>Defined benefit liability valuation (relevant to group accounts only)</b></p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We plan to address the defined benefit liability valuation risk through performing audit work over</p> <ul style="list-style-type: none"> <li>evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and</li> <li>consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul> <p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</p>

## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

### Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	With effect from 2 November 2018, the footprint of NECA changed with the introduction of the North of Tyne Combined Authority. As a result of this decision, management took advice on how this reconfiguration should be reflected in the financial statements of NECA.	<p>We will address this judgement by reviewing the advice supplied to management by their appointed expert (Deloitte) to ensure that it is reasonable and complies with the Code of Audit Practice and applicable accounting standards.</p> <p>We will review the proposed accounting treatment to ensure that apportionments are on a reasonable basis. In addition, we will also test transactions and balances included in the Statement of Accounts are complete, accurate and relate to NECA.</p>

# 5. VALUE FOR MONEY CONCLUSION

## Our approach

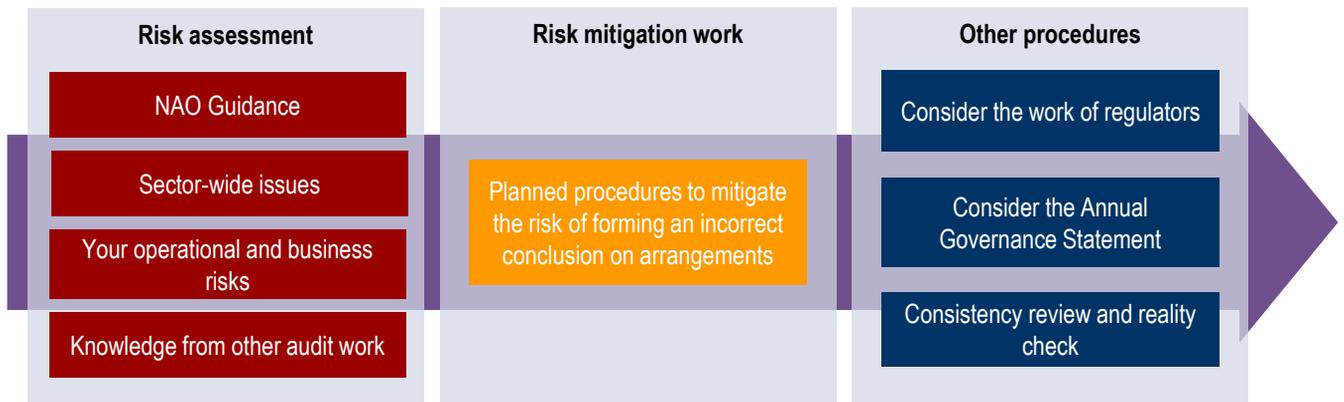
We are required to form a conclusion as to whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, NECA had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



## Significant audit risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not an audit risk exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at NECA being inadequate. As outlined above, we draw on our deep understanding of NECA and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have identified no significant risks in relation to our value for money conclusion.

## 6. FEES FOR AUDIT AND OTHER SERVICES

### Fees for work as NECA's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 9 April 2018.

Service	2018/19 fee	2017/18 fee
Code audit work scale fee	£18,709 plus VAT	£24,298 plus VAT
Additional audit Fee	TBC (1)	£2,000 plus VAT (2)

### Notes

1. Arising from the mid-year establishment of the NoTCA and the resulting additional work involved in auditing the accounts.
2. In relation to additional work required to ensure the opinion on the 2017/18 accounts was given by the deadline of 31 July 2018. In addition, insufficient staffing capacity at NECA resulted in additional work being undertaken by the external audit team.

### Fees for non-PSAA work

At this stage, there is no non-PSAA work we plan to carry out. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

### Services provided to other entities within NECA's group

The group consists of the NECA, Nexus, NEMOL and TTS. We are responsible for the direction, supervision and performance of the group audit.

We are also the external auditor for Nexus and NEMOL. We do not carry out the external audit of TTS as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies.

## 7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

## 8. MATERIALITY AND MISSTATEMENTS

### Summary of initial materiality thresholds

Threshold	Initial threshold NECA (£'000s)	Initial threshold Group (£'000s)
Overall materiality	2,844	4,384
Performance materiality	2,133	3,288
Trivial threshold for errors to be reported to the Audit Committee	85	132

### Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of (Surplus)/Deficit on Provision of Services. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the NECA Leadership Board.

We consider that (Surplus)/Deficit on Provision of Services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 2% of (Surplus)/Deficit on Provision of Services.

## 8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on our preliminary assessment of materiality we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £2.8m (£4m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

### Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

### Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the NECA Leadership Board that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £85,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

### Reporting to NECA Leadership Board

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

## Changes relevant to 2018/19

### IFRS 9 Financial Instruments

The standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Authority's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Authority will continue to measure the majority of its financial assets at amortised cost.

For Authority's that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund.

### IFRS 15 Revenue from Contracts with Customers

The 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

## Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Authority are party to.</p>

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## **Audit and Standards Committee**

**Data:** 2 April 2019

**Subject:** Draft Annual Governance Statement 2018/19

**Report of:** Chief Internal Auditor

### **Executive Summary**

This report presents the provisional outcome of the annual review of the Authority's governance and internal control arrangements. The review highlighted one area which requires improvement around the Tyne pedestrian and cycle tunnels. This area for improvement will be disclosed within the 2018/19 Annual Governance Statement (AGS).

A copy of the draft Annual Governance Statement is provided at Appendix 1.

### **Recommendation**

- I. It is recommended that the Committee agree the draft 2018/19 Annual Governance Statement narrative and consider the evidence provided to support its production
- II. Acknowledge the area requiring improvement (Appendix A of AGS)
- III. Acknowledge that the Statement will be subject to further review in July 2019, following the completion of the external audit of the accounts and before it is signed by the Head of Paid Service and Chair of the Combined Authority.

## Audit and Standards Committee

### 1 Background Information

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an annual governance statement; and
- Through a relevant committee review and approve the annual governance statement

1.2 The final accounts and AGS will be approved by the Leadership Board at the July meeting, therefore Audit and Standards Committee are requested to consider the draft 2018/19 Statement at today's meeting to ensure the deadlines are met.

### 2 2018/19 Annual Governance Statement

The approach to produce the 2018/19 Statement is based on a framework of assurance from a number of areas and in preparing it, it will be necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members - Views of Audit and Standards Committee
- Internal Audit Activity – including the Chief Internal Auditor's annual opinion
- Risk Management - Risk reviews
- Performance Management - Outcomes reported during 2018/19
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements

2.1 **Governance Arrangements** - The Combined Authority has in place a Constitution which was updated to reflect the change in the NECA boundary, following removal of three constituent authorities. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. This evidence and the information below provides assurance that governance arrangements have been defined.

2.2 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have

## Audit and Standards Committee

in place and concluding that they can provide assurance that effective controls are in place. The Monitoring Officer as the Senior Information Risk Owner (SIRO), has also certified an appropriate assurance statement. The signed statements can be found at Appendix 2.

- 2.3 **Members** – The Audit and Standards Committee have reviewed evidence throughout 2018/19 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.
- 2.4 **Internal Audit Activity** – The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year will provide independent assurance and will be reported to the July Committee.
- 2.5 **Risk Management** – A risk management policy and strategy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.6 **Performance Management** – Performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weakness in the control environment.
- 2.7 **External auditor** – The external auditor Mazars issued an unqualified opinion on the NECA 2017/18 accounts and an unqualified value for money opinion. An audit of the Authority's 2018/19 accounts will be undertaken, and further assurance will be given at that point before the accounts are finalised.
- 2.8 **Key Partnerships** – There is a register of significant partnerships which has been used to identify those partnerships where the Authority needs assurance on their control environment to support its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have an effective control environment in place with no weakness identified. A list of the significant partnerships are noted at Appendix 3.
- 2.9 Transport for the North (TfN) is now a Statutory National Transport body with its own Constitution and governance structure. NECA, as one of the

## Audit and Standards Committee

Constituent Authorities are members of the Board with Officers represented on its transport sub-committees. Therefore, TfN and the following partnerships are no longer required to provide assurance to NECA that its governance, internal control and risk management arrangements are in place, as part of the NECA AGS information gathering process:

- Association of Northern Transport Authorities
- Rail North Limited

2.10 Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement has been signed by their Director of Finance and Resources, which states Nexus have an effective control environment in place. A copy of the Statement can be found at Appendix 4.

### 3. Outcomes of the Review of Assurances

3.1 The review highlighted no significant weakness in the internal control environment during 2018/19, although did identify one area requiring improvement. Appendix A to the AGS sets out the detail relating to the Tyne pedestrian and cycle tunnels.

### 4. Proposals

4.1 The Committee are asked to review the draft 2018/19 Annual Governance Statement and the evidence provided to support its production. The Committee are also asked to acknowledge that the Statement will be subject to a further review in July 2019, following approval of the financial accounts and consideration by the Leadership Board.

### 5. Reason for the Proposals

5.1 Audit and Standards Committee's role is to provide an ongoing review, challenge and assurance role in relation to governance and internal control issues. The Committee therefore reviews the Annual Governance Statement process and supporting evidence before the Statement is approved and certified.

### 6. Next Steps and Timetable for Implementation

6.1 The final Annual Governance Statement will be considered once more by the Audit and Standards Committee in July 2019, before it is included in the 2018/19 Statement of Accounts. This is to consider any significant weaknesses should they arise before the 2018/19 accounts are audited and finalised.

## **Audit and Standards Committee**

6.2 The final Annual Governance Statement will then be signed by the Chair of the Combined Authority and the Head of Paid Service, before being published with the final accounts.

### **7. Potential Impact on Objectives**

7.1 No direct impact on objectives.

### **8 Financial and Other Resources Implications**

8.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA for 2018/19.

### **9. Legal Implications**

9.1 No direct legal implications arising specially from this report.

### **10. Key Risks**

10.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

### **11. Equalities and Diversity**

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

### **12. Crime and Disorder**

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

### **13. Consultation/Engagement**

13.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the draft Statement.

### **14. Other Impact of the Proposals**

14.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

### **15. Appendices**

15.1 Appendix 1 - Annual Governance Statement  
Appendix 2 – Assurance Statements signed by Monitoring Officer/Senior Information Risk Owner/Chief Finance Officer  
Appendix 3 – Partnership Assurance Statements  
Appendix 4 – Nexus Assurance Statement

## **Audit and Standards Committee**

### **16. Background Papers**

- 16.1 The Annual Governance Framework and completed Partnership Assurance Statements are available.

### **17. Contact Officers**

- 17.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### **18. Sign off**

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



# ANNUAL GOVERNANCE STATEMENT 2018/19

In partnership with



Durham County Council



Gateshead Council



South Tyneside Council



Sunderland City Council



North East LEP



NEXUS

## Annual Governance Statement 2018/19

<b>Section 1</b>	Introduction
<b>Section 2</b>	Scope of Responsibility
<b>Section 3</b>	The Purpose of the Governance Framework
<b>Section 4</b>	The Governance Framework
<b>Section 5</b>	Annual Review of Effectiveness of Governance Framework
<b>Section 6</b>	North East Joint Transport Committee and North of Tyne Combined Authority
<b>Section 7</b>	Significant Weaknesses in Governance and Internal Control
<b>Section 8</b>	Conclusion
<b>Appendix A</b>	Improvements needed to Governance and Internal Control

### Section 1: Introduction

This Annual Governance Statement provides an overview of how the North East Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective. The statement also includes activities that may need improvement, but which do not constitute 'significant weaknesses' in our governance and internal control arrangements.

Appendix A of the statement includes the background to the weaknesses and details the actions that will be undertaken to improve their effectiveness.

### Section 2: Scope Of Responsibility

The North East Combined Authority (NECA) was established in April 2014 and brought together the seven councils which serve Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

Following the establishment of a North of Tyne Mayoral Combined Authority (NTCA), On 2 November 2018 the boundaries of NECA were changed. As a result of these governance changes the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

NECA and the NTCA continue to work together on a number of areas to support the region, including transport. To oversee strategic transport functions a new North East Joint Transport Committee has been established with members from both Combined Authorities. All seven Local Authorities will remain members of the North East Local Enterprise Partnership to deliver the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

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

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 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 strategic risk register, which is reported to regular meetings of the Authority's Audit and Standards Committee. This information can be found under the [Audit and Standards Committee on the Authority's web-site](#).

### **Section 3: 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, creating the conditions of economic growth and investment. 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 2019 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 (6) (1) to conduct a review of the effectiveness of the system of internal controls required by Regulation 3 and prepare an Annual Governance Statement.

### **Section 4: The Governance Framework**

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:

## 1. Ensuring openness and comprehensive stakeholder engagement

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our [Strategic Economic Plan, January 2019](#), to create the best possible conditions for growing and developing a more productive, inclusive and sustainable regional economy.

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

1.3 Meetings, agendas and minutes are accessible via [NECA's website](#). A Forward Plan is available which contains matters which are expected to be the subject of key decisions taken by the Leadership Board. All meetings are held in public (other than where consideration of confidential or exempt information)

1.4 We publish a register of key decisions to notify the public of the most significant decisions it is due to take. Details of each decision are included on the [Forward Plan](#) 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take.

1.5 Our [Freedom of Information Scheme](#) is published on our website.

1.6 The Authority maintains a [list of significant partners](#). Signed assurance statements are received from each partner which contains an assessment of their governance and internal control systems. The statements provide additional evidence for this AGS.

1.7 Transport is of strategic importance to the North East and together with the North of Tyne Mayoral Combined Authority a [North East Joint Transport Committee](#) has been established bringing together members from both Combined Authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

## 2. Developing the entity's capacity, including the capability of its leadership and the individuals within it

2.1 We have defined and documented in our [Constitution](#) the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), 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.

2.2 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.

## 3. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

3.1 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 Monitoring Officer advises on compliance with our policy framework, ensuring that

decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 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. Audit and Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The [Constitution is available on the NECA website](#).

3.3 We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public. Administration of the Authority’s policies on anti-fraud and corruption is undertaken by Internal Audit. [Whistleblowing policy and procedure is at Part 6.5 of our Constitution](#)

3.4 A [Deed of Cooperation](#) was made on the 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region.

3.5 A register of Members’ interests (including gifts and hospitality) is also maintained.

#### 4. Determining the interventions necessary to optimise the achievement of the intended outcomes

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making, The Overview and Scrutiny Call-in Sub Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 13.3) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 The Authority’s procurement procedures are carried out in line with financial regulations set out in Part 5 of the Constitution through Service Level Agreements.

4.3 The [Accounts and Transparency](#) page of our website contains the most recent accounts of the North East Combined Authority, and includes monthly spending reports, procurement procedures, lists and registers.

#### 5. Managing risks and performance through robust internal control and strong public financial management

5.1 Our Risk Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.

5.2 We have an information governance strategy and framework in place to ensure the effective safeguarding, collection, storage and sharing of the Authority’s data. A Data Protection Officer has been appointed to oversee the data protection strategy and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2018/19 are noted in Section 4 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.4 The Authority has a robust internal control process in place which supports the achievement of its objectives while managing risks. The Audit and Standards Committee acts as principle advisory committee to NECA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.5 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2018/19 to support this AGS.

## 6. Defining outcomes in terms of sustainable economic social and environmental benefits

6.1 The North East LEP works with its partners to produce and deliver the Strategic Economic Plan (SEP). The SEP was updated January 2019 at a time of significant change for the global and national economy. New opportunities in technology and areas such as ageing, and the management of climate risks provide potential for economic growth.

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

## 7. Implementing good practices to transparency, reporting and audit to deliver effective accountability

7.1 Section 4 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy and effectiveness of our governance, risk and control framework.

*(DN: [Hyperlink to internal and external audit opinions will be added once given and reported to Audit & Standards Committee](#))*

7.2 We publish details of [delegated decisions on our website](#).

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

## Section 5: Annual Review Of Effectiveness Of Governance Framework

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 Audit and Standards Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Audit and Standards Committee.

The review is informed by:

- (a) *The views of our internal auditors, reported to Audit and Standards Committee through regular progress reports, and the Annual Internal Audit Opinion. The Chief Internal Auditor's report to the July Audit and Standards Committee gives the opinion that "the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2018/19 was that there has been an effective system of control in place. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance".*

- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) *The views of our external auditors, reported to Audit and Standards Committee through regular progress reports, the Annual Audit Letter and Annual Governance Report. The external auditors Annual Audit Letter for 2018/19 provides an unqualified opinion on the financial statements. The report confirms that NECA has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.*
- (d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements.
- (f) The views of Members through the ongoing activities of Audit and Standards Committee (providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (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.
- (i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.
- (j) The North East LEP Annual Performance Review 2018/19, undertaken by MHCLG. No overall rating is given however, ratings have been given in three themes as follows:
  - a. Governance: Good
  - b. Delivery: Good
  - c. Strategy: Exceptional

The North East LEP Board have noted the feedback provided by the department and is committed to continual improvement and believe the outcome to present the North East LEP amongst the strongest performing Local Enterprise Partnerships

## **Section 6: North East Joint Transport Committee and North of Tyne Combined Authority**

The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities that made up a single Combined Authority splitting and forming two combined authorities. This change happened on 2 November 2018. NECA now constitutes the four Local Authority areas south of the River Tyne. The North of Tyne Mayoral Combined

Authority now constitutes the three Local Authority's north of the River Tyne, Newcastle, North Tyneside and Northumberland.

Regional transport remains to operate and be governed at the seven Local Authority geography through a newly formed North East Joint Transport Committee, bringing together the two Combined Authorities which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered.

NECA as accountable body for the Joint Transport Committee and the functions delegated to it, are responsible for overseeing the legal and financial management of all regional transport resources, recognising that the assets are, in many cases jointly owned by the two Combined Authorities. NECA will also host the Regional Transport Team, including the newly appointed Proper Officer for Transport.

## **Section 7: 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 2018/19.

## **Section 8: Conclusion**

We consider the governance and internal control environment operating during 2018/19 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. There are however areas that require improvement during 2019/20 as detailed in Appendix A.

Systems are in place to continually review and improve the governance and internal control environment. Mid-year checks are undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that the arrangements for 2018/19 are in place and operating as planned.

We have been advised on the implications of the review by the Audit and Standards Committee and propose over the coming year to continue to improve our governance and internal control arrangements.

**Head of Paid Service**

**Chair of the North East Combined Authority**

**Full Name:**

**Full Name:**

**Signature:**

**Signature:**

**Date:**

**Date:**

SECTION 6: IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

<b>Governance and Internal Control Item</b>	
<p>Tyne Tunnels</p> <p><u>Background/Risk</u>                      The North East Combined Authority (NECA) own the Tyne Tunnels. TT2 Ltd are responsible for the operation and routine maintenance of all the tunnels including the pedestrian and cycle tunnels, however the major maintenance liability for the pedestrian and cycle tunnels is retained by the NECA. This is monitored by Newcastle City Council on behalf of NECA in accordance with the terms of the Concession Project Agreement.</p> <p>In March 2015 the contractor undertaking Phase 3 of the refurbishment works entered administration bringing the project to a halt. Following this NECA took over the role of Main Contractor on the refurbishment of the pedestrian and cyclist tunnels. This role is being undertaken by Newcastle City Council’s Building and Commercial Enterprise Division. Bringing the project management in house has minimised further delays and cost risks. This arrangement will continue until the completion of the project.</p> <p>Effective arrangements need to be put in place to deliver the Client Role responsibilities of NECA. Options for Nexus to take over the Client role for NECA are being investigated. The local authority Chief Executives have asked for a formal decision on the transfer to be discussed in more detail over the next few months and Nexus have indicated that the most appropriate time for a transfer of Client responsibility is after the completion and handover of the Pedestrian and Cycle Tunnel.</p> <p>Accountable Officer: Chief Finance Officer</p>	
<b>Action(s) required to enhance effectiveness</b>	<b>Implementation date</b>
Formulate a proposal and obtain agreement to improve clarity, communications, accountability and officer capacity in respect to the governance and management arrangements for the Tyne Tunnels.	31 July 2019
Implement agreed governance and management arrangements for the Tyne Tunnels.	1 October 2019
Handover arrangements for the operation of the newly refurbished Pedestrian and Cycle Tunnels by TT2 need to be put in place this summer prior to the opening of the Tunnels later in the year.	30 April 2019

## **Chief Finance Officer Assurance Statement for 2018/19**

Section 73 of the Local Government Act 1985 requires Combined Authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Finance Officer to have responsibility for those arrangements.

In addition, CIPFA have produced a Statement on the Role of the Chief Finance Officer which sets out how the requirements of legislation and professional standards should be fulfilled by officers in the carrying out of their role.

For the North East Combined Authority an appointment has been made of Chief Finance Officer.

Within the Authority the following processes have been in place during 2018/19 to provide the Chief Finance Officer with assurance on financial affairs:

- Monitoring of all budgets by appropriate officers;
- Leadership Board received regular finance updates;
- Audit and Standards Committee review of budget reports;
- High level financial risk assessment set out in budget report;
- Annual budget sign-off process;
- Review of financial implications/risks within individual Leadership Board and other committee reports;
- Delivery of the Internal Audit Plan and specifically financial systems audit work.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's financial affairs are in place and operating effectively.

Chief Finance Officer Signature: P Woods

Full Name (Capitals) PAUL VERNON WOODS

Date: 19 March 2019

### **Monitoring Officer Assurance Statement for 2018/19**

The Monitoring Officer is a statutory appointment under Section 5 of the Local Government and Housing Act 1989 and has a key role in ensuring the ethical governance of the Authority. The responsibilities of the Monitoring Officer are set out in part 3.6 (B) of the North East Combined Authority's Constitution.

Within the Authority the following processes have been in place during 2018/19 to provide the Monitoring Officer with assurance on the Authority's governance arrangements:

- The NECA Constitution is in place and has been reviewed and updated following establishment of the North of Tyne Mayoral Combined Authority. Standing Orders have also been developed and adopted for the new North East Joint Transport Committee and its structures
- The Monitoring Officer attended meetings of NECA Leadership Board, Overview and Scrutiny Committee and the Economic Development and Regeneration Board and the Audit and Standards Committee
- Following establishment of the North of Tyne Mayoral Combined Authority the Monitoring Officer now attends meetings of the recently formed North East Joint Transport Committee, its Tyne and Wear Sub Committee and the Joint Transport Committee Audit Committee and the Joint Transport Committee Overview and Scrutiny Committee
- Reports to the Leadership Board and other committees include a section on the legal implications of the report and the Monitoring Officer signs-off all reports in advance of each committee
- The Monitoring officer is free to attend North East LEP Board, Investment Board and Technical Officers Group.
- A register of Members' interests (including gifts and hospitality) is maintained.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's governance are in place and operating effectively.

Monitoring Officer Signature: P Judge

Full Name (in capitals): CHARLES PETER JUDGE

Date: 21 March 2019

## **Senior Information Risk Owner Assurance Statement for 2018/19**

The Senior Information Risk Owner's (SIRO) role is to support the implementation of international/government standards for information management and security in the Authority. The legislation to support this role is within the following:

- Data Handling Procedures in Government - 2008
- ISO/IEC 27001:2013 – International Standard for Information Security
- Government Connect (4.1) Code of Connection for IT Security
- General Data Protection Regulation (EU) 2016/679

The SIRO's responsibilities are listed below:

- Ultimately accountable for assurance of information security at the Authority
- Champions information security at a senior level
- Implementation of General Data Protection Regulations (GDPR)
- Provides this annual statement on the security of information assets for the Annual Governance Statement

For the North East Combined Authority (NECA), the officer holding the position of SIRO is the Monitoring Officer.

Within the Authority the following processes have been in place during 2018/19 to provide the SIRO with assurance on Information Governance:

- Information security of the Authority's information is provided through the systems of control in the constituent Authorities providing support in accordance with the standards as set out in Service Level Agreements
- A Data Protection Officer has been appointed and the Authority's Information Governance and Data Protection policies are in place
- All NECA Information governance policies have been reviewed, updated and include KPI measures. These demonstrate that the policies are being followed and controls are effective.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's information are in place and operating effectively.

Senior Information Risk Owner Signature: P Judge

Full Name (in capitals): CHARLES PETER JUDGE

Date: 21 March 2019

**Appendix 3**

**Partnership Assurance Statement (PAS) 2018/19**

(\*) The responsible office for each partnership has been asked to sign a declaration as follows:

“I confirm that the above is a fair reflection of the governance, internal control and risk management arrangements in place during the period for the partnership and that governance and internal control systems are in place/not in place (delete as appropriate) and operating effectively”

	<b>Partnership</b>	<b>Lead Organisation</b>	<b>PAS received</b>	<b>Effective controls are in place (*)</b>	<b>Comments – These points have been identified on the assurance statement although do not have significant impact for the AGS</b>
1	<p><b>North East Local Enterprise Partnership (NELEP)</b></p> <p>The enterprise partnership is a business-led, strategic partnership responsible for promoting and developing economic growth in the area.</p>	North East Local Enterprise Partnership	Yes	Yes	None
2	<p><b>TT2**</b></p> <p>To design, build, majority finance, and operate the new vehicle tunnel, carry out the full refurbishment of the existing vehicle tunnel, and operate all the Tyne Tunnels until 2037.</p>	Newcastle City Council	Yes	Yes	None
3	<p><b>East Coast Mainline Authorities</b></p> <p>The Consortium of East Coast Main Line Authorities represents Local Authorities and Scottish Regional Transport Partnerships throughout the area served by the East Coast Main Line.</p>	NECA	Yes	Yes	None
4	<p><b>North East Smart Ticketing Initiative (NESTI)</b></p> <p>The main aims of the NESTI Project are the introduction of a region-wide smart ticketing infrastructure on all public</p>	Nexus	Yes	Yes	<p>NESTI partnership will come to a formal close at the end of this financial year.</p>

	transport as well as the introduction of a single smart payment method accepted on all forms of public transport.				
5	<p><b>Transport for the North (TfN)</b> (including Association of Northern Transport Authorities and Rail North Limited</p> <p>To create a northern transport strategy in order to align transport investment in pursuit of building the northern powerhouse.</p>	<p>Transport for the North is now a Statutory National Transport Body with its own Constitution. Both NECA and the North Of Tyne Combined Authority are members of the Board with officer representation on its transport sub-committees.</p>			

**Notes**

**Nexus** - Nexus is not included in the register due to its status as an officer of the Combined Authority rather than a partner. Partnership arrangements for Nexus are recorded separately to the arrangements for the North East Combined Authority. A signed statement is at Appendix 4.

**TT2\*\*** - This is a Services Concession, which is a form of services contract rather than a partnership relationship in the strictest sense, but is included within the register for completeness due to the significance of the relationship.

**NEXUS**  
**Assurance Statement for 2018/19**

**April 2018 - November 2018**

Through the North East Combined Authority Order 2014 the Tyne and Wear ITA was abolished and its functions were passed to the North East Combined Authority (NECA). Under the Order while Nexus remained as a separate 'body corporate by statute' it also became an Executive body and an officer of NECA, supplanting the previous statutory arrangements with the ITA.

As part of its governance review, undertaken during the latter part of 2014/15 and early 2015/16, Nexus' reporting arrangements and accountability to the NECA were strengthened as follows:-

- Nexus' performance against the delivery of its Corporate Business Plan was reported on a regular basis to the Tyne and Wear Sub Committee (TWSC) of the Transport North East Committee (TNEC)
- Nexus' strategic risk register and its risk management arrangements were reported on a regular basis to the TWSC;
- Nexus reported its financial performance on a quarterly basis to the TNEC as part of the NECA Chief Finance Officer's composite monitoring reports for both revenue and capital expenditure;
- Nexus sought authorisation for key decisions at the TWSC, TNEC and the North East Leadership Board (NELEP), as appropriate; and
- Nexus officer attendance at both the NECA Governance and Overview and Scrutiny Committees as requested.

**November 2018 – March 2019**

On 2<sup>nd</sup> November 2018 an Order was created to form the North of Tyne Combined Authority. As part of these revised arrangements the North East Joint Transport Committee (NE JTC) was established which brings together a total of seven members from each of the Constituent Authorities of the region; four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority.

Within Nexus the following arrangements have been in place during 2018/19 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Senior Leadership Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;
- The 2018/19 Internal Audit Plan was kept under review by Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;
- External Audit provided clean opinions on the 2017/18 statutory accounts (true and fair view and value for money conclusion);
- Effective partnership and contracting arrangement were in place;
- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place.

I confirm that based on this evidence the internal control, risk management and governance arrangements at Nexus are in place and operating effectively.

Director of Finance & Resources Signature: J Fenwick

Full Name: John Fenwick, CPFA

Date: 7/3/19

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## **Audit and Standards Committee**

**Date:** 2 April 2019  
**Subject:** Internal Audit Progress Report  
**Report Of:** Chief Internal Auditor

### **Executive Summary**

The purpose of this report is to provide Members with:

- An update on the current position with the 2018/19 internal audit plan.

### **Recommendations**

It is recommended that the Committee:

- Note the current position regarding the 2018/19 audits.

## Audit and Standards Committee

### 1 Audit Plan Progress

- 1.1 Set out below are the Internal Audit reports which have been issued since the last meeting of Audit and Standards Committee.

Audit	Level of Assurance
Budget Setting and Monitoring Arrangements	Substantial
Tyne Tunnel Income *	Full
LEP Loans	Full

- 1.2 Appendix 1 has more details of the audit activity and definitions for levels of assurance in reports are included at Appendix 2.
- 1.3 The remaining audits in the 2018/19 audit plan are as follows:

Audit	Status	Committee for Reporting
Pedestrian and Cycle Tunnels *	Planned	See below
Implementation of the Local Growth Fund programme	In progress	See below

- 1.4 The Pedestrian and Cycle Tunnel audit is intended to be a review of the project post-completion, however, as this stage has not yet been reached, this audit is yet to start. An audit of Local Growth Fund Monitoring Returns was issued in September 2018 and reported to the December 2018 Committee. The 2018/19 audit has therefore been started but final testing will be postponed until June 2019 when the audit will be finalised.
- 1.5 The 2 audits marked \* will also be reported to the Joint Transport Audit Committee in due course.

### 2 Implementation of Outstanding Recommendations

- 2.1 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money 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 following table provides details of the recommendations that have recently passed their original implementation date.

## Audit and Standards Committee

	Audit and Recommendation	Lead Officer/ Implementation Due Date
<b>1</b>	<b>Treasury Management</b>	
1.1	<p>The Chief Finance Officer and the Principal Accountant should ensure a comprehensive Finance SLA is produced which ensures:</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities of NECA and NCC for all matters relating to Treasury Management are established.</li> <li>• It references the Treasury Management Policy and Strategy and the expectations within these.</li> <li>• The process and rates to be used in the calculation and settlement of amounts owed between NECA and NCC in terms of cash balances and interest, is clearly defined.</li> <li>• Appropriate performance management arrangements are established.</li> </ul>	<p><b>Responsibility:</b> Chief Finance Officer</p> <p>The SLA will be updated to include more detail of the respective roles and responsibilities.</p> <p>Original Date 31 July 2018</p> <p>Revised Date 31 December 2019</p>
<b>2</b>	<b>Human Resources</b>	
2.1	<p>The Monitoring Officer should ensure that a formal SLA is in place for Human Resource services which clearly defines the roles and responsibilities of the constituent authorities who provide HR to the Combined Authority.</p>	<p><b>Responsibility:</b> Monitoring Officer (supported by Head of Paid Service)</p> <p>The absence of Service Level Agreements in relation to strategic and operational HR (including Payroll) was formally identified with LA7 Chief Executives on 30 November 2017. A mandate was sought to update and finalise SLA arrangements. A mandate was given in December 2017 for project entitled '<i>Formalising Support Services</i>' (<i>Corporate Project 2</i>). New SLAs (including current matters such as GDPR compliance) were drafted and</p>

## Audit and Standards Committee

		<p>circulated to the relevant constituent authorities on 18 May 2018. Formal response is awaited, but agreement in principal has been reached that SLA arrangements will remain in place over the transition period for the Combined Authority's governance changes which result from the change in the NECA boundary and North of Tyne devolution.</p> <p>Original Date 30 September 2018</p> <p>Revised Date 31 December 2019</p>
2.2	<p>Given the Combined Authority's structure and the involvement of several constituent authorities in human resources and payroll, it is imperative a record is maintained of the data held, by whom, and agreements to ensure compliance with the Combined Authority's overarching data management and governance policies are in place.</p> <p>NECA should seek formal assurances from the constituent authorities holding personal, that the data is being held and managed in accordance with the Data Protection Act.</p>	<p><b>Responsibility:</b> Monitoring Officer (supported by Head of Paid Service)</p> <p>A clear understanding exists between the Chief Legal Officers of NECA and each constituent authority about their roles and responsibilities in relation to protection of data. A full GDPR project has been completed. As part of this all data held has been mapped as part of an audit process. It is, however, accepted, that the new Service Level Agreements containing obligations in relation to GDPR and all related data protection legislation have not yet been signed, but draft documents have been circulated by NECA to constituent authorities on 18 May 2018.</p> <p>Original Date 30 September 2018</p> <p>Revised Date 31 December 2019</p>

## **Audit and Standards Committee**

- 2.2 The outstanding recommendations relate to SLA's. As new arrangements come into effect for 2019/20 it is envisaged that new SLA's will be developed which will take account of the points above.

### **3 2019/20 Internal Audit Plan**

- 3.1 The SLA between Newcastle City Council and NECA ended 31 March 2019, however the City Council have been asked to submit a new SLA to 31 March 2020. When this is finalised an Audit Plan will be produced and reported to the next Audit and Standards Committee.

### **4 Proposals**

- 4.1 The Audit and Standards Committee are asked to note the position with regard to the audit work currently ongoing.

### **5 Reasons for the Proposals**

- 5.1 Audit and Standards Committee continue to fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

### **6 Next Steps and Timetable for Implementation**

- 6.1 Further update to be provided to the next meeting of Audit and Standards Committee following completion of the internal audit plan.

### **7 Potential Impact on Objectives**

- 7.1 No direct impact on objectives.

### **8 Finance and Other Resources Implications**

- 8.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement.

### **9 Legal Implications**

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

### **10 Key Risks**

- 10.1 No key risks are impacted by this report.

## **Audit and Standards Committee**

### **11 Equality and Diversity**

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

### **12 Crime and Disorder**

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

### **13 Consultation/ Engagement**

- 13.1 The Head of Paid Service, Monitoring Officer, and Chief Finance Officer have consulted on the internal audit activity.

### **14 Other Impact of the Proposals**

- 14.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

### **15 Appendices**

- 15.1 Audit Activity since December 2018 (Appendix 1)  
Levels of Assurance (Appendix 2)

### **16 Background Papers**

- 16.1 Internal Audit Reports

### **17 Contact Officers**

- 17.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E-mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### **18 Sign Off**

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

## Audit and Standards Committee

Appendix 1 – Audit Activity since December 2018					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
<b>Tyne Tunnel Income</b>	<b>Full</b>	-	-	-	-
<b>Audit objectives and scope</b>					
<p>The overall objective of the audit was to assess whether significant risks in relation to Tyne Tunnel Income are adequately and effectively controlled through review of the following objectives:</p> <ul style="list-style-type: none"> <li>• There is a formal contract in place setting out arrangements for collection of toll income, performance standards and transfer of monies into the Combined Authority bank account.</li> <li>• Toll income is collected, counted and banked in full and in line with the agreed contract.</li> <li>• Toll income is promptly allocated to relevant income codes, reconciled against expected amounts with discrepancies being investigated and promptly resolved.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Discussions with Principal Accountant to ascertain the nature of the system and identify the controls operated by management.</li> <li>• Evaluation of current systems and controls through review and testing of the following: <ul style="list-style-type: none"> <li>○ Review of governing documents and procedure notes.</li> <li>○ Testing a sample of dates to ensure income collected was as expected and was securely collected/counted/banked.</li> <li>○ Ensuring monies are fully and accurately reconciled and accounted for in financial systems.</li> <li>○ Ensuring amounts due to TT2 are correctly calculated and paid in accordance with the contract.</li> </ul> </li> </ul>					
<b>Assurances</b>		<b>Control weaknesses impacting on assurance and recommendations</b>		<b>Opportunities to enhance efficiency and value for money</b>	
<p>Documentation and procedures are in place setting out how the collection of income for Tyne Tunnel operates</p> <p>Processes for collection of income from the Tyne Tunnel are robust and in line with an agreed schedule</p> <p>Processes for the counting and banking of cash income are robust</p> <p>Income is appropriately reconciled and accounted for in the general ledger</p> <p>Amounts due to TT2 are correctly calculated and paid in accordance with the contract</p>		None		None	

<b>Appendix 1 – Audit Activity since December 2018</b>					
<b>Audit</b>	<b>Assessment</b>	<b>Recommendations</b>			
		<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>VFM</b>
<b>Budgetary Control</b>	<b>Substantial</b>	-	1	1	-
<b>Audit objectives and scope</b>					
<p>The overall objective of the audit was to assess whether significant risks in relation to Budgetary Control are adequately and effectively controlled. This was done through review of the following objectives:</p> <ul style="list-style-type: none"> <li>• Budget monitoring is undertaken in line with the Authority’s financial regulations and documentary evidence is retained to support this. Variations identified through budget monitoring are reported and appropriate action is taken to address these promptly.</li> <li>• The budget setting process meets statutory and NECA requirements including those relating to consultation and approval deadlines.</li> <li>• Assumptions made during the budget setting process are supported by appropriate risk assessments and evidence.</li> <li>• Procedures are in place to achieve value for money and identify efficiency.</li> <li>•</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Discussions with Principal Accountant to ascertain the nature of system and identify the controls operated by management.</li> <li>• Evaluation of current systems and controls through review and testing of the following: <ul style="list-style-type: none"> <li>○ Ensuring the budget setting process for 2018/19 was subject to a clear timetable, including an adequate consultation period, and that the budget was approved by an appropriate body;</li> <li>○ Ensuring any assumptions made during the process were soundly based and documented/challenged appropriately;</li> <li>○ Ensuring the budget position has been appropriately monitored and accurately reported during the year, with any issues being addressed promptly and effectively.</li> </ul> </li> </ul> <p>In addition discussions took place in relation to 2019/20 arrangements, although these will be covered in more detail in the 2019/20 audit plan.</p>					
<b>Assurances</b>	<b>Control weaknesses impacting on assurance and recommendations</b>		<b>Opportunities to enhance efficiency and value for money</b>		
The budget setting process for 2018/19 was subject to a clear timetable, including an adequate consultation period, and the budget was approved by an appropriate body.	<p>For assumptions made during the budget setting process it was not formally evidenced or recorded that they had been agreed as reasonable prior to including in the budget. (Medium)</p> <p><b>Recommendation</b></p>		None		

<p>Budget monitoring is undertaken effectively by the Principal Accountant.</p>	<p>Assumptions should be formally documented and evidence retained that can demonstrate where figures originated from or how they were calculated.</p> <p>They should be agreed as reasonable prior to inclusion in the budget and this should be recorded.</p> <p><b>Implementation Date</b> Budgeting setting for 2020/21 – January 2020</p>	
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<b>Appendix 1 – Audit Activity since December 2018</b>					
<b>Audit</b>	<b>Assessment</b>	<b>Recommendations</b>			
		<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>VFM</b>
<b>LEP Loans</b>	<b>Full</b>	-	-	-	-
<b>Audit objectives and scope</b>					
<p>The overall objective of the audit was to assess whether significant risks in relation to LEP Loans are adequately and effectively controlled. This was done through review of the following objectives:</p> <ul style="list-style-type: none"> <li>Loans are supported by an appropriate agreement, setting out repayment terms and any other relevant conditions.</li> <li>Monitoring takes place to ensure organisations are meeting their obligations with regard to repayments and delivery of outputs.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>Discussions with the Principal Accountant, Senior Funding &amp; Commercial Officer, and Programme Manager to ascertain the nature of the system and identify the controls operated by management.</li> <li>Review of a sample of 7 projects to ensure all relevant documentation is in place, repayment terms and any other conditions are being met or where they are not to ensure issues are being addressed effectively, and monitoring is being undertaken effectively to ensure outputs are being delivered.</li> </ul>					
<b>Assurances</b>		<b>Control weaknesses impacting on assurance and recommendations</b>		<b>Opportunities to enhance efficiency and value for money</b>	
<p>Loans are all subject to a funding agreement, containing all relevant information such as drawdown and repayment schedule, project timeline and deliverables, monitoring conditions.</p> <p>Loans are monitored effectively to ensure outputs are delivered and repayments are made appropriately.</p> <p>Where repayments are not made as agreed, an escalation and reporting process is in place, and appropriate action is taken to recover arrears or to instigate legal enforcement.</p>		None		None	

## 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.

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## **Audit and Standards Committee**

**Date:** 2 April 2019  
**Subject:** Strategic Risk Register  
**Report Of:** Chief Internal Auditor

### **Executive Summary**

The purpose of this report is to provide members with an update of the Strategic Risks for the North East Combined Authority.

### **Recommendations**

Audit and Standards Committee are asked to review the outcome of the strategic risk review, as well as highlight any additional strategic risks that may need to be considered for inclusion in the risk register.

## **Audit and Standards Committee**

### **1 Background Information**

#### **1.1 Effectiveness**

The risk has been updated to acknowledge the establishment of the North of Tyne Mayoral Combined Authority and the arrangements for regional transport, which are delivered through the North East Joint Transport Committee bringing together all seven Constituent Authorities.

#### **1.2 Operational Capacity and Resourcing**

The risk is moving in a positive direction of travel, therefore reducing the overall risk priority from Red 16 to Red 12. Statutory officers and deputies have been confirmed and were appointed to their new positions on 1 April 2019. Work is also underway to review the level of resource requirement for the new Combined Authority through the Combined Authorities Reconfiguration Programme (CARP).

#### **1.3 European Funding 2014 – 2020**

The risk description has been strengthened to acknowledge the uncertainties around future funding opportunities beyond European Structural and Investment Funding. Government have given assurances that projects that are contracted before the Brexit deadline will be honoured, however consultation documents expected from Government have been delayed due to the Brexit negotiations.

1.4 Appendices A and B provide the Committee with details of each risk. Appendix C provides details of the North East Local Enterprise Partnership risks. The Toolkit at Appendix D is used to determine the risk priority for NECA risks.

1.5 The strategic risk register only contains high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus will report risks to the Joint Transport Committee Tyne and Wear Sub-Committee. A link to the latest Nexus risk register is included at Section 14 - Background documents.

1.6 As the Joint Transport Committee develops its strategic risk register for regional transport, risks will be reported to its Audit Committee. Where appropriate, the risks will also be provided to Audit and Standards Committee for information.

### **2. Proposals**

2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

## **Audit and Standards Committee**

### **3. Reason for the Proposals**

- 3.1 Audit and Standards Committee continue to fulfil an ongoing review and assurance role in relation to governance and internal control issues.

### **4. Next Steps and Timetable for Implementation**

- 4.1 The risk register will be closely monitored to ensure the mitigation plans and next steps are delivered.

### **5. Potential Impact on Objectives**

- 5.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

### **6. Finance and Other Resources Implications**

There are no direct financial implications arising from this report. Risk Management work is supplied to NECA through a Service Level Agreement with Newcastle City Council.

### **7. Legal Implications**

There are no direct legal implications arising specifically from this report.

### **8. Key Risks**

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

### **9. Equalities and Diversity**

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

### **10. Crime and Disorder**

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

### **11. Consultation /Engagement**

The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the Strategic Risk Register.

### **12. Other Impact of the Proposals**

The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

### **13. Appendices**

## **Audit and Standards Committee**

Appendix A – ‘Risk at a glance’ shows NECA’s corporate risks, and North East LEP strategic risks and includes risk priority and direction of travel

Appendix B – Provides a detailed assessment of the NECA strategic risks and future activity to reduce the overall risk exposure

Appendix C – Provides a detailed assessment of the North East LEP strategic risks and future activity to reduce the overall risk exposure

Appendix D – Risk Analysis Toolkit determines the risk priority for NECA risks.

### **14. Background Documents**

The latest [Nexus risks](#) can be found on the NECA website as part of the North East Joint Transport Committee, Tyne and Wear Sub-Committee, which focuses on transport issues for both NECA and the North of Tyne Combined Authority.

### **15. Contact Officers**

Philip Slater – Chief Internal Auditor - Newcastle City Council.  
[Philip.slater@newcastle.gov.uk](mailto:Philip.slater@newcastle.gov.uk).  
Telephone - 0191 2116511

### **16. Sign off**

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

## Audit and Standards Committee

### Appendix A

Risks at a glance		
Risk Title & Description	Risk Priority	Direction of Travel

NECA Corporate Risks		
<p><b><u>Effectiveness</u></b> The future effectiveness of the North East Combined Authority may be affected by the new devolution arrangements operating North of Tyne.</p>	Amber 8	Static
<p><b><u>European Funding 2014-2020</u></b> Failure of the North East LEP area which covers the 7 Local Authorities to secure the full notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes (circa £500m) by 2021 which would significantly impact on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static
<p><b><u>Operational Capacity and Resourcing</u></b> The North East Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	Red 12	Improving

North East LEP Risks		
<p><b><u>Operational Capacity and Resourcing</u></b> Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit due to multiple short-term funding sources.</p>	Amber 8	Static
<p><b><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u></b> Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular the national LEP Review.</p>	Red 12	Static
<p><b><u>Government Capital Funding</u></b> Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP and the Local Industrial Strategy (LIS).</p>	Red 12	Static
<p><b><u>European Funding</u></b> Failure of the North East LEP area to secure the notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static
<p><b><u>North East devolution</u></b> The LEP area covers 7 local authorities. The LEP area is unique in England to have more than one combined authority which may impact on SEP and Local Industrial Strategy delivery as governance structures and the accountable body status are reviewed.</p>	Red 12	Static

## Audit and Standards Committee

### North East Combined Authority – Risk Management

### Appendix B

<p><b><u>Effectiveness</u></b></p> <p>The future effectiveness of the North East Combined Authority may be affected by the new devolution arrangements operating North of Tyne.</p>	<p><b><u>Risk Owner</u></b> Head of Paid Service</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Amber 8</p>
	<p>Likelihood – Low Impact - Critical</p>
<p><b>Cause:</b> The North East Combined Authority’s decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities (LAs) that made up a single Combined Authority splitting and forming two combined authorities (CAs). NECA now constitutes the four LAs south of the River Tyne. The North of Tyne Mayoral Combined Authority was established and constitutes the three LAs north of the River Tyne. The change happened on 2 November 2018. Regional transport continues to operate and be governed at the seven LA geography through the newly formed Joint Transport Committee.</p>	
<p><b>Impact/Consequence:</b> The North East Combined Authority will need to adjust to operate with a reduced local authorities membership and changes to its boundaries.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The seven Local Authorities have approved a Deed of Cooperation which sets out operational working between the 7 Local Authorities and the 2 Combined Authorities</li> <li>• The Combined Authorities Reconfiguration Programme (CARP) is overseeing the transformation including data/asset transfers, service and employee changes, updating legal documentation and financial transfers</li> <li>• The Statutory Order provides for the existence of the NECA and specifies its current membership and functions</li> <li>• Formal decision-making committees including NECA Leadership Board, Joint Transport Committee and sub-committees are operational</li> <li>• The 7 LAs continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees</li> <li>• The Strategic Economic Plan (SEP) has been refreshed in 2019 by the North East LEP to ensure the economic priorities remain current, reflecting the region’s economic position</li> <li>• All 7 LAs continue to support the North East LEP and the SEP and are working together to develop the regional Local Industrial Strategy (LIS).</li> <li>• A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for NECA</li> <li>• NECA’s revised Constitution was adopted by the NECA Leadership Board November 2018</li> </ul>	
<p><b><u>Next Steps</u></b></p> <p>The Combined Authorities Reconfiguration Programme (CARP) will continue to review the system of control and assurance framework of NECA, acknowledging the changes to NECA’s boundaries and the creation of the North of Tyne Mayoral Combined Authority. The 2 combined authorities and</p>	<p><b><u>Lead Officer(s)</u></b></p> <p>Martin Swales (Head of Paid Service)</p>



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the LEP are working together to implement the changes. This work will continue throughout 2019.	
NECA Leadership Board will develop and communicate a clear statement of the role, differentiating facts and working arrangements with NoTCA	Martin Swales (Head of Paid Service)

## Audit and Standards Committee

<p><b><u>European Funding 2014-2020</u></b></p> <p>Failure of the North East LEP area which covers the 7 Local Authorities to secure the full notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes (circa £500m) by 2021 which would significantly impact on the delivery of the Strategic Economic Plan.</p>	<p style="text-align: center;"><b><u>Risk Owner</u></b> Head of Paid Service</p> <hr/> <p style="text-align: center;"><b><u>Risk Score</u></b></p> <p style="text-align: center; background-color: yellow;">Amber 9</p> <p style="text-align: center;">Likelihood - Medium Impact – Significant</p>
<p><b>Cause:</b> ESIF Programme implementation was delayed whilst the impact of the EU Referendum was reviewed by Government departments, leading to underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund (UKSPF) is likely to replace the ESIF Programmes beyond 2021, however the consultation document expected from Government is delayed due to Brexit negotiations and therefore the future funding opportunities beyond ESIF are uncertain at this time.</p>	
<p><b>Impact/Consequence:</b> The ability to secure the North East LEP area’s full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• HM Treasury have confirmed that Government will honour the level of ESIF commitment after Brexit, although there is no detail yet on how this will be operationalised</li> <li>• Latest Government figures show that circa £130m remains to be allocated in the North East</li> <li>• The NECA and the North East LEP secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for small and medium sized enterprises</li> <li>• The 7 LAs and North East LEP have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need</li> <li>• The North East Technical Assistance project, led by Northumberland County Council on behalf of local authority partners; is supporting local partners with their ESIF applications to maximise access to the funding available</li> <li>• The SEP has been updated and relaunched in 2019 to acknowledge the significant changes in the global and national economy as the UK prepares to leave the EU and updates the delivery programmers to demonstrate the need for the full ESIF quota in the North East.</li> </ul>	
<p><b>Next Steps</b></p>	<p><b>Lead Officer(s)</b></p>
<p>The 7 LAs are working with key stakeholders to prepare projects ready for Government releasing further ‘calls’ for applications for funding.</p>	<p>Martin Swales Head of Paid Service</p>
<p>NECA will continue to work with and lobby Government to ensure that HMT assurances about maintaining the level of ESI funding in the UK after Brexit will not affect the current notional allocation to the North East.</p>	<p>Martin Swales Head of Paid Service</p>
<p>NECA and other local partners will continue to work with the Managing Authorities (MHCLG, DWP and DEFRA) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m.</p>	<p>Martin Swales Head of Paid Service</p>

## Audit and Standards Committee

<p><b><u>Operational Capacity and Resourcing</u></b></p> <p>The North East Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.</p>	<p><b><u>Risk Owner</u></b> Head of Paid Service</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p>
	<p>Likelihood – Medium Impact - Critical</p>
<p><b>Cause:</b> At its meeting on 5 February 2019 the NECA Leadership Board agreed revised arrangements for the statutory officers from 1 April 2019. However, the model remains unchanged in that the newly identified resources will undertake these duties alongside their current positions in a part-time capacity. A review of other resource requirements is currently underway.</p>	
<p><b>Impact/Consequence:</b> Statutory Officers constrained by their availability and need to carry out other duties may impact on the ability to effectively carry out their NECA and accountable body role.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• Newly appointed Statutory Officers are working alongside current Statutory Officers as part of the transitional arrangements</li> <li>• Part time statutory officers and deputy statutory officers are in place.</li> <li>• Thematic (Portfolio) areas and Thematic Lead Members have been approved by the Leadership Board and work plans are being developed</li> <li>• Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels</li> <li>• Economic Directors' Group have put in place a programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely</li> <li>• The Leadership Board has agreed a budget for 2019/20 and approved the capital programme for 2019/20. (approved on 5 February)</li> <li>• As part of the budget process Chief Executives and the Head of Paid Service identified the risks relating to capacity and political commitment. The four local authority Chief Executives are reviewing the capacity required for the future</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
Statutory officers and deputies have been confirmed for the revised NECA boundary and will be in place on 1 April 2019.	Martin Swales (Head of Paid Service)
Accountable Body Arrangements – NECA continue to be the Host Combined Authority for the North East LEP and is also the accountable body for the Joint Transport Committee and the functions delegated to it. NECA will host the Regional Transport Team including the Proper Officer for Transport.	Martin Swales (Head of Paid Service)
A review of resource requirements for the new combined authority is underway.	John Hewitt (Section 73 Officer)

**Audit and Standards Committee**

**Appendix C**

**North East Local Enterprise Partnership - Risk Management**

<p><b><u>Operational Capacity and Resourcing</u></b></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit due to multiple short-term funding sources.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Amber 8</b></p>
	<p>Likelihood – Low Impact – Critical</p>
<p><b>Cause:</b> Some funding sources relating to staff resourcing are time-limited and core operational budget levels are not sufficient to allow the Local Enterprise Partnership (LEP) to maintain current capacity levels in the medium term.</p>	
<p><b>Impact/Consequence:</b> The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• 2019/20 LEP operational budget agreed by the LEP Board and its accountable body</li> <li>• Some financial reserves held by the LEP from previous financial years</li> <li>• Potential to call on financial resources relating to Enterprise Zone income if required</li> <li>• On-going monitoring of external funding landscape and actions to secure alternative sources</li> <li>• Medium term draft budget prepared</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
Budget management and forecasting on-going	Helen Golightly (Chief Executive)
Creation of a new company limited by guarantee sitting alongside the LEP structure will enable the LEP to seek funding from other sources	Helen Golightly (Chief Executive)
On-going horizon scanning for funding opportunities to support the team and delivery.	Helen Golightly (Chief Executive)
The LEP has established the North East Brexit Group with key partners to work together on the impact of Brexit on the region.	Richard Baker (Head of Economic Strategy and Policy)

## Audit and Standards Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u></b></p> <p>Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular the national LEP Review.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Red 12</b></p> <p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> Government have reviewed the role and scope of LEP activity which is set out in the paper 'Strengthening LEPs'. Government require LEPs to be independent of local authorities with a wider remit around Local Industrial Strategies and funding. There needs to be sufficient financial resources made available to LEPs to carry out any increased responsibility and activity.</p>	
<p><b>Impact/Consequence:</b> The LEP operational budget does not have sufficient head-room to add any financial resource for additional staff. This could lead to current staff resource being spread too thinly, reducing impact and effectiveness and facilitating the delivery of the Strategic Economic Plan.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The LEP is working closely with Government to try to influence policy and its practical implications</li> <li>• LEP Network (national body) also lobbying Government</li> <li>• LEPs can bid to Government for an additional £200K for 2019/20.</li> </ul>	
<b><u>Next Steps</u></b>	<b><u>Lead Officer(s)</u></b>
Continue to lobby and influence Government	Helen Golightly (Chief Executive)
Consider and respond to any changes as they emerge	Helen Golightly (Chief Executive)

## Audit and Standards Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>Government Capital Funding</u></b></p> <p>Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP and the Local Industrial Strategy (LIS).</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p> <hr/> <p><b><u>Risk Score</u></b></p> <p style="background-color: red; color: white; text-align: center;">Red 12</p> <p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b></p> <p>There is uncertainty around the design, function and level of future regional/local strategic capital funding sources from Government. The UK Shared Prosperity Fund which is due to fill the gap after ESIF and LGF funding is proposed to come into effect in 2021, but the Government consultation has been delayed due to Brexit. There is also a significant risk that funding for Innovation capital projects will be allocated via national competitions.</p>	
<p><b>Impact/Consequence:</b></p> <p>Without a clear understanding of future potential funding, the delivery of strategic projects related to the SEP and the Local Industrial Strategy post 2021 is at risk.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• The 2019 refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy</li> <li>• The LEP is working with Government to influence policy and funding thinking</li> <li>• The LEP is leading the regional development of the Local Industrial Strategy which will also set out future funding requirements to increase productivity in the North East</li> <li>• The LEP is working with regional partners to develop a portfolio of Innovation pipeline projects to work up a prioritised set of worked-up projects</li> </ul>	
<p><b><u>Next Steps</u></b></p>	<p><b><u>Lead Officer(s)</u></b></p>
<p>Continue to develop projects (where appropriate) to be ready to ‘win’ funding as it becomes available.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Continue to work with Government and influence emerging policy thinking.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Develop a portfolio of Innovation pipeline projects with regional partners</p>	<p>Alan Welby (Innovation Director)</p>

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### North East Local Enterprise Partnership - Risk Management

<p><b><u>European Funding</u></b></p> <p>Failure of the North East LEP area to secure the notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p> <p><b><u>Risk Score</u></b></p> <p style="background-color: yellow;">Amber 9</p> <p>Likelihood – Medium Impact – Significant</p>
<p><b>Cause:</b> ESIF Programme implementation was delayed whilst the impact of the EU Referendum was reviewed by Government departments. This has led to national underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund is likely to replace the ESIF Programmes beyond 2021, however the consultation document expected from Government is delayed as the Brexit negotiations continue and therefore the future funding opportunities beyond ESIF are uncertain at this time. There is also no clarity on the impact of various Brexit scenarios on the accessibility of the remaining funding.</p>	
<p><b>Impact/Consequence:</b> The ability to secure the North East LEP area's full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• In August 2016 Philip Hammond gave assurances that projects that are contracted before the Brexit deadline will be honoured by Government. This is on the understanding that these projects will meet additional value for money criteria set out by Government</li> <li>• The Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises</li> <li>• The North East LEP with NECA have set up a number of partnership working groups to develop local content to feed into project calls to ensure the funding is appropriately focussed on local need</li> <li>• The North East Technical Assistance project, led by Northumberland County Council on behalf of the local authority partners; is supporting local partners with their ESIF applications to maximise access to the funding available</li> <li>• The Strategic Economic Plan has been refreshed in 2019 to ensure its priorities remain current. The Plan is aligned to the ESIF Strategy, to direct the allocation of European Funding 2014-2020 to grow the North-East Economy</li> <li>• Latest Government figures shows the North East has circa £130m uncommitted ESIF.</li> <li>• The LEP has employed a dedicated ESF Coordinator to work with partners to maximize the spend of EU Social Funding in the North East</li> </ul>	
<p><b>Next Steps</b></p>	
<p>The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m Euros.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>The LEP Executive Team is working with key stakeholders to prepare projects ready for Government releasing further 'calls' for applications for funding.</p>	<p>Helen Golightly (Chief Executive)</p>

## Audit and Standards Committee

### North East Local Enterprise Partnership - Risk Management

<p><b><u>North East devolution</u></b></p> <p>The LEP area covers 7 local authorities. The LEP area is unique in England to have more than one combined authority which may impact on SEP and LIS delivery as governance structures and the accountable body status are reviewed.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
<p><b><u>Cause:</u></b> The North East Combined Authority's (NECA) decision to proceed with the North of Tyne Mayoral Combined Authority has led to the regional governance structures changing as two combined authorities were created in November 2018, both of which have agreed to support and operate effectively with the North East LEP. One of the combined authorities should also act as the accountable body for the LEP. Currently the accountable body is NECA, but the 7LAs propose that this role changes to the North of Tyne Combined Authority.</p>	<p><b><u>Risk Score</u></b></p> <p style="background-color: red; color: white; text-align: center;"><b>Red 12</b></p> <p>Likelihood – Medium Impact – Critical</p>
<p><b><u>Impact/Consequence:</u></b> As we move to two combined authorities, the governance, roles and responsibilities need to be clear to ensure effective strategy development, delivery of economic development activity and partnership working. It is vital that any changes to the accountable body position of the North East LEP must not be detrimental to the current effective operations.</p>	<p><b><u>Controls (already in place)</u></b></p> <ul style="list-style-type: none"> <li>• All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP</li> <li>• There is a live Accountable Body Agreement and some Service Level Agreements in place that provide an effective starting point to consider the proposal to change accountable bodies.</li> <li>• It is the decision of the LEP Board which determines if the accountable body is to change. The LEP Board needs to be satisfied by the proposed changes, support arrangements and financial model with future review points.</li> </ul>
<p><b><u>Next Steps</u></b></p> <p>Continue to work effectively with all seven local authorities and both combined authorities on shared agendas, strategy development and delivery.</p> <p>Work with both combined authorities to ensure any change in accountable is not detrimental to the LEP or the future host combined authority.</p>	<p><b><u>Lead Officer(s)</u></b></p> <p>Helen Golightly (Chief Executive)</p> <p>Helen Golightly (Chief Executive)</p>

# North East Combined Authority

## Audit and Standards Committee

Appendix D

Action plans must be developed for Red and Amber risks

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk occurring	
High	Risk will almost certainly occur or is occurring at present
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

### Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopping	<ul style="list-style-type: none"> <li>Over half the objectives/programmes affected</li> <li>More than one critical objective affected</li> <li>Partners do not commit to the Shared vision</li> </ul>	<ul style="list-style-type: none"> <li>Significant change in partner services</li> <li>Relationship breakdown between major partners and stakeholders</li> <li>Serious impact on delivery of Strategic Investment Plans</li> <li>Unplanned major re-prioritisation of resources and/or services in partner organisations</li> <li>Failure of a delivery programme/major project</li> </ul>	<ul style="list-style-type: none"> <li>Inability to secure or loss of significant funding opportunity (£5m)</li> <li>Significant financial loss in one or more partners (£2m)</li> <li>Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget)</li> </ul>	<ul style="list-style-type: none"> <li>Adverse national media attention</li> <li>External criticism (press)</li> <li>Significant change in confidence or satisfaction of stakeholders</li> <li>Significant loss of community confidence</li> </ul>
Significant	<ul style="list-style-type: none"> <li>One or more objectives/programmes affected</li> <li>One or more partners do not commit to shared vision</li> <li>Significant environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>Partner unable to commit to joint arrangements</li> <li>Recoverable impact on delivery of Strategic Economic Plan</li> <li>Major project failure</li> </ul>	<ul style="list-style-type: none"> <li>Prosecution</li> <li>Change in notable funding or loss of major funding opportunity (£2m)</li> <li>Notable change in a Partners contribution</li> <li>Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets)</li> </ul>	<ul style="list-style-type: none"> <li>Notable external criticism</li> <li>Notable change in confidence or satisfaction</li> <li>Internal dispute between partners</li> <li>Adverse national/regional media attention</li> <li>Lack of partner consultation</li> <li>Significant change in community confidence</li> </ul>
Minor	<ul style="list-style-type: none"> <li>Less than 2 priority outcomes adversely affected</li> <li>Isolated serious injury/ill health</li> <li>Minor environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>Threatened loss of partner's commitment</li> </ul>	<ul style="list-style-type: none"> <li>Minor financial loss in more than one partner</li> <li>Some/loss of funding or funding opportunity threatened</li> </ul>	<ul style="list-style-type: none"> <li>Failure to reach agreement with individual partner</li> <li>Change in confidence or satisfaction</li> <li>Minor change in community confidence</li> </ul>
Insignif.	<ul style="list-style-type: none"> <li>Minor effect on priorities/service objectives</li> <li>Isolated minor injury/ill health</li> <li>No environmental impact</li> </ul>		<ul style="list-style-type: none"> <li>Isolated/minor financial impact in a partner organisation</li> </ul>	

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