

Audit and Standards Committee

Tuesday 10 September 2019 at 10.00am

Meeting to be held at: Committee Room, Town Hall and Civic Offices,
Westoe Road, South Shields, NE33 2RL

www.northeastca.gov.uk

AGENDA

Page No

1. Apologies for Absence

2. Declarations of Interest

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. Minutes of the meeting held on 22 July 2019	1-4
4. Annual Audit Letter 2018/19	4-26
5. Closure of Accounts 2019/20	27-34
6. Review of the Effectiveness of Internal Audit	35-48
7. NECA Internal Audit Plan 2019/20	49-60
8. NECA Draft Strategic Risk Register	61-83
9. Date and Time of Next Meeting	

10 December 2019 – Venue TBC

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Audit and Standards Committee

Agenda Item 3

22 July 2019

Meeting held at Gateshead Civic Centre, Regent Street, Gateshead NE8 1HH

Present:

Independent Members: M Scrimshaw (Chair) and G Clark (Vice Chair)

Councillors : E Bell (Durham), G Hobson (South Tyneside),
J Wallace (Substitute Gateshead) and A Hetherington
(Substitute South Tyneside).

Officers: Eleanor Goodman (NECA – Principal Accountant), Paul Woods (NECA Lead Finance Consultant) and Karen Connolly (Strategy and Democracy Officer, South Tyneside Council)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor J McClurey

2. DECLARATIONS OF INTEREST

None

3. MINUTES OF PREVIOUS MEETING HELD ON 2 APRIL 2019

RESOLVED- That the Minutes of the meeting held on 2 April 2019 be approved as a correct record and be signed by the Chair.

Matters Arising

Members had raised concerns over the low attendance of Councillors from Sunderland Council – The Committee were informed that the Monitoring Officer had raised this issue at the NECA Chief Executive's meeting and had written to Sunderland Council highlighting the matter.

Delegated Authority to grant dispensation to Councillors under the Localism Act 2011

A Member referred to a dispensation which had been granted previously to Councillor Kerr, South Tyneside Council and asked that this be reviewed as he was no longer the Deputy Leader and that the dispensation should now sit with Councillor Tracey Dixon.

They stressed the need for this list to be fluid.

Service Level Agreements

The Committee requested that an update be presented to the next meeting of the Committee. It was noted that the new S73 officer was reviewing the approach.

Annual Governance Statement

Members informed the Committee that they still had not received the hard copy of the Annual Governance Statement and requested that this be resolved.

4. AUDIT COMPLETION REPORT

Submitted: Report by the External Auditor, Mazars (previously circulated and a Copy attached to official minutes)

The External Auditor introduced the Audit completion report, drawing the committee's attention to the status of the audit work and highlighting the key areas. He stated that from an independent point of view, an unqualified opinion, without modification on the financial statements would be issued. He expressed his thanks to the accounting team for their assistance during the audit.

During discussions the following points were made:

- Concern was raised over the late circulation of papers, which members felt had not given them adequate time to consider the detailed information contained within the documents and to be in a position to be able to provide the normal level of assurance over the Statement of Accounts to the Leadership Board.
- The Committee felt that given they had not had enough time to consider the papers they were therefore reliant on assurances from officers and the external auditors that the information contained within the accounts was correct.

Officers explained that the situation had arisen primarily as a result of late changes to the Nexus accounts which are included within the NECA Group, this meant that the Group accounts which were circulated on 18 July 2019 were largely complete but did have some outstanding information. The complete updated version which included information relating to the notes to the accounts was circulated on 21 July 2019.

Nexus had given permission for the Audit Completion Reports for Nexus and NEMOL to be circulated to members, and these reports set out the changes to these accounts which have impacted on the NECA Group.

The NECA Audit Completion report which had been circulated on 18 July 2019 with the supplemental agenda describes the changes to the NECA single entity accounts from the draft accounts which were published on 31 May, along with the outcomes of the work of the external auditors and their anticipated unqualified opinion.

Members requested that officers present a report to a future meeting of the Committee setting out how the improvements will be made to the processes for the production of the 2019/20 annual accounts. The report to include a realistic timetable of when information will become available and be circulated to members. They also requested that communications be improved with members to ensure they are informed of any delays at an early stage.

Members were informed that going forward additional staffing resource had been put in place to assist with the final accounts.

Members questioned whether the ongoing McCloud case which was in respect of age discrimination and pension protection could affect the accounts. Officers explained that figures contained within the final accounts had been updated to take account of the estimated impact of the judgment. Assurance in relation to the Pension Fund audit was still outstanding from the Pension Fund auditors but was expected to be received in advance of the deadline for the issue of audit opinions.

RESOLVED: That:

- (i) The update on the Audit be noted;
- (ii) Officers to report to the Audit and Standards Committee during the year setting out how the improvements will be made to the processes for the production of the 2019/20 annual accounts, including through additional resources which have already been appointed. The work to include a realistic timetable of when information will become available and be circulated to members;
- (iii) The Committee receive a report toward the end of the calendar year to discuss the position of the accounts at that point allowing for any changes to be implemented, the report to set out the key milestones using a traffic light system to highlight the position.
- (iv) Officers circulate a link to the draft Accounts when they are published each May.

5. STATEMENT OF ACCOUNTS 2018/19

Submitted: Report by the Finance Officer (previously circulated and a copy attached to official minutes), which updated members on the final audited accounts for NECA.

The NECA Principal Accountant presented the report which set out the changes from the NECA draft accounts to the audited version which were as follows:

1. A correction was made to the apportionment of levy income between the NECA and NTCA accounts which had resulted from an error in the application of the population split to the total levies.
2. Pension figures have been updated for the likely impact of the McCloud judgement. For NECA this was immaterial at an increase in liabilities of £0.180m.
3. Pension figures have been adjusted to show them in the accounts of NECA only rather than split with NTCA. This is because the Order specifically references that NECA remains the employer in the Tyne and Wear Pension Fund and remains responsible for the liabilities. Costs will continue to be recovered from NTCA authorities through the levies or other budgets as appropriate.
4. An impairment on the carrying valuation of the Tyne Pedestrian and Cycle Tunnels has been recognised, to account for the fact that elements of the tunnels had been damaged and put out of use, and their replacements capitalised as part of the Tyne Pedestrian and Cycle Tunnels refurbishment project.
5. A large number of changes had been made to the Nexus accounts which had impacted on the NECA Group Accounts.

The NECA Principal Accountant described the complexity and difficulties which had been

experienced in preparing the 2018/19 accounts which had impacted on deadlines for issuing the papers to members. It was felt that most of these issues were one-offs specific to this financial year and would not be repeated, but additional resources had been made, an additional officer had been appointed which would help address the issues and improve the preparation and reporting of the 2019/20 accounts.

Officers and members thanked the auditors for their hard work on the 2018/19 audit, particularly Holly Madin.

RESOLVED That:

- (i) the committee note the contents of this report and the external auditors draft the completion report and
- (ii) the comments made by the Committee be reported to the Leadership Board at its meeting to be held to consider and approve the accounts on 23rd July 2019.

6. DATE AND TIME OF NEXT MEETING

10 September 2019 – Town Hall and Civic Offices, South Shields.

Audit and Standards Committee

Date: 10 September 2019

Agenda Item 4

Subject: Annual Audit Letter 2018/19

Report of: External Auditor

Executive Summary

The Annual Audit letter 2018/19 from the External Auditor summarises the work they have undertaken as the external auditor for NECA for the year ended 31 March 2019.

The full letter is attached as Appendix 1 and confirms the following:

1. The auditor's report issued on 31 July 2019 included the opinion that the financial statements give a true and fair view of NECA's financial position as at 31 March 2019 and of its income and expenditure for the year then ended and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19;
2. The auditor's opinion that other information in the Statement of Accounts is consistent with the audited financial statements;
3. The auditor's opinion that they are satisfied that in all significant respects, NECA has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019;
4. The auditors have reported to the Group Auditor in line with the requirements applicable to NECA's Whole of Government Accounts return;
5. That the auditors did not use their powers under s24 of the Local Audit and Accountability Act to issue a report in the public interest or to make written recommendations to NECA.

Appendix 2 presents a letter from the External Auditor confirming that an additional fee will be charged and that the proposed level of the fee (subject to confirmation by Public Sector Audit Appointments (PSAA) is £6,102. The additional fee relates to

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work resulting from the set-up of NTCA and the required changes to the Group accounts during the closedown.

Recommendations

The Audit and Standards Committee is recommended to note the report and Annual Audit Letter 2018/19.

Audit and Standards Committee

1. Background Information

- 1.1 This presents the Annual Audit Letter for 2018/19, which is the final reporting requirement in relation to the external audit of the 2018/19 accounts.
- 1.2 The audit opinion on the accounts was issued on 31 July 2019 in line with the statutory deadline and was considered by this committee at its meeting in June.

2 Proposals

- 2.1 The Annual Audit Letter 2018/19 is attached as Appendix 1 to this report and sets out the findings and conclusion of the audit of the NECA accounts for 2018/19.
- 2.2 The letter confirms that an unqualified opinion on the NECA accounts and an unqualified Value for Money conclusion was issued on 31 July, and no material issues were identified in relation to their work on identified significant risks. Previous internal control points in relation to related party declarations for senior officers have been addressed and this is confirmed in section 2 of the letter. Section 2 reiterates the auditors view that there is a need to increase the level of staffing provided by NECA to support the accounts production and audit process, and that steps have already been taken to address this through the appointment of additional support. Management expect this not to be a key concern next year.
- 2.3 The Audit Strategy Memorandum presented to the Committee in April 2019 advised that an additional audit fee would be required arising from the mid-year establishment of the NTCA and the resulting additional work involved in auditing the accounts. Section 5 of the Annual Audit Letter confirms this.
- 2.4 Appendix 2 presents a letter from the External Auditor confirming that an additional fee will be charged and that the proposed level of the fee (subject to confirmation by Public Sector Audit Appointments (PSAA) is £6,102 + VAT, of which £2,856 results from the mid-year split of NTCA and NECA and associated closedown issues, £586 resulted from changes made within the Nexus and NEMOL accounts which impacted on the Group Accounts, and £2,660 which resulted from NECA Resourcing whereby insufficient staffing capacity resulted in delays in responding to audit queries, which was compounded by the introduction of NTCA and accounting work required.

3 Reasons for the Proposals

- 3.1 The Annual Audit Letter is presented to Audit and Standards Committee for

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information, as required under the Committee's terms of reference.

4. Alternative Options Available

4.1 The report is presented for information, with no decision required.

5. Next Steps and Timetable for Implementation

5.1 NECA finance officers are engaging with the external auditors in relation to planning for the 2019/20 accounts closedown.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 The External Auditor has previously advised that an additional audit fee would be required and appendix 2 sets out that this is £6,102 subject to confirmation by PSAA. Savings on the 2018/19 audit scale fee when compared with the previous year enable this fee to be met within existing NECA budgets.

7.2 The auditors have again highlighted their concerns over the capacity within the finance team to support the accounts production and audit process. This has been addressed through the appointment of additional support and this is not expected to be a key concern next year.

8. Legal Implications

8.1 There are no legal implications arising from this report. 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.

9. Key Risks

9.1 There are no risk management implications arising from this report. Key audit risks in relation to the accounts are considered in the letter.

10. Equality and Diversity

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

11. Crime and Disorder

Audit and Standards Committee

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

12. Consultation/Engagement

12.1 The annual accounts were subject to a public inspection period from 3 June to 12 July, with no objections raised or enquiries made.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Annual Audit Letter

Appendix 2 – NECA 2018/19 Audit – Additional Fee Letter

15. Background Papers

15.1 None

16. Contact Officers

16.1 Jim Dafter, Senior Manager, Mazars LLP, jim.dafter@mazars.co.uk, 07815876042

Eleanor Goodman, Principal Accountant,
Eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

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



Annual Audit Letter

North East Combined Authority

Year ending 31 March 2019





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the North East Combined Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North East Combined Authority (NECA) for the year ended 31 March 2019. Although this letter is addressed to NECA, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of NECA's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, NECA has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 2 September 2019 we reported to the group auditor in line with the requirements applicable to NECA's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to NECA.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to NECA and whether they give a true and fair view of NECA's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to NECA's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to NECA on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of NECA's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to both the Leadership Board and the Audit and Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level.	£3.324 million NECA £3.912 million Group
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£100k NECA £156k Group
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Officers' remuneration	£5k

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in NECA's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Standards Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (relevant to single entity and group accounts)</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. Due to 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 addressed the management override of controls risk through performing audit work over the:</p> <ul style="list-style-type: none"> • reviewing of material accounting estimates, which may have been subject to management bias, included in the financial statements; • considering and reviewing unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to NECA's attention.</p>
<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income being 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 	<p>We addressed the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management had in place to ensure income was recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year; • the judgements made by management in determining when grant income was recognised; and • for major grant income, obtaining counterparty confirmation. 	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to NECA's attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation (relevant to group accounts only)</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 addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• evaluating the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and• considering 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. <p>We discussed with key contacts significant changes to the pension estimates prior to the preparation of the financial statements.</p>	<p>Material amendments were required for Nexus and NEMOL in relation to the impact of national legal cases on the pension liabilities.</p> <p>Our audit work has not identified any further material issues to report.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We have not identified any deficiencies in internal control as part of our audit.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency	Related party declarations should be updated and obtained annually from senior officers.
Potential effects	Related parties may not be identified which potentially may lead to fraud and error.
Recommendation	Ensure that related party declarations are completed and received annually
Management response	Senior Officer declarations of interests have been provided during 2018/19.

Significant matters discussed with management

Our audit work identified a significant number of amendments to the draft accounts. These amendments mainly resulted from changes made within the NEXUS and NEMOL accounts, which impacted on the Group Accounts and were attributable to matters raised through the audit process and which were received late in the closedown process. The closedown was further complicated by the splitting of the accounts to accommodate the creation of the North of Tyne Combine Authority, which created significant additional work and technical accounting entries. Both these matters resulted in a significant amount of additional work for us in auditing each amended set of accounts, obtaining revised working papers and supporting evidence.

In previous years we have highlighted the need improve quality assurance processes and also to review the level of staffing support allocated to the Principal Accountant. In our view these issues remained an issue during the 2018/19 audit, though we note that additional support has now been made available and we expect this to not be a key concern next year.



3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider 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 in order to form our conclusion, and sets out the 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.
- Working with partners and other third parties.

Our auditor's report, issued to NECA on 31 July 2019, stated that, in all significant respects, NECA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at NECA being inadequate. In our Audit Completion Report, we reported that we had not identified a significant Value for Money risk.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The North East Leadership Board (NELB) was made up of the Leaders of the seven constituent bodies however this reduced to five bodies and renamed as the NECA Leadership Board on 2 November 2018 with the introduction of the North of Tyne Combined Authority (NoTCA).</p> <p>The NECA Leadership Board is supplemented by elected members who serve on a number of committees along with non-executives.</p> <p>There is an updated Constitution in place which is available on the website.</p> <p>The NECA Leadership Board receive appropriate and regular reports on the financial position of NECA.</p> <p>Martin Swales replaced Helen Golightly as the Head of Paid Service and Chief Executive on 2 November 2018 and leads a very experienced senior officer team at NECA.</p> <p>Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p> <p>No indicators of inappropriate governance arrangements.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The 2018/19 revenue budget and capital programme were approved by the NELB in January 2018.</p> <p>NECA has a history of achieving financial targets as evidenced by financial and performance reports.</p> <p>Arrangements are in place for the Financial Plan to be updated as appropriate.</p> <p>The 2018/19 Outturn position, which will be reported to Audit and Standards Committee on 22 July 2019 identifies an underspend of £0.272 million at the year end.</p> <p>Relevant HR policies and procedures in place.</p>	Yes
Working with partners and other third parties	<p>A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p> <p>NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.</p> <p>The NELEP board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.</p> <p>The Combined Authority provides the formal accountability arrangements for the enterprise partnership.</p>	Yes

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as NECA's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 2 September 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of NECA. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as NECA's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Standards Committee in April 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£18,709	TBC*
Delivery of audit work under the NAO Code of Audit Practice – Nexus and Group	£25,849	TBC**
Delivery of audit work for North East Metro Operations Limited	£11,000	£11,000
Network Travel Ticket Limited Return	£2,575	£2,575***

* We are awaiting approval from PSAA for a variation to the scale fee. Our final fee is expected to be higher than the scale fee set by PSAA arising from the mid-year establishment of the NoTCA and the additional work required in relation to the audit of the financial statements. Discussions have been held with PSAA and we are awaiting approval of our variation request.

** We are awaiting approval from PSAA for a variation to the scale fee. The additional fee request is in relation to additional work completed on the financial statements in respect of consistency reviews with other PTEs in line with the Code.

*** Our work on the Network Travel Ticket Limited Return has not yet been completed so this is based on the estimated amount.

Fees for other work

We confirm that we have not undertaken any non-audit services for NECA in the year.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020

Financial outlook and Operational challenges

NECA has a number of financial and operational challenges over the medium term which will need to be carefully managed. Examples of these are:

- The financial and governance risks associated with the transfer of NELEP from NECA to NoTCA;
- Maximising European funding and the replacement of European regional funding following Brexit for the North East; and
- Ensuring that NECA's activity for the year ahead falls into the three key themes of Transport; Employment and Skills; and Economic Development and Regeneration.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. NECA (and the Group) will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

Next year's audit and how we will work with NECA

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support NECA by:

- continued liaison with the NECA's Internal Auditors to minimise duplication of work;
- attending Audit and Standard Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the officers to identify learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

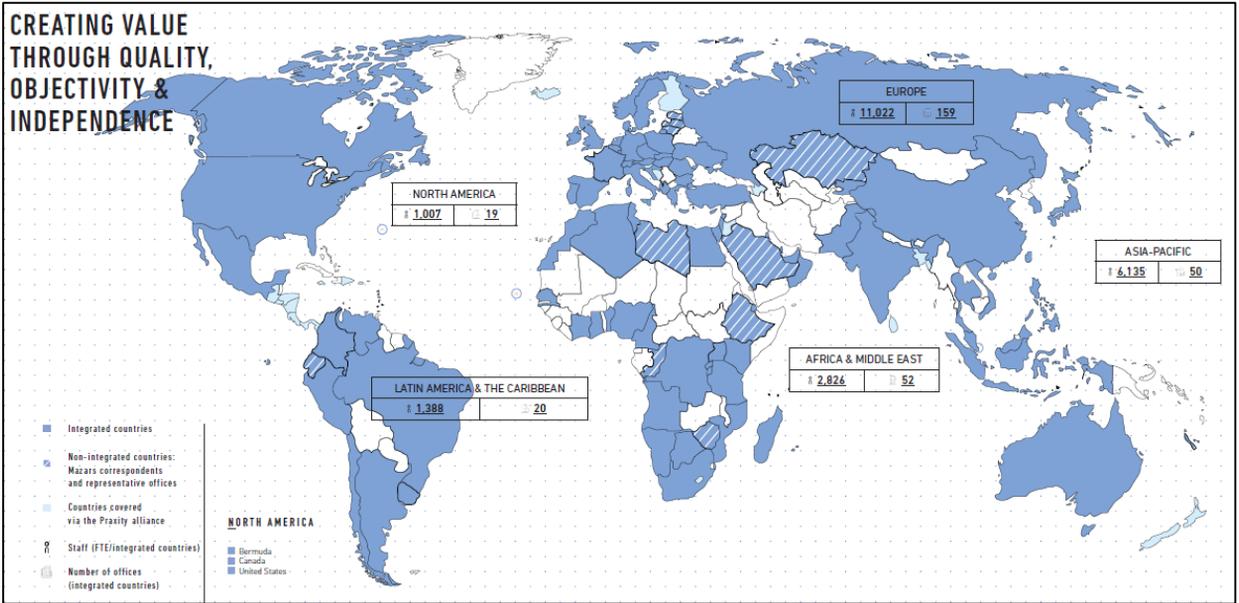
NECA has taken a positive and constructive approach to our audit and we wish to thank members and officers for their support and co-operation during our audit.

MAZARS AT A GLANCE

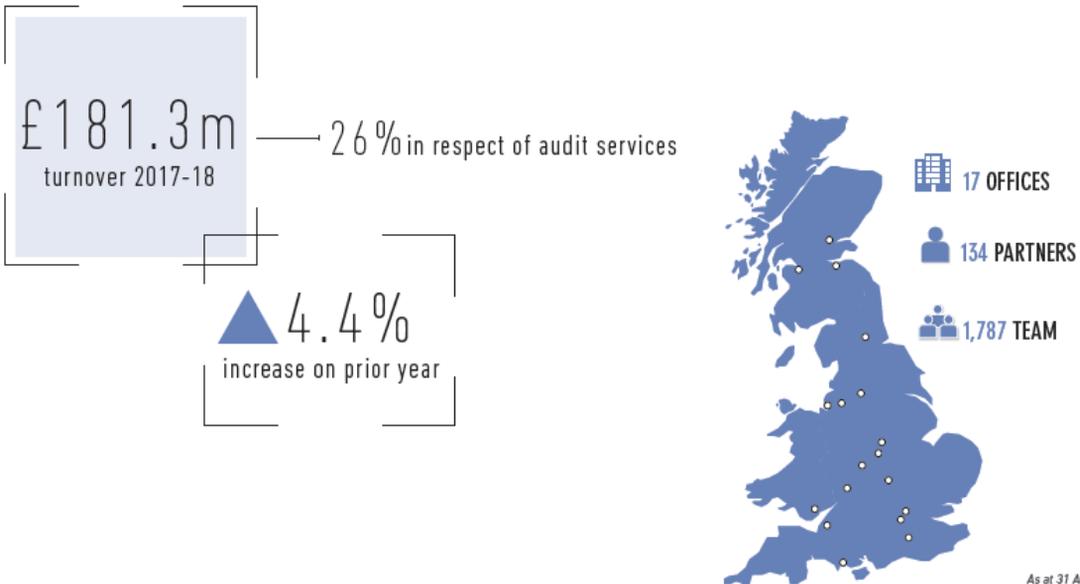
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27 August 2019

2018/2019 Audit – Additional Fee

In our Audit Completion Report we referred to the considerable amount of additional audit work required to ensure that the opinion on the 2018/19 accounts was given by the deadline of 31 July 2019.

The additional work we carried out fell into three main areas as outlined below:

- The creation of the North of Tyne Combined Authority on 2 November 2018 resulted in a high number of technical issues and required a significant amount of additional work to be carried out both during the year and also at year end.
- Insufficient staffing capacity made available to support the Principal Accountant resulted in a number of audit queries not being responded to in a timely manner. We have raised this issue in previous years and officers accept this as a contributing factor and are looking to ensure this issue is addressed as part of the 2019/20 audit process.
- Our audit work identified a significant number of amendments in relation to NECA Group draft accounts, mainly resulting from changes made within the NEXUS and NEMOL accounts, which impacted on the Group Accounts. These matters resulted in a significant amount of additional work for us in auditing each amended set of accounts, obtaining revised working papers and supporting evidence.

The additional work carried out by us has resulted in an additional fee of £6,102.

If you wish to discuss this further then please do not hesitate to contact me.

Yours sincerely



Cameron Waddell, Partner
For and on behalf of Mazars LLP

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Audit and Standards Committee

Date: 10 September 2019

Agenda Item 5

Subject: Closure of Accounts 2019/20

Report of: Chief Finance Officer

Executive Summary

At the last meeting of the Committee, the final accounts for 2018/19 were presented along with the external auditor's report. This report reviews the closedown processes followed and where improvements can be made in the 2019/20 closedown.

The report identifies that delays in the production of the final accounts meant that the full set of final accounts weren't issued until the day before the meeting. Members felt that this made it extremely difficult to fulfil their governance role in relation to the accounts, and that the level of communication with the committee through the accounts production and audit process could have been better. This report sets out how NECA finance officers will address these issues for 2019/20.

The circumstances around the production of the 2018/19 accounts were particularly challenging, as a result of the mid-year set up of the North of Tyne Combined Authority (NTCA), which required a significant level of complex work to be undertaken to account for the arrangements in accordance with the Local Authority code of Practice. There were also a large number of changes to the Nexus accounts which had to be reflected in the Group accounts of NECA and NTCA, some of which were received late in the audit process.

Additional resources have already been appointed and a 'lessons learned' exercise is being carried out to identify specific actions for improvements.

A detailed timetable for 2019/20 is already being prepared, and engagement is planned with Mazars and Nexus so that all parties have agreed to the proposed timescales well in advance of the closedown processes commencing next year. The timetable will include planned communications with members and key milestones so that if significant delays or other issues arise, members can be kept informed about what has happened and how it is being dealt with.

Recommendations

The Audit and Standards Committee is recommended to:

Audit and Standards Committee

- i) Note the contents of this report; and
- ii) Advise whether it wishes to arrange a special meeting in June 2020 to consider the draft NECA accounts.

Audit and Standards Committee

1. Background Information

- 1.1 NECA is required to produce draft accounts by 31 May and these must be audited by 31 July.
- 1.2 The deadline for audit completions has proved challenging across the sector, with Public Sector Audit Appointments (PSAA) reporting in August that over 40% of local authority bodies had not received an audit opinion by 31 July 2019.
- 1.3 The production of the 2018/19 NECA accounts and the audit of them was particularly challenging, as a result of the mid-year set up of the North of Tyne Combined Authority (NTCA), which required a significant level of complex work to be undertaken to account for the arrangements in accordance with the Local Authority code of Practice. There were also a large number of changes to the Nexus accounts which had to be reflected in the Group accounts of NECA and NTCA, some of which were received late in the audit process.
- 1.4 At its meeting on 22 July 2019, the Committee considered the final accounts and the report of the external auditor. However, the late changes to the Nexus accounts meant that the Group accounts were circulated in a largely complete form but with some outstanding information on Friday 18 July and with fully updated information on Sunday 21 July. Audit and Standards Committee Members noted the late circulation of papers, which they felt did not give them adequate time to consider the detailed information contained within the documents. They were therefore not able to provide the normal level of assurance over the Statement of Accounts to the Leadership Board.
- 1.5 The audit opinion was issued on 31 July 2019, and on 1 August 2019 a follow-up letter was circulated to the Leadership Board and the Audit and Standards Committee confirming that all outstanding matters which had been set out in the Audit Completion Report had been resolved, with no significant matters arising.

2 Proposals

Lessons Learned

- 2.1 A detailed 'lessons learned' exercise is being carried out in relation to the 2018/19 accounts, and the results of this will be reported to the next meeting of the committee. The exercise is considering what went well, and how this can be replicated for next year and, more significantly, what was challenging

Audit and Standards Committee

or didn't go so well, and what specific actions can be taken to ensure the issues don't arise again or how they can be responded to more effectively.

- 2.2 A similar exercise is being carried out by Nexus in relation to their own accounts.

Resources

- 2.3 In the annual audit letter presented elsewhere on this agenda, the external auditors highlighted the need to improve quality assurance processes and also to review the level of staffing support allocated to the Principal Accountant. An additional Principal Accountant from Durham County Council has been appointed to work on NECA, which will provide a significant increase in capacity for the production of the accounts and for responding to audit queries next year. This also allows more segregation of duties, so there is more capacity for review and quality assurance of working papers at the appropriate level going forward. Management therefore do not expect this to be an issue next year.

Timetable

- 2.4 A detailed timetable is being prepared for the production and the audit of the 2019/20 accounts. This will include dates for communications with members of the Audit and Standards Committee on the draft and final accounts.
- 2.5 There is no longer a requirement to present the draft accounts to committee (although they must be published by 31 May), however, a number of authorities present their draft accounts to their Audit Committees for information during June. The current Audit and Standards Committee meeting schedule does not allow for this, however, if desired a special meeting could be arranged for this purpose.
- 2.6 The Committee is asked to consider whether an additional meeting for the consideration of the draft accounts (which could be an informal meeting if preferred) should be arranged during June 2020. Officers would present the draft accounts and answer any questions from members. If this approach is adopted, the July 2020 meeting will then consider any changes to the draft accounts and the report of the external auditor.
- 2.7 The alternative would be for members to be provided with electronic or hard copies of the draft accounts once available from 31 May 2020, and officers will respond via email to written questions in advance of the July meeting.

Audit and Standards Committee

- 2.8 The July 2019 meetings of the Audit and Standards Committee and Leadership Board were over a week in advance of the 31 July deadline to enable the sign-off of the NECA accounts so that assurance could be provided to NTCA whose accounts include information provided by NECA in its role as accountable body for the Joint Transport Committee. In scheduling the July 2020 meetings, consideration should be given to the most appropriate dates and whether a full week is required between the sign off by the Leadership Board and the 31 July, or if the meeting could be held slightly later in the month. Discussions are being held between the s73 Officers of NECA and NTCA in this regard.

3. Reasons for the Proposals

- 3.1 The Terms of Reference for Audit and Standards Committee include that it will receive follow-up reports on the progress made in implementing agreed internal and external audit recommendations, and it will monitor management action in response to any issues raised in relation to the accounts by external audit. External audit have highlighted that capacity to respond to audit queries was an issue again this year and this report sets out how NECA has and will address this in advance of the 2019/20 closedown.

4. Alternative Options Available

- 4.1 The report is presented for information.

5. Next Steps and Timetable for Implementation

- 5.1 Meetings will be held with Mazars, Nexus and finance officers from the North of Tyne Combined Authority over the coming months to allow the production of a detailed timetable for the production and audit of the 2019/20 accounts.

An update will be provided to the next meeting of the Audit and Standards Committee.

6. Potential Impact on Objectives

- 6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

- 7.1 Additional resource has been appointed to support the NECA Finance team, and the costs will be accommodated through the existing support services budget.

Audit and Standards Committee

8. Legal Implications

- 8.1 There are no legal implications arising from this report. 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.

9. Key Risks

- 9.1 Risks and dependencies in relation to the closedown and audit process will be factored into the production and agreement of a detailed timetable for 2019/20, which will be reported to the next meeting of the Committee.

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 Meetings are to be held with key stakeholders including Nexus, NTCA and Mazars. The timetable which is being prepared will

13. Other Impact of the Proposals

- 13.1 There are no other impacts arising from these proposals.

14. Appendices

- 14.1 None

15. Background Papers

- 15.1 None

16. Contact Officers

- 16.1 Eleanor Goodman, Principal Accountant,
Eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

Audit and Standards Committee

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

Audit and Standards Committee

Date: 10 September 2019 **Agenda Item 6**

Subject: Review of the Effectiveness of Internal Audit

Report Of: Senior manager – Assurance (Sunderland City Council)

Executive Summary

This report informs the Committee of the results of the Review of the Effectiveness of Internal Audit. The internal audit service is provided by Sunderland City Council and the review was undertaken by the Council's External Auditor, Mazars. The report aims to give members of the Committee the assurance that the services provided by Sunderland City Council are in accordance with Public Sector Internal Audit Standards (PSIAS) and CIPFA Application Note.

Recommendations

The Committee is asked to note the outcome of the review and the positive opinion provided by Mazars.

North East Joint Transport Committee Audit Committee

1 Background Information

- 1.1 The Public Sector Internal Audit Standards (PSIAS) and CIPFA Application Note require that every local government internal audit service is subject to an external assessment of its work against the standards, at least once every five years. The External Auditor, Mazars, undertook a review of the Internal Audit service at Sunderland against these standards in December 2018.

2. Proposals

- 2.1 The Committee should assure itself on the effectiveness of the internal audit service received by the NECA. The findings of the review are attached in the External Auditor's report. The approach used was to conduct a review of Internal Audit's self-assessment against the standards and a detailed review of a sample of Internal Audit files to assess how well the standards are complied with.

- 2.2 The External Auditor's review concluded that:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

- 2.3 The review highlighted areas of good practice, specifically in relation to the:

- Integrated Assurance Framework.
- Audit Manual and MKI e-audit system.
- Proficiency of the internal auditors.

- 2.4 A small number of areas for continuous improvement have been identified which have been agreed and will be addressed.

3. Reason for the Proposals

- 3.1 The Committee needs to be assured that it can rely on the information presented by the internal audit service regarding the control environment within the NECA.

4. Next Steps and Timetable for Implementation

- 4.1 The results of this report will remain relevant until the next review which will be undertaken within five years.

5. Potential Impact on Objectives

North East Joint Transport Committee Audit Committee

5.1 This report has no direct impact on the objectives of the NECA policies and priorities. However, it provides assurance regarding the quality of the internal audit service in supporting the delivery of aims and objectives by reviewing the arrangements in place to manage risk.

6. Finance and Other Resources Implications

6.1 There are no financial implications arising from this report. The internal audit service is commissioned under a Service Level Agreement between the North East Combined Authority and Sunderland City Council. The Internal Audit Service from Sunderland City Council will make available the relevant professionally qualified and experienced auditors to fulfil the requirements of the Audit Plan 2019/20.

7. Legal Implications

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

8. Key Risks

8.1 There are no direct risk management implications from this report.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

11.1 No consultation was necessary for this report as it is for information only.

12. Other Impact of the Proposals

12.1 There are no other impacts of the proposals.

13. Appendices

13.1 Appendix 1 – Report from Mazars – Public Sector Internal Audit Compliance Sunderland City Council.

North East Joint Transport Committee Audit Committee

14. Background Documents

14.1 None

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
tracy.davis@sunderland.gov.uk
Telephone - 0191 5612861

16. Sign off

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

Public Sector Internal Audit Standards Compliance

Sunderland City Council

December 2018





CONTENTS

- 1. Introduction**
- 2. Approach**
- 3. Summary assessment**
- 4. Detailed findings**

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1. INTRODUCTION

An effective, objective and independent internal audit service is the cornerstone of good governance in all public sector bodies. Internal audit plays a pivotal role in providing assurance to officers and members that the system of internal control within their organisation is operating effectively and to recommend how that system of internal control can be strengthened. This is a fundamental requirement enshrined in the Accounts and Audit (England) Regulations 2011.

Public Sector Internal Audit Standards

In April 2013, a new set of internal audit standards for the public sector, the 'Public Sector Internal Audit Standards' (PSIAS) became effective. The standards were updated in 2017 to incorporate new and revised international standards. The PSIAS adopt the principle requirements of the Institute of Internal Auditors Professional Practices Framework and adapt these to ensure they are relevant and appropriate for the UK public sector and are mandatory.

The overall objective of the PSIAS is to provide a high level overarching framework applicable to all of the public sector. In summary, they:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.¹

Local Government Application Note and 'proper practices'

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognised the potential significance of the changes resulting from the adoption of the PSIAS and has provided guidance to internal auditors in the form of an Application Note. The Application Note and PSIAS combined constitute 'proper practices' in internal control as set out in the Accounts and Audit Regulations.

External assessment

The PSIAS and Application Note require that every local government internal audit service is subject to an external assessment of its work against the requirements of the standards, regardless of whether the service is provided by an in-house or external team. This external assessment is required to be carried out at least once every five years, and this report sets out our assessment of the Internal Audit (IA) service provided to Sunderland City Council.

¹ Public Sector Internal Audit Standards

2. APPROACH

Methodology

Our assessment has been wide-ranging and we have considered evidence to inform our conclusions and recommendations from a number of sources. The main phases of our methodology are set out below.

Review of self-assessment

The CIPFA Application Note provides a framework within which every internal audit service is expected to carry out a self-assessment against the requirements of the PSIAS. The Council's IA carried out this self-assessment and we critically evaluated the findings, sought evidence to support the results and reached our own judgement as to whether the self-assessment was accurate.

File reviews

To inform our review of the self-assessment we carried out a detailed review of a sample of IA files. Each file reviewed was considered against the requirements of the PSIAS and the CIPFA Application Note.

Professional standards for Internal Audit are contained in the PSIAS and cover the following key areas:

Standard	Commentary
Purpose, authority and responsibility	Defines the 'IA charter' including setting out the nature of the IA function, reporting lines and other key areas.
Independence and objectivity	Including reporting and management arrangements to ensure the head of internal audit remains independent of audited activity.
Proficiency and due professional care	Cross-references to the CIPFA Statement of the Role of the Head of Internal Audit.
Quality Assurance and Improvement Programme	Includes both internal and external assessments. Non-conformance with standards must be reported to the board or equivalent (i.e. for the Council, the Audit and Governance Committee). Progress against prior improvement plans must be reported in the head of IA annual report, including any instances of non-conformance.
Managing the Internal Audit activity	Mandated risk-based plan, including partnership working.
Nature of work	IA activity should contribute to improvement, including governance, risk management and internal control.
Engagement planning	Preparation of audit briefs, including, where appropriate, consideration of VfM criteria.
Performing the engagement	Underlines how management retains ultimate responsibility for prevention and detection of fraud, but IA expected to be alert to the possibility of fraud.
Communicating results	Head of internal audit must provide an overall annual opinion to the Audit and Governance Committee.
Monitoring progress	Including the follow-up of audit recommendations.
Communicating the acceptance of risks	Communication required where the head of internal audit considers management has accepted a level of risk that may be unacceptable to the organisation.

3. SUMMARY ASSESSMENT

Overall conclusion

We conclude that IA is **compliant** with the requirements of the PSIAS and the CIPFA Application Note.

Areas of strengths

Our review noted areas where IA is demonstrating good practice in the way it carries out its functions.

- **Integrated Assurance Framework (IAF).** The IAF is used to amalgamate all sources of assurance against the Strategic and Corporate Risk Profiles and allows effective targeting of IA work. This ensures the efficient use of IA resources and minimises duplication of effort. This process is embedded in the Council's approach to assurance.
- **Audit Manual and MKI e-audit (MKI) system.** A detailed Audit Manual, which mirrors the PSIAS, sets the framework within which all internal audit assignments are delivered. PSIAS compliance is driven by adherence to procedures set out in the Manual and MKI (the e-software used by IA). In particular:
 - standard documentation and the need for a thorough review are Audit Manual requirements that are followed in practice.
 - risks, controls, testing and evaluation of results are all clearly recorded within MKI;
 - the Audit Manual is based on a systematic, disciplined, risk-based approach to IA work. Our file reviews demonstrated overall compliance with the documented approach.
 - MKI is used to automatically feed narrative into reports which are set out in a standard format; and
 - target implementation dates for actions arising from recommendations are recorded in MKI for future follow-up.
- **Internal auditors.** The IA service employs proficient staff. All internal auditors have attained at least one relevant qualification and have significant appropriate experience. All internal auditors receive regular, appropriate training. Training needs are informed by the completion of a staff performance statement at the end of each piece of work. Overall, work was completed to a good standard and our file reviews demonstrated compliance with PSIAS and Audit Manual requirements.

Areas for continued improvement

We have identified a small number of areas for continued improvement which are summarised below, against the relevant standard.

- **Independence and objectivity:** ensuring there is a formal annual confirmation of independence by IA (e.g. in the Annual IA Report).
- **Independence and objectivity:** ensuring there is a mechanism for the Audit and Governance Committee Chair to formally feed into the annual appraisal of the Head of Assurance, Procurement and Performance Management (HAPPM), noting there are already informal feedback mechanisms in place.
- **Quality and Improvement Assurance Programme:** ensure evidence is retained of the annual quality assurance review carried out by IA itself, noting this review is in addition to existing on-going quality assurance mechanisms in place.
- **Communicating the acceptance of risks:** minor amendment to the wording of the Audit Manual in respect of the acceptance of risks.

In addition, some minor improvements points were identified during our detailed file reviews and these have been discussed with the Assistant Head of Assurance.

4. DETAILED FINDINGS

Review of compliance with the PSIAS and CIPFA Application Note

Our detailed findings in respect of compliance with the PSIAS and the CIPFA Application Note are provided below. These are based on our review of both the IA self-assessment and a sample of internal audit files. Our detailed findings are summarised against the attribute and performance standards contained in the PSIAS.

The five 2018/19 files selected for review were:

- performance reporting – data quality;
- Seaburn Dene Primary School;
- Use of the agency contracts;
- BACS; and
- refuse collection.

In addition to the activities above we also considered our detailed knowledge of IA gathered from our experience as the Council's external auditor for a number of years.

Purpose, authority and responsibility

The HAPPM is responsible for delivery of the Council's IA function. It is delivered by the Audit, Risk and Assurance Section which is headed by the Assistant Head of Assurance (AHA).

A revised Audit Charter was approved by the Audit and Governance Committee (AGC) on 28 September 2018, which sets out the purpose, authority and responsibility of IA. The Charter specifies that, for the Council, the 'Board' is defined as the AGC and 'senior management' is all Chief Officers. The Audit Charter was presented to the Executive Director of Corporate Services prior to AGC approval. PSIAS state that the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework should also be discussed with senior management; this is achieved via the HAPPM's attendance at quarterly chief officer meetings.

In order to discharge its role, IA has access to all officers, buildings, information, explanations and documentation required. Access rights are included in written agreements with organisations that receive grant funding from the Council, have been awarded service contracts, and partner organisation where the Council acts as Lead or Accountable Body.

The Audit Charter includes a requirement that the HAPPM is to be notified of all suspected or detected fraud, corruption or financial impropriety.

Independence and objectivity

The Audit Charter sets the standard for IA's independence:

- it specifies that IA will not have any responsibilities for operations other than providing recommendations and advice to management on risks and controls; and
- the head of internal audit reports directly to the Executive Director of Corporate Services and has the freedom to report to the Chief Executive, the AGC and Members.

The Audit Manual clearly sets out the reporting lines of IA and confirms the independence of the HAPPM.

4. DETAILED FINDINGS

Where IA work is carried out relating to functions for which the HAPPM has overall management responsibility, the AHA is free to determine the frequency and scope of audit work and reports their findings directly to the Executive Director of Corporate Services. The reporting arrangement was found to be working as described in our file review of the 'Performance reporting – data quality' audit.

We have assurance as to the organisational independence of IA. The HAPPM should confirm, at least annually, to the AGC that this is the case.

Performance of the HAPPM is monitored directly by the Chief Executive, with an annual performance agreement and regular meetings between them to discuss progress. The performance appraisal process could be enhanced by formally seeking the views of the Chair of the AGC.

Internal auditors are required to sign an annual declaration detailing any issues that may affect auditor independence. We found that all IA staff had completed a declaration in 2018 and appropriate action had been recorded, with officers not carrying out internal audit work in the areas affected. The Audit Manual includes guidance on potential conflicts, including where officers have had recent responsibility for the operation of systems.

The Audit Manual includes guidance that an assignment should not be undertaken by the same individual more than twice in succession. However, it is acknowledged that there will be exceptions to this where there are capacity issues or cases where the audit requires specialist skills and/or knowledge. Robust review procedures are in place to mitigate any perceived threats to independence.

Proficiency and due professional care

The HAPPM and AHA are both qualified accountants with many years of experience in a management role. All internal audit staff have significant relevant experience and have attained a relevant professional qualification.

IA staff that are members of a professional institute are required to comply with their institute's continuing professional development scheme. All internal auditors receive regular, appropriate training. Training needs are informed by the completion of a staff performance statement at the end of each piece of work.

IA has appropriate procedures in place to ensure due professional care. The Audit Manual contains guidance on professional standards and ethics. The review process also provides assurance that due professional care is applied throughout IA work, with a comprehensive file review carried out on each audit, assisted by the completion of a standard checklist.

Our file reviews demonstrated that, in their work, internal auditors:

- consider and evaluate the risk of fraud and how it is managed;
- demonstrate knowledge of key information technology risks and controls;
- are aware of significant risks that might affect objectives, operations or resources;
- consider the expectations and needs of clients; and
- consider the extent of work needed to achieve the audit's objectives.

Spreadsheets are used for data analysis. IA is looking to expand the use of technology-based techniques and has recently had a demonstration from IDEA. The use of Power BI, which the Council already uses for large scale analysis, is currently being tested.

Each report has a 'Strictly Private and Confidential' footer, which highlights that contents are not for reproduction, publication or disclosure to unauthorised persons without prior agreement.

Quality Assurance and Improvement Programme

Internal auditors are subject to an annual Council appraisal where performance is formally assessed. This, together with staff performance statements, completed for each audit, inform training needs.

4. DETAILED FINDINGS (CONTINUED)

All internal auditors have attained a professional qualification and those continuing their institute's membership are required to comply with continuing professional development requirements. Internal auditors receive training where a need has been highlighted.

Each audit is staffed by an appropriate skills mix and the level of supervision takes account of the experience of the auditor.

In addition to the embedded review process for each audit, there is an additional quality check on audits. The latest check was in September 2018, which covered all audits since April 2017. *However, there was no formal record of this. Officers stated that it was intended to carry out quality checks annually in future. IA should ensure that the detail of the process is recorded.*

Monitoring of the audit plan is carried out throughout the year within IA and with regular reporting to both the Executive Director of Corporate Services and the AGC.

IA has developed a suite of performance indicators, which are regularly reported to the AGC. The most recent data shows that IA is meeting its targets, except for the implementation of recommendations which is slightly below targeted performance. Benchmarking data shows that the cost of the internal audit service is £417 per £m turnover, compared to an average of £569.

IA continues to score highly in client post-audit questionnaires, with an average of 1.1 to date in 2018/19 (1 = good, 4 = poor). The return rate for questionnaires is 50%. In order to enhance the breadth of feedback, the HAPPM is considering a survey of senior managers and the AGC.

Managing the internal audit activity

The Audit Manual sets out in detail how a rolling Strategic Audit Plan and Annual Operational Plan are produced.

The IA work programme is derived from the IAF. The Council's Strategic and Corporate Risk Profiles are assessed and the Risk and Assurance Map records work that has been completed or is planned against the risks identified. This is carried out in consultation with key senior Council officers and consideration is given to the views of the AGC on potential areas of work. The HAPPM is aware of inspectors' views through his role in the annual governance review, which also feeds into Risk and Assurance Map. The approach ensures duplication of effort is minimised.

The HAPPM seeks to develop good working relationships with all relevant parties.

The external auditor meets regularly with the HAPPM and AHA and has an effective working relationship with IA.

Monitoring of the IA Operational Plan is carried out throughout the year within IA and with regular reporting to both the Executive Director of Corporate Services and the Audit and Governance Committee.

Nature of work

IA has an Audit Manual based on a systematic, disciplined, risk-based approach to its work programme. Our file reviews demonstrated overall compliance with the documented approach.

In line with PSIAS, IA evaluates risk exposures relating to the organisation's governance, operations and information systems regarding the achievement of the Council's strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programmes, safeguarding of assets, and compliance with laws, regulations, policies, procedures and contracts.

A fraud risk assessment is in place, with anti-fraud work included in the Annual Operational Plan.

IA assists the Council in maintaining an effective control environment and in promoting continuous improvement.

4. DETAILED FINDINGS (CONTINUED)

Engagement planning

The Audit Manual requires that for each audit, the objectives, scope, allocation of resources and budget are clearly set out. Audit work considers the strategies and objectives of the client, and significant risks are identified. Work programmes are developed by auditors and approved by the Audit Manager.

Our file reviews demonstrated compliance with the above approach, as set out in the Audit Manual.

Performing the engagement

Standard documentation and the need for a thorough review are Audit Manual requirements that are followed in practice. Risks, controls, testing and evaluation of results are all clearly recorded within MKI.

The sample of audit files tested provided sufficient information to enable an understanding of the work carried out and why conclusions were reached. Findings and conclusions were supported by appropriate evidence.

There were some minor points arising from our file reviews, which have been shared with the HAPPM and AHA.

Communicating results

The Audit Manual contains guidance on report writing. MKI is used to automatically feed narrative into reports set out in a standard format. Our detailed testing highlighted that clear, concise reports are issued in good time following the conclusion of audits. Draft reports are subject to a quality check by a cold read of the report by someone not involved in the detailed work.

Reports acknowledge satisfactory performance as well as highlighting areas for improvement.

Draft reports are sent out to relevant managers and chief officers, with an acknowledgement of receipt of final reports required from chief officers.

An overall Internal Audit Opinion on the Council's system of internal control is given in the annual governance review, which considers evidence from the Risk and Assurance Map and IA activity. The relevant report includes a statement on compliance with the PSIAS.

Monitoring progress

There is a formal follow-up procedure where audit recommendations are made (low risk recommendations are not followed-up). Our file reviews confirmed that recommendations had been followed up where appropriate. Target implementation dates for actions arising from recommendations are recorded in MKI for future follow-up.

There is a high implementation rate of IA recommendations, and this is reported to the AGC as part of the performance monitoring of IA.

Communicating the acceptance of risks

The Audit Manual sets out the processes required where recommendations are not accepted by managers. Reports are sent to the relevant Chief Officer highlighting the issue and requesting a response.

In practice, when risk is deemed to be at an unacceptable level, the HAPPM brings the matter to the attention of the AGC, which is in line with PSIAS. We found that the Audit Manual included the wording of the relevant Standard, but had not included this process in the relevant detailed paragraph. The wording in the Audit Manual is to be amended to address this minor inconsistency.

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North East Combined Authority Audit and Standards Committee

Date: 10 September 2019 Agenda Item 7

Subject: North East Combined Authority Internal Audit Plan 2019/20

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

This report provide members with the proposed Internal Audit Strategy, Audit Plan and performance measures for 2019/20.

It is intended as part of the draft Audit Plan for 2019/20 to carry out to audits. These relate to the following areas:

- a) governance arrangements
- b) financial assurance

The internal audit service is provided to NECA by the internal auditors of Sunderland City Council, who will undertake the work and report their findings to the Audit and Standards Committee.

The Terms of Reference of the Audit and Standards Committee included within the Constitution of the North East Combined Authority (NECA) state that the Audit and Standards Committee should receive on an annual basis, *'Internal Audit's Strategic Audit Plan, including Internal Audit's terms of reference, strategy and resources. The Audit and Standards Committee will approve, but not direct, the JTC Strategic Audit Plan'*.

The submission of this report seeks to allow the Audit and Standards Committee to fulfil this requirement

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the proposed Internal Audit Strategy, and Audit Plan 2019/20 (attached) which includes the key performance measures for the provision of the service.

North East Combined Authority Audit and Standards Committee

1 Background Information

- 1.1 The Terms of Reference of the Audit and Standards Committee included within the Constitution of the North East Combined Authority (NECA) state that the Audit and Standards Committee should receive on an annual basis, *'Internal Audit's Strategic Audit Plan, including Internal Audit's terms of reference, strategy and resources. The Audit and Standards Committee will approve, but not direct, the JTC Strategic Audit Plan'*. The submission of this report seeks to allow the Audit and Standards Committee to fulfil this requirement.
- 1.2 The internal audit service for NECA is provided by the internal auditors of Sunderland City Council.

2. Proposals

- 2.1 The draft Audit Strategy is set out in Appendix 1. It sets out how the service will be delivered, the roles and responsibilities of each party and Internal Audit's role in providing assurance regarding the activities of NECA to its stakeholders.
- 2.2 The draft Audit Plan 2019/20 is set out in Appendix 2. The Audit Plan covers Internal Audit's key performance measures and outlines the proposed internal audit work for NECA.

3. Reason for the Proposals

- 3.1 The Audit and Standards Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of the NECA. The proposals set out in this report seeks to support the Audit and Standards Committee in fulfilling this requirement

4. Next Steps and Timetable for Implementation

- 4.1 Delivery of the audit plan will be monitored to ensure it is delivered together with any actions arising from audit work. Update reports will be provided to the NECA Audit and Standards Committee.

5. Potential Impact on Objectives

- 5.1 The development of the audit strategy and audit plan 2019/20 will not impact directly on the objectives of the Authority's policies and priorities, however the delivery of the audit plan will support delivery of aims and ambitions by providing

North East Combined Authority Audit and Standards Committee

assurance that the arrangements put in place by the NECA to manage the material threats and risks to the NECA are effective or where assurance cannot be given highlighting opportunities for improvement to enhance the effectiveness of its risk management and internal control arrangements.

6. Finance and Other Resources Implications

- 6.1 There are no financial implications arising from this report. The internal audit service is commissioned under a Service Level Agreement between the North East Combined Authority and Sunderland City Council. The Internal Audit Service from Sunderland City Council will make available the relevant professionally qualified and experienced auditors to fulfil the requirements of the Audit Plan 2019/20.

7. Legal Implications

- 7.1 There are no legal implications arising specifically from this report.

8. Key Risks

- 8.1 There are no direct risk management implications from this report other than that already highlighted in paragraph 5.1 above.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

- 11.1 The Head of Paid Service, Monitoring Officer, and Chief Finance Officer have been consulted on the draft Audit Strategy and Audit Plan 2019/20.

12. Other Impact of the Proposals

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

13. Appendices

North East Combined Authority Audit and Standards Committee

Appendix 1 – ‘Audit Strategy’ shows how the internal audit services will be delivered.

Appendix 2 – ‘Audit Plan 2019/20 provides a description of the audit work to be carried out during 2019/20

14. Background Documents

14.1 NECA Constitution.

15. Contact Officers

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16. Sign off

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

North East Combined Authority Audit and Standards Committee

Appendix 1

Internal Audit Strategy

1. Provision of Internal Audit

- 1.1 Sunderland City Council's internal auditors have been appointed to provide the internal audit service to the North East Combined Authority (NECA).

2. Professional Standards

- 2.1 The Internal Audit Service of Sunderland City Council operates in accordance with the Public Sector Internal Audit Standards. These standards adopt the principle requirements of the Institute of Internal Auditors, which cover internal audit standards across all sectors, and adapt them to be relevant to public sector bodies within the UK. The standards set out the professional practice for internal auditing and are the means by which the conduct of any individual auditor or internal auditing organisation can be measured. The standards are just as relevant to the NECA as they are to any Council.
- 2.2 The Internal Audit Service maintains a quality manual which sets out the policies and procedures required to meet the standards set out above. Periodic external reviews are conducted to ensure that they are complied with.

3. Role of Internal Audit

- 3.1 The role of Internal Audit for the NECA is to undertake appropriate audit work to provide independent assurance to the NECA on its overall system of internal control. To fulfil this role internal audit will consider the strategic risk register of the NECA and/or undertake an audit risk assessment, in consultation with the NECA, to determine the priority areas for audit activity. This will include consultation with the Audit and Standards Committee. Internal Audit activity will also cover activity in relation to anti-fraud and corruption.
- 3.2 Assurance will be provided to Senior Management of the NECA and the NECA Audit and Standards Committee on the findings of internal audit work. As the North East Joint Transport Committee (JTC) is 'hosted' by the North East Combined Authority (NECA), NECA also has an interest in the control arrangements in place. As such, the JTC is included within the assurance arrangements of NECA. Consequently, the summary results of assurances gathered from the JTC by Internal Audit are provided to NECA.

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4. Planning and Resources

- 4.1. In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the NECA over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with key officers conducting activity for the NECA and a review of key documents. The NECA's risk register will be considered in determining the proposed audit coverage and/or an audit risk assessment will be undertaken in consultation with the JTC. Consultation will also take place with the Audit and Standards Committee in order to consider any areas of concern that the Committee would like included within the audit plan. This will ensure that the audit plan is supportive of the NECA as well as providing assurance on the key risk areas.

5. Skills and Competence

- 5.1. The internal audit service encourages its staff to obtain and hold professional qualifications and supports staff in this regard. The service has a pool of skills and experience, including IT auditors. The head of internal audit and the senior managers are professionally qualified and all staff are trained to deliver work to professional / quality standards which includes a senior officer review of each piece of work to ensure the standards are complied with.
- 5.2. The overall staffing compliment for the service includes staff with the following qualifications:

Qualified Accountants:	3
Institute of Internal Auditors - Professional Level:	3
Association of Accounting Technicians:	3
Qualification in Computer Audit:	2

** please note that some staff hold more than one qualification*

6. Performance Indicators

- 6.1. A range of performance indicators are maintained covering Cost and Efficiency, Quality and Customer Satisfaction. Performance in relation to the NECA will be reported where appropriate. Performance indicators measured include those in relation to each audit, client satisfaction through the return of post audit questionnaires and the percentage of agreed actions which are implemented by the agreed implementation date.

North East Combined Authority Audit and Standards Committee

7. Reporting

- 7.1. Reports will be provided to Senior Management and the Audit Committee covering the following:
- Internal Audit Strategy (when appropriate) and annual Audit Plan.
 - Internal Audit Progress Reports.
 - Internal Audit Annual Report following the end of each financial year.
- 7.2. A summary of each audit report will be provided within the Internal Audit Progress Report along with an update of the current position in relation to performance indicators.
- 7.3. The head of internal audit will have direct access to the Head of Paid Service and the Chair of the Audit and Standards Committee where considered appropriate. These issues may also be reported to the Chief Finance Officer if they are considered significant enough.
- 7.4. As mentioned in paragraph 3.2, Internal Audit will also be reporting on the assurances gathered for the JTC to NECA, as the 'host authority' to the JTC and where relevant from NECA to the JTC. This takes the form of an update of the JTC's Risk and Assurance Map (on which the relevant NECA functions are included) to the JTC's Senior Management Team and Audit Committee.

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Appendix 2

Internal Audit Plan 2019/20

1. Introduction

- 1.2 This document presents the Internal Audit Plan for 2019/20 including the key performance measures for Internal Audit. The Plan has been developed for the first year of the operation of the NECA only, a strategic plan will be developed during this year covering the next 3 years.

2. Division of Responsibilities

- 2.1 It is management's responsibility to manage the systems of the NECA to ensure that risks to the NECA are managed, an appropriate system of internal control is maintained, and its assets adequately protected. This includes ensuring that controls are in place to guard against error, potential fraud and corruption, and that there is efficiency and effectiveness in how the systems are operated.
- 2.2 Internal Audit independently reviews how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analyses and suggesting areas for improvement. Management retains full ownership and responsibility for the implementation of any agreed actions within the agreed timescales.

3. Development of the Plan

- 3.1. For the first year of the NECA's operation the plan was developed based on consultation with the NECA's statutory officers and a view as to the key arrangements and procedures that should be reviewed within the first year. A 3-year strategic audit plan will be developed, in consultation with the NECA during the year.
- 3.2. As specific areas of concern or irregularity may require investigation as and when they arise, a small contingency is made for this work. Should a significant piece of work be required there may be a need to replace a planned audit, in consultation with the NECA.
- 3.3 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the NECA's Chief Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

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3.4 Time has also been allocated for the provision of advice and guidance on internal control matters.

4 Planned Audit Work for 2019/20

4.1 The following audits are planned.

Governance Arrangements

4.2 As the NECA has changed in membership and with the new arrangements involving the North of Tyne Combined Authority and the North East Joint Transport Committee (JTC) being established it is considered appropriate to review how the governance arrangements are working and ensure that they are operating as envisaged.

4.3 The scope of the audit includes the following:

Roles and responsibilities

Development and Delivery of the NECA's Business Plan

Decision making (including delegation scheme)

NECA policies and procedures e.g. performance management, procurement, financial procedures, business continuity, whistleblowing, fraud and corruption.

Financial Arrangements Assurance

4.4 Audit work in relation to key operational financial arrangements within NECA will be undertaken to ensure that there are appropriate controls in place, that are operating consistently. Given NECA also acts currently as the 'host authority' for both the JTC and North East Local Enterprise Partnership, it is important to gain assurance that these key areas are working effectively.

4.5 The scope of the audit includes the following:

Arrangements for delivery of financial services (including capacity and business continuity)

Accounting arrangements

Project management for changes in delivery of financial services

5 Reporting Protocols

5.1 At the conclusion of each individual audit a draft report and, if necessary, a proposed action plan will be forwarded to the appropriate manager. Once agreement has been reached, a final report (including any agreed action plan) will be forwarded to the relevant senior officer and the Head of Paid Service. Where audits highlight issues which need to be brought to the attention of the Chief Finance Officer they will be raised as and when necessary.

5.2 Senior Management and the Audit and Standards Committee will be updated on

North East Combined Authority Audit and Standards Committee

progress against the audit plan.

- 5.3 An Annual Report will be prepared for the Audit and Standards Committee, in order to give assurance, or otherwise, regarding the NECA's internal control environment

6 Performance Management

- 6.1 All work undertaken will be in accordance with the internal audit service's policies and procedures, which are based upon the Public Sector Internal Audit Standards.
- 6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year are shown in Annexe 1.

North East Combined Authority Audit and Standards Committee

Annexe 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20		
Efficiency and Effectiveness		
Objectives 1) To ensure the service provided is effective and efficient.	KPIs 1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date	Targets 1) All corporate risk areas covered over a 3 year period 2) 90% 3) 85%
Quality		
Objectives 1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	KPIs 1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	Targets 1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives 1) To ensure that clients are satisfied with the service and consider it to be good quality	KPIs 1) Results of Post Audit Questionnaire 2) Results of Audit Questionnaire 3) Number of complaints and compliments	Targets 1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'good' 3) No target – actual numbers will be reported

North East Combined Authority Audit and Standards Committee

Date: 10 September 2019 **Agenda Item 8**

Subject: North East Combined Authority Draft Strategic Risk Register

Report Of: Senior manager – Assurance, Sunderland City Council

Executive Summary

This report provides members with an initial assessment of the strategic risks the North East Combined Authority (NECA) currently faces as it seeks to achieve its objectives.

Seven strategic risks have been identified, of which five have been assessed as having a significant level of risk attached to them. Mitigating actions have been identified to ensure the risks are being managed to a satisfactory level.

Causes for risks assessed as significant relate to:

- a) Current uncertainty of as to government policy in relation to funding.
- b) Current uncertainty surrounding the proposed exit of the UK from the EU.
- c) The recent change to have two Combined Authorities within the North East region and the consequent requirement to reconfigure arrangements, e.g. governance, which is ongoing.

Recommendations

The Audit and Standards Committee is asked to review the draft strategic risk register and comment on its content, including any additional strategic risks that should be considered for inclusion.

North East Combined Authority Audit and Standards Committee

1 Background Information

- 1.1 As a result of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 ('the Order') the North of Tyne Combined Authority (NoTCA) was created, and the boundaries of NECA changed on the 2 November 2018. NECA now covers the local authorities of Durham; Gateshead, South Tyneside and Sunderland; and NoTCA covers Newcastle, North Tyneside and Northumberland.
- 1.2 The two Combined Authorities have responsibility for transport; however, as the former Tyne & Wear passenger transport authority area (and its passenger transport executive, Nexus) straddles the two combined authorities, the Order also provided that they must establish a Joint Transport Committee (JTC) to exercise all transport functions. Hence the JTC was created. NECA also acts as the 'host authority' for the JTC. For these reasons NECA's strategic risk register reflects risks around transport as they affect the achievement of NECA's objectives. Once the JTC's strategic register has been considered by the JTC's Audit Committee it will be reported to this Committee.
- 1.3 NECA defines its strategic risks as those matters which, if they were to occur, could have a material adverse impact upon the achievement of its objectives.

2. Proposals

- 2.1 The Register identifies eight strategic risks. These are:
 - a) Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.
 - b) Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.
 - c) Funding secured for initiatives within the North East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.
 - d) The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives.
 - e) NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the it's objectives and plans.

North East Combined Authority Audit and Standards Committee

- f) Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.
- g) Infrastructure assets which are owned by NECA are inadequately managed and maintained.
- h) 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).

- 2.2 The 'Strategic Risks Summary' at Appendix 1 identifies the 8 risk areas and for each risk provides a) a current RAG rating to provide a guide as to the level of risk NECA current faces for that risk and b) the direction of travel.

Appendix 2 'Strategic Risk - Details' provides a detailed description of the nature of each risk together with the relevant controls in place and controls and milestones,

Appendix 3 'Risk Analysis Toolkit' shows the risk scoring matrix that has been applied to assess the level of risk for each of NECA strategic risks.

- 2.3 The strategic risk register will continue to be reviewed to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

3. Reason for the Proposals

- 3.1 The Audit and Standards Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of NECA.

4. Next Steps and Timetable for Implementation

- 4.1 The risk register will continue to be reviewed to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

5. Potential Impact on Objectives

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5.1 The development of the strategic risk register will not impact directly on NECA's objectives, however the approach to strategic risk management will support NECA by acknowledging the most significant threats and putting plans in place to manage them.

6. Finance and Other Resources Implications

6.1 There are no financial implications arising from this report. The internal audit service is commissioned under a Service Level Agreement between the North East Combined Authority and Sunderland City Council. The services include strategic risk management. The Internal Audit Service from Sunderland City Council will make available the relevant professionally qualified and experienced auditors to fulfil the requirements of the Audit Plan 2019/20 and strategic risk management.

7. Legal Implications

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

8. Key Risks

8.1 The report identifies what are considered to be the key strategic risks to the achievement of NECA's overall objective.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

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

12. Other Impact of the Proposals

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

13. Appendices

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Appendix A – ‘Risks Summary’ shows NECA’s strategic risks and the level of risk associated with each.

Appendix B – ‘Strategic Risks – Details’ provides a detailed assessment of NECA’s and actions identified to reduce the overall risk exposure.

Appendix C – Risk Analysis Toolkit determines the level of risk attached to each risk.

14. Background Documents

14.1 None

15. Contact Officers

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Telephone - 0191 5612861

16. Sign off

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

North East Combined Authority Audit and Standards Committee

Appendix 1

Strategic Risks - Summary		
Risk Title & Description	Risk Level (RAG Rating)	Direction of Travel*
NECA Strategic Risks		
<p><u>1 Future Availability of Funding</u></p> <p>Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.</p>	Amber 8	Static
<p><u>2 Funding Opportunities</u></p> <p>Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.</p>	Amber 8	N/a*
<p><u>3 Use of Funding and Resources</u></p> <p>Funding secured for initiatives within the North East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.</p>	Amber 8	N/a*
<p><u>4 Governance Arrangements</u></p> <p>The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	Amber 8	Static
<p><u>5 Operational Capacity and Resourcing</u></p> <p>NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the it's objectives and plans.</p>	Amber 8	Improving
<p><u>6 Delivery of Projects/Programmes</u></p> <p>Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	Green 6	N/a*
<p><u>7 Infrastructure Assets</u></p> <p>Infrastructure assets which are owned by NECA are inadequately managed and maintained.</p>	Green 6	N/a*

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North East LEP Risks		
<p><u>Government Capital Funding</u> 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>Red 12</p>	<p>Static</p>

* These strategic risks have been added to the risk register since the last report. As this is the first assessment of these strategic risks it is not possible to assess the direction of travel in comparison to earlier assessments. The direction of travel will be made in subsequent assessments

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Appendix 2

Strategic Risks - Details

<p>1 <u>Future Availability of Funding</u></p> <p>Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 A downturn in the UK economy may cause the UK government to reduce funds available for investment as part of expenditure cutting exercises nationally. 2 An EU Exit, particularly a No Deal Brexit, may have a negative impact on the UK economy particularly in the short term and availability of funding from EU sources. This may influence the availability of funding. In this scenario new funding from the EU would be lost. e.g. European Structural and Investment Funding (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. 3 Uncertainty in relation to the UK political environment. A change in future UK government policy or a UK government may mean Government policy may not be aligned to support the economic and transport developments and needs of the North East region. This may have an adverse effect on the achievement of goals in the North East e.g. investment and infrastructure funding to be concentrated in only certain geographic areas excluding the North East or certain types of schemes which may not be in line with NECA plans e.g. Strategic Economic Plan (SEP). 4 There is uncertainty around the current UK government regarding 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 the UK government’s ‘Local Growth Fund’ scheme is proposed to come into effect in 2021, but the Government consultation has been delayed due to Brexit. 	
<p>Potential Impact/Consequence:</p> <p>A reduction in funding sources and levels would damage the delivery of local regeneration plans and stall 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. Funding levels may not be sufficient to meet NECA’s plans.</p>	

North East Combined Authority Audit and Standards Committee

Controls (already in place)

- HM Treasury (HMT) 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.
- Latest Government figures show that circa £130m remains to be allocated in the North East
- 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.
- 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 programmes to demonstrate the need for the full ESIF quota in the North East. The 2019 refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy.
- NECA members and officers and partners of NECA, e.g. local Councils, continue to lobby and engage with the UK government to:
 - a) ensure policy makers and decision makers are aware of the economic and transport vision, plan and policies and needs for the North East are known and to influence policy thinking;
 - b) persuade government to make economic development and transport funding a priority;
 - c) track and discuss the progress of the development of the UKSPF.
- NECA and the North East LEP work with other potential partners to identify new non-government funding sources which may help to progress the delivery of the SEP.
- The North East LEP has employed a dedicated ESF Coordinator to work with partners to maximize the spend of EU Social Funding in the North East.
- The North East 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.

Further Mitigating Actions	Lead Officer(s)
NECA will continue to work with and lobby Government to ensure that HMT assurances about maintaining the level of ESIF funding in the UK after Brexit will not affect the current notional allocation to the North East.	Martin Swales Head of Paid Service
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.	Martin Swales Head of Paid Service
Continue to work with Government and influence emerging policy thinking.	Martin Swales Head of Paid Service Helen Golightly (Chief Executive North East LEP)

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<p>2 <u>Funding Opportunities</u></p> <p>Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic Plan for the North East regions.</p>	<table border="1"> <tr> <td data-bbox="874 616 1520 730"> <p><u>Risk Owner</u> Head of Paid Service</p> </td> </tr> <tr> <td data-bbox="874 730 1520 801"> <p><u>Risk Score</u></p> </td> </tr> <tr> <td data-bbox="874 801 1520 853"> <p style="background-color: yellow;">Amber 8</p> </td> </tr> <tr> <td data-bbox="874 853 1520 965"> <p>Likelihood – Low 2 Impact – Critical 4</p> </td> </tr> </table>	<p><u>Risk Owner</u> Head of Paid Service</p>	<p><u>Risk Score</u></p>	<p style="background-color: yellow;">Amber 8</p>	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p><u>Risk Owner</u> Head of Paid Service</p>					
<p><u>Risk Score</u></p>					
<p style="background-color: yellow;">Amber 8</p>					
<p>Likelihood – Low 2 Impact – Critical 4</p>					
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1. Funding opportunities are missed due to lack of awareness or missing relevant deadlines or lack of development of appropriate projects. 2. Poor quality of funding applications made by NECA and/or North East LEP. 3. Funding may be made available through a competitive process e.g. there is also a significant risk that funding for 'Innovation' capital projects will be allocated via national competitions. Strong applications from funding competitors may result in any funding application not being successful at all or only a proportion of the funds applied for being awarded. 4. Failure by NECA to build and develop relationships with key partners to maximise funding opportunities. 					
<p>Potential Impact/Consequence:</p> <p>If opportunities are missed or not maximised by NECA then progression of plans to deliver the economic improvements required by the region will be significantly delayed. Consequently, the benefits associated with the transport will not be fully realised or delayed e.g. supporting economic growth.</p>					
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA and North East LEP officers horizon scan to identify upcoming funding opportunities. • NECA and North East LEP are in regular contact with the UK government and other funding bodies to identify funding opportunities early. • NECA and North East LEP have established relationships with other bodies e.g. councils, universities etc to allow NECA to work in partnership, where applicable, to exploit funding opportunities by submitting bids for funding to benefit the region. • NECA and North East LEP and its partners lobby relevant government bodies to promote schemes required for the North East to be included in key government schemes. • The officers of NECA and North East LEP have the experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria. • During any application process NECA and North East LEP liaise with the funding provider to understand clearly what it is looking for. 					



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- Local councils and North East LEP have set up a number of partnership working groups to develop a portfolio of pipeline projects to work up a prioritised set of worked-up projects ready to feed in to project calls. These projects focus on addressing local needs.

Further Mitigating Actions	Lead Officer(s)
NECA and the North East LEP are working with key stakeholders to develop and prepare pipeline projects ready for Government releasing further 'calls' for applications for funding.	Martin Swales Head of Paid Service Helen Golightly Chief Executive North East LEP

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<p>3 <u>Use of Funding and Resources</u></p> <p>Funding secured for initiatives within the North East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Poor project management. 2 Inaccurate assessment of projects costs when submitting funding bids. 3 Uncertainties created by the prospect of a UK exit from the EU may make suppliers reticent to bid for contracts let to deliver projects or may cause prices to be inflated to account for extra risks e.g. exchange rates. 4 Uncertainties of a ‘No Deal’ Brexit may cause delays due to difficulties in obtaining relevant goods and services at the appropriate time. 5 Delays and costs for a project due to unforeseen events. 6 Lack of understanding of funding conditions including timescales. 7 Insufficient capacity and skills to manage projects/programmes. 8 Fraud and corruption. 9 Failure by NECA to secure agreement on the priority of projects within the region it serves. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Programmes/projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA and its partners e.g. North East LEP. 2 If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA officers and its partner’s e.g. North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects are in line with NECA objectives and plans and meets the bid criteria. • Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects. 	

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- Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis.
- Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project. NECA monitor progress on an ongoing basis together with the legitimacy of spend.
- Funding providers provide clear conditions as to the use of funds which is published to all relevant stakeholders.
- NECA officers are subject to relevant codes of conduct.
- Internal Audit and External Audit arrangements are in place.
- Appropriate controls are in place in delivery of funded programmes.

Further Mitigating Actions	Lead Officer(s)
Delivery plans and programmes are to be kept under review in light of any issues which may affect funding secured to be used on a timely basis or may mean secured funding may not be sufficient to deliver the intended programmes. Appropriate prompt action is taken to address issues which may arise.	Martin Swales Head of Paid Service John Hewitt Chief Finance Officer

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<p>4 <u>Governance Arrangements</u></p> <p>The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ul style="list-style-type: none"> • Changes in the environment in which NECA work render the current governance arrangements out of date e.g. membership, structures, geographical spread 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 Local Authorities, south of the River Tyne. The North of Tyne Mayoral Combined Authority (NoTCA) 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. • Lack of understanding of nature and objectives and roles of NECA or importance of governance arrangements. • Lack of commitment and/or or organisation or resource to support the set-up of governance arrangements or changes to it. 	
<p>Potential Impact/Consequence:</p> <ul style="list-style-type: none"> • Poor decisions may be made which are not in the interest of NECA region. • Decisions may be delayed, not taken by the most appropriate body or not based on the correct information. • Lack of clarity of roles and responsibilities may lead to NECA not adequately fulfilling its statutory functions, not monitoring it finances, having a lack of clarity over its objectives, not ensuring adequate transport services delivered to the public and improvements in economic and infrastructure not being delivered. This may lead to having a poor reputation, losing out on funds, poor value for money being achieved and the economic benefits of infrastructure projects not being achieved. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The seven Local Authorities have approved a Deed of Cooperation which sets out operational working between the 7 Local Authorities and the two Combined Authorities. • The Combined Authorities Reconfiguration Programme (CARP) is overseeing the transformation including data/asset transfers, service and employee changes, updating legal documentation and financial transfers affecting each body including those affecting NECA. • The Statutory Orders provides for the existence of NECA and specifies its current membership, functions and procedures. • Formal decision-making committees including NECA Leadership Board, NECA Overview and Scrutiny Committee, NECA Economic Development and Regeneration Advisory Board etc and Joint 	

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Transport Committee and sub-committees are operational.

- The 7 Local Authorities continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees
- 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
- 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).
- 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
- A revised Constitution has been adopted by NECA Leadership Board.
- Responsibilities for the delivery of support services to NECA by local authorities e.g. finance, legal etc to enable NECA’s governance arrangements to function effectively have been agreed.

Further Mitigating Actions	Lead Officer(s)
The Combined Authorities Reconfiguration Programme (CARP) will continue to oversee the development of arrangements of NECA, acknowledging the changes to NECA’s boundaries and the creation of the North of Tyne Mayoral Combined Authority. The two combined authorities and the LEP are working together to implement the changes. This work will continue throughout 2019.	Martin Swales (Head of Paid Service)
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)

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<p>5. <u>Operational Capacity and Resourcing</u></p> <p>NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the objectives and plans.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Amber 8</p>
	<p>Likelihood – Low 2 Impact – Critical 4</p>
<p>Possible Cause(s):</p> <ul style="list-style-type: none"> • Lack of understanding of resources needed for NECA to: <ul style="list-style-type: none"> a) Develop and deliver its objectives and plans. especially in light of the recent change to two Combined Authorities operating within the North East region rather than one. b) Act as the accountable body to both the North East Joint Transport Committee (JTC) and for the time being, the North East LEP. NECA is the accountable body for the JTC and has extra responsibility for implementing the decisions of the JTC, providing support to the JTC committees and managing the JTC’s finances. It is uncertain how much resource will be needed by NECA officers and committee members moving forward therefore the current budget may be insufficient. • Statutory officers to NECA, the accountable body for the JTC, need to carry out duties for their main employer in addition to their roles in NECA which may result in capacity issues. • Insufficient financial resources are allocated for the operation of NECA and the North East LEP. • Lack of commitment by local councils providing support services to NECA. • Key senior officers of NECA and NELEP leave their posts. • Some funding sources for the North East LEP are time limited. 	
<p>Potential Impact/Consequence:</p> <p>Decisions may be delayed, or incomplete information provided as part of the decision-making process. Functions may not be carried out as quickly or as fully as they should be leading to loss of money, incorrect decisions, complaints and loss of credibility of NECA.</p> <p>The JTC and the North East LEP operations may be interrupted by a failure of NECA to provided essential support services.</p>	
<p><u>Controls (already in place)</u></p>	

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- All statutory officers in NECA have been appointed and are in post. Deputy statutory officers are also in place for NECA
- Representatives from the 4 councils in NECA region have been appointed to NECA and its sub committees. Deputies have also been appointed.
- NECA have adopted a budget for 2019/20 to meet the costs of the capacity, skills and expertise need to deliver JTC activities.
- A further finance officer has been employed by NECA to help meet the extra demands of NECA’s role place as the Accountable Body for the JTC.
- 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.
- 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.
- NECA Leadership Board has agreed a budget for its capital programme for 2019/20.
- 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.
- In respect of the North East LEP resources, a budget has been agreed for 2019/20, some reserves are available, there is the potential to call on financial resources relating to Enterprise Zone income if required and there is ongoing monitoring of external funding landscape to secure alternative sources

Further Mitigating Actions	Lead Officer(s)
Accountable Body Arrangements – NECA continue to be the Host Combined Authority for the North East LEP in the short term 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 Chief Finance Officer

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<p>6 <u>Delivery of Projects/Programmes</u></p> <p>Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	<p style="text-align: center;"><u>Risk Owner</u> Head of Paid Service</p> <hr/> <p style="text-align: center;"><u>Risk Score</u></p> <p style="text-align: center; background-color: #92d050;">Green 6</p> <p style="text-align: center;">Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Causes(s):</p> <ol style="list-style-type: none"> 1 Poor project management. 2 Inaccurate assessment of projects costs when submitting funding bids. 3 Uncertainties created by the prospect of a UK exit from the EU may make suppliers reticent to bid for contracts let to deliver projects or may cause prices to be inflated to account for extra risks e.g. exchange rates. 4 Uncertainties of a ‘No Deal’ Brexit may cause delays due to difficulties in obtaining relevant goods and services at the appropriate time. 5 Delays and costs for a project due to unforeseen events. 6 Insufficient capacity and skills to manage projects. 7 Fraud and corruption. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA. 2 If the funding is not used by a deadline then funding may be lost. 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans. 	
<p><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • NECA officer and its partner’s e.g. North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through. • All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria. • Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects • Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis. • Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project. • Funding providers provide clear conditions as to the use of funds which are published to all relevant stakeholders. 	



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Further Actions	Lead Officer(s)
Monitoring of the delivery of the overall programme of projects should be carried out on a regular basis.	Martin Swales (Head of Paid Service)

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<p>7 Infrastructure Assets</p> <p>Infrastructure assets which are owned by NECA are inadequately managed and maintained.</p>	<p><u>Risk Owner</u> Head of Paid Service</p>
	<p><u>Risk Score</u></p>
	<p>Green 6</p>
	<p>Likelihood – Low 2 Impact – Significant 3</p>
<p>Possible Cause(s):</p> <ol style="list-style-type: none"> 1 Lack of awareness of the existence of the asset. 2 Lack of clarity as to who has responsibility for the management and maintenance of the assets. 3 Lack of clarity as to maintenance standards required. 4 Lack of resources to maintain the assets. 	
<p>Potential Impact/Consequence:</p> <ol style="list-style-type: none"> 1 Greater financial resources may be needed to rectify faults arising from poor maintenance. 2 Failures in infrastructure assets may affect services delivered to users leading to disruption and complaints and a drop-in usage. If the funding is not used by a deadline then funding may be lost 3 Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans. 	
<p><u>Controls (already in place)</u></p> <ol style="list-style-type: none"> 1 The Orders relating to NECA and its Constitution makes it clear who has overall responsibility and oversight for infrastructure assets it owns. 2 NECA holds a record of assets it is responsible for. 3 Responsibility for the maintenance of assets and the standards required are included in the relevant agreements with third party providers e.g. TT2 Ltd. As part of the agreements reports need to be submitted to NECA to enable to gain assurance the relevant maintenance is being carried out. 	
<p>Further Actions</p>	<p>Lead Officer(s)</p>
<p>Asset management arrangement continue to provide assurance over the maintenance of NECA's assets.</p>	<p>Martin Swales (Head of Paid Service)</p>

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<p><u>Government Capital Funding</u></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><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium 3 Impact – Critical 4</p>
<p>Cause:</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>Impact/Consequence:</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><u>Controls (already in place)</u></p> <ul style="list-style-type: none"> • The 2019 refreshed SEP is strongly aligned to key Government policies, such as the Industrial Strategy • The LEP is working with Government to influence policy and funding thinking • 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 • 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 	
<u>Next Steps</u>	<u>Lead Officer(s)</u>
Continue to develop projects (where appropriate) to be ready to ‘win’ funding as it becomes available.	Helen Golightly (Chief Executive)
Continue to work with Government and influence emerging policy thinking.	Helen Golightly (Chief Executive)
Develop a portfolio of Innovation pipeline projects with regional partners	Alan Welby (Innovation Director)

Risk Analysis Toolkit

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 event occurring	
High	Risk will almost certainly occur
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/Showstopper	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of key transport related investment plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project Serious impact on services provided to users 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m)) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of key transport related investment plans Major project failure Impact on services provided to users 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment Minor impact on services provided to users 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignif.	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

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Glossary of Terms

RAG – Red/Amber/Green (denoting an assigned performance status)

Strategic Risk - relates to those factors that might have a significant effect on the successful delivery of the JTC's objectives, plans, policies and priorities.

Risk - A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities.

Risk Appetite - The level of risk that an organisation is prepared to accept in pursuit of its objectives, and before action is deemed necessary to reduce the risk.

Risk Controls or Control Processes - are those actions and arrangements which are specifically identified to be taken to lower the impact of the risk or reduce the likelihood of the risk materialising, or both of these.

Risk Matrix - a graphical representation of the Risk Severity and the extent to which the Controls mitigate it.

Risk Owner - has overall responsibility for the management and reporting of the risk.

Lead Officer(s) – given delegated responsibility from the Risk Owner to take action and manage the risk through application of the appropriate risk controls and processes.

Risk Impact - indicates the potential seriousness should the risk materialise.

Risk Likelihood - indicates the chance of a risk materialising in the time period under consideration.

Risk Score - the product of the Impact score multiplied by the Likelihood score.