

Audit and Standards Committee

Tuesday 8 September 2020 at 10.00am

Meeting to be held virtually via Microsoft Teams

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 submitted 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 10 December 2019 **1-8**

For approval as a correct record

4. Audit Strategy Memorandum **9-30**

5. NECA Internal Audit Annual Report 2019/20 **31-38**

6. NECA Internal Audit Plan 2020/21 **39-46**

7. Draft Annual Governance Statement 2019/20 **47-72**

8. Date and Time of Next Meeting: Tuesday 27 October 2020 at 10.00am

Contact Officer: Jonathan Lunness

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Audit and Standards Committee

Agenda Item 3

10 December 2019

10.00am – 10.40am

Meeting held at Town Hall and Civic Offices, Westoe Road, South Shields
NE33 2RL

Present:

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

Councillors B Kellett (Durham), E Bell (Durham), J McClurey (Gateshead), P Stewart (Sunderland) and G Hobson (South Tyneside).

Officers: Eleanor Goodman (NECA – Principal Accountant), Tracey Davis (Senior Manager – Assurance - Sunderland City Council), Angus Graham (Risk and Assurance Specialist – Sunderland City Council), John Rumney (South Tyneside), Jim Dafter (Mazars), Gavin Armstrong (NECA Policy and Scrutiny Officer) and Jonathan Lunness (NECA Strategy and Democratic Services Assistant)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Nicola Robason.

2. DECLARATIONS OF INTEREST

M Scrimshaw, the Chair, declared an interest in Item 6 as a Member of the Nexus Audit Committee.

G Clark, the Vice Chair, declared an interest in Item 6 as a Member of the Nexus Audit Committee.

Cllr G Hobson declared an interest in Item 6 as Chair of the JTC Tyne and Wear Sub Committee.

3. MINUTES OF THE MEETING HELD ON 10 SEPTEMBER 2019

The minutes of the previous meeting held 10 September 2019 were approved as a correct record.

4. EXTERNAL AUDIT PROGRESS REPORT

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

Jim Dafter on behalf of the External Auditor introduced the progress report. The report updated Members on progress in delivering the Audit for 2019/20.

Officers from across the North East Combined Authority (NECA), North of Tyne Combined Authority (NoTCA), Nexus and North East Metro Operations Limited (NEMOL) have met as a group to start planning for the delivery of the 2019/20 Audit. Officers are agreeing an efficient approach to deliver the Audits ensuring that deadlines and requirements are met. Drawing on the experience and lessons learned from previous Audits, Officers can plan ahead and know the challenges. Internal planning meetings will be held in the coming weeks.

For the next Audit, the external auditor noted that Members had requested to receive draft Accounts and Audit information earlier than in previous years so that they can scrutinise effectively and provide feedback.

Members noted that the Audit Strategy Memorandum will be presented to the Committee in early 2020. It was also noted that the consultation period on the New Audit Code of Practice has ended and the new Code will apply from 2020/21 onwards.

It was noted that the PSAA had issued a press release highlighting the increase of audit opinions for 2018/19 that were unavailable by the deadline of 31 July 2019. Members noted, however, that NECA did meet this deadline.

Members requested that the external auditor provide any updates to the Chair and the Committee as necessary, and that the Chair be kept informed of any issues that may arise in regards the delivery of the Audit by the deadline.

Members noted that in the past there has been some delay in receiving audit reports and evidence from third parties, for example pension figures from

Local Authorities. This delay can have an impact on the NECA Audit. Whilst in the past, the deadline has been met, it remains a cause for concern in the future.

The Chair thanked Jim Dafter for the report on behalf of the Committee.

RESOLVED That:

- i. the report be noted.

5. CLOSURE OF ACCOUNTS 2019/20 – TIMETABLE AND PROGRESS UPDATE

Submitted: Report by the Chief Finance Officer (previously circulated and a copy attached to official minutes).

Eleanor Goodman presented the progress update on behalf of the Chief Finance Officer. The report updated Members on planning for the 2019/20 Closure of Accounts, taking into account lessons learned from the 2018/19 closure process.

The progress update report covered resources, quality assurance and review, timetable, audit planning and information sharing.

It was noted that additional dedicated resources have been secured in the form of a NECA Principal Accountant to support both the completion of accounts and responding to audit queries. Resources had previously been raised as an issue by the External Auditor. Training and knowledge sharing sessions have been completed and meetings between the NECA Finance Manager and Principal Accountant and the NTCA Strategic Finance Manager and Principal Accountant have taken place, with more scheduled in the coming months.

Members noted that the work is to be divided up between the NECA Finance Manager and the Principal Accountant, with a checklist and a system of review in place to provide quality assurance. This should reduce the number of errors in draft accounts, preventing the need for corrections. It was also noted that this stopped excess reliance on any one individual which will help with business continuity.

Initial meetings have been held between key stakeholders, including NTCA, Nexus and Mazars and a high-level timetable has been agreed (Appendix 1). This includes details of when reports will be presented to the Committee. Key dates include:

- 14 April 2020 – report on Accounting Policies and Closedown Update to the Committee;
- 29 May 2020 – Draft Accounts to be circulated to Members;
- June 2020 – Committee meeting to be held to review the Draft Accounts
- July 2020 – final audited accounts to be presented to the Committee

This timetable should allow more time for Members to scrutinise the accounts and audit. It was noted that if any key deadlines are missed, it will be communicated to the NECA Chief of Finance Officer. The Committee requested that this information also be communicated to the Chair. Members noted that the timetable remains challenging, with lots of work to be signed off.

The report outlined the Audit Planning so far. Initial meetings have been held, with system walkthroughs scheduled for January 2020 and further planning work taking place in January and February 2020. This will include early sampling and testing to reduce pressure on the main audit visit.

Members noted that the Chief Finance Officers of NECA, NTCA, Nexus and NEMOL have agreed that information relating to audits be shared between them to assist with the completion of audits and avoid potential duplication of work.

During discussion, Members raised the following points:

- the next scheduled meeting in April 2020 is a long time from the previous meeting. If any issues or concerns arise, these should be communicated to the Chair and additional meetings should be organised;
- the Chair should be kept informed of the outcomes from the January and February 2020 planning sessions;

It was noted that the External Auditor and the NECA Finance Manager will be providing a joint monthly email update, which was welcomed by Members.

The Chair thanked Eleanor Goodman for the report on behalf of the Committee.

RESOLVED That:

- i. the report be noted;
- ii. the Chair be kept informed if any deadlines are missed;
- iii. the Chair be kept updated with the outcome of planning sessions in January and February 2020;

- iv. that the joint monthly email updates from the External Auditor and the NECA Finance Manager be distributed in the coming months.

6. NECA BUDGET PROPOSALS

Submitted: Report by the Chief Finance Officer (previously circulated and a copy attached to official minutes).

Eleanor Goodman presented the progress update on behalf of the Chief Finance Officer. The report updated Members on the NECA Budget Proposals for 2020/21 and future years as part of the budget consultation process.

The key proposals, which were presented to the NECA Leadership Board on 5 November 2019, included:

- £250,000 contribution to the North East Local Enterprise Project (NELEP), based on £35,714.29 per local authority in the NELEP area;
- £140,000 contribution to Invest North East England, based on £20,000 per local authority in the NELEP area;
- £22,857 per NECA constituent authority towards NECA corporate costs;
- £70,000 contribution towards the costs of the Joint Transport Committee Accountable Body Role;
- £70,000 contribution towards the costs of the NELEP Accountable Body Role.

Members noted that it remains the intention for NECA to hand over the Accountable Body Role for the NELEP to NTCA in the future.

Tyne Tunnel tolls for Class 3 vehicles are proposed to be increased by £0.10p to keep pace with inflation. The decision to raise toll prices will be taken by the Tyne and Wear Sub-Committee in January 2020.

During discussion, Members discussed the following points:

- toll increases at the Tyne Tunnel are restricted and the threshold to raise tolls for other vehicles, such as cars, has not yet been met. However, Members noted that tolls for cars were raised last year;
- the proposals for a Clean Air Zone in Newcastle and the Tyne Bridge could have a detrimental effect on the Tyne Tunnel;
- Automatic Number Plate Recognition (ANPR) has started on the Tyne Tunnel, which should improve free-flow around the Tyne Tunnel;
- the reduction in expenditure in the budget for Employees in the NELEP Budget (Appendix 1, p. 50) was explained as a worst-case

- scenario as Fixed Term Contracts are ending due to short term funding streams finishing;
- hope was expressed that replacement funding or continuation of current funding streams could be guaranteed to renew the Fixed Term Contracts coming to an end;
 - it would be helpful to have a break down of employee contracts for the NELEP, including full time staff and Fixed Term Contracts;
 - it was queried how many years' service on a Fixed Term Contract was required before a full time position would be offered, or implied to exist by law.
 - the budget strategy which assumes a levy for 2020/21 in Tyne and Wear in line with the current year, which represents a cash freeze, will have an impact on Nexus' ability to deliver services;
 - there is not sufficient recompense from central government for transport services in the region;
 - if the NELEP's Accountable Body is transferred from NECA to NTCA, then the staff would become NTCA staff;
 - the difference between the 2.5% assumed uplift for NECA for employee costs and the 2% pay award for the LEP is due to the timing difference between budgets. The LEP budget is agreed later and will be brought in line with the NECA uplift.

The Chair thanked Eleanor Goodman and the finance team for their work and the report on behalf of the Committee.

RESOLVED That:

- i. the report be noted;
- ii. information regarding the necessary years of service for Fixed Term Contract staff to be offered full time positions be made available.

7. NECA STRATEGIC RISK REGISTER

Submitted: Report by the Senior Manager – Assurance, Sunderland City Council (previously circulated and a copy attached to official minutes).

Tracy Davis presented the report. The report provided Members with an up to date assessment of the strategic risks facing NECA as it seeks to achieve its objectives.

It was noted that all the registers, including those for NECA, NELEP and the JTC had been reviewed.

The NECA Strategic Risk Register contains seven risks, six of which are stable with no change from the previous update to the Committee in

September 2019. However, one risk, the Future Availability of Funding, has been raised from 'amber' to 'red'. This is in relation to uncertainty in UK government policies which may impact the level and distribution of future funding streams. Whilst NECA is taking action to mitigate this risk, the source is external and as such beyond its control.

The NELEP Strategic Risk Register has five risks, four of which are stable with no change from the previous update to the Committee in September 2019. However, one risk, the Operational Capacity and Resourcing has increased from 'amber' to 'red'. This is in relation to uncertainty over future funding streams. Members noted that as the NELEP funding sources for staff resourcing, the core operational budget and project delivery are time limited, the uncertainty of future replacement funding makes the risk high and difficult to plan for the long term.

During discussion, Members made the following points;

- NECA is well positioned to take advantage of opportunities when they arise, but risks remain regarding the uncertainty surrounding future funding streams;
- loss of EU funding streams contributes to these strategic risks;
- owing to the nature of the LEP and its funding streams, there is greater risk involved;
- the LEP Strategic Risk Register reflects the own views of the LEP following discussions with Helen Golightly at the NELEP;
- monthly updates will be useful in the coming months because of the uncertainty regarding central government policy and the forthcoming General Election.

RESOLVED That:

- i. the report be noted.

8. DATE AND TIME OF NEXT MEETING

14 April 2020 – Sunderland Civic Centre

Audit and Standards Committee

Agenda Item 4

Date: 8 September 2020
Subject: Audit Strategy Memorandum
Report of: External Auditor

Executive Summary

This report presents the Audit Strategy Memorandum of the External Auditors to NECA, Mazars.

This sets out the strategy for the audit of the financial statements for the year ending 31 March 2020.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

Audit and Standards Committee

1. Background Information

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

2 Proposals

- 2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2020 and forms the basis for discussion at the Audit and Standards Committee.

3. Reasons for the Proposals

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

4. Alternative Options Available

- 4.1 The report is presented for information.

5. Next Steps and Timetable for Implementation

- 5.1 The main audit of the NECA accounts will take place during July to September 2020, after which the external auditor will report their findings to 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 There are no new financial commitments arising from this report which is for information. The fees set out within the report for information are included within the approved budget for 2019/20.

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

8. Legal Implications

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

Audit and Standards Committee

9. Key Risks

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

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Consultation has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Audit Strategy Memorandum

15. Background Papers

15.1 None

16. Contact Officers

16.1 Jim Dafter, Senior Manager, Mazars, jim.dafter@mazars.co.uk, 07815 876 042

17. Sign off

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

Audit Strategy Memorandum

North East Combined Authority

Year ending 31 March 2020





CONTENTS

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

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

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

The Leadership Board
North East Combined Authority
Civic Centre
Regent Street
Gateshead
NE8 1HH

April 2019

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for North East Combined Authority (“NECA”) and the Group for the year ending 31 March 2020.

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

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

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

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

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

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

Yours faithfully

Signed: {_{_es_:signer1:signature }}

Cameron Waddell, Partner

For and on behalf of Mazars LLP

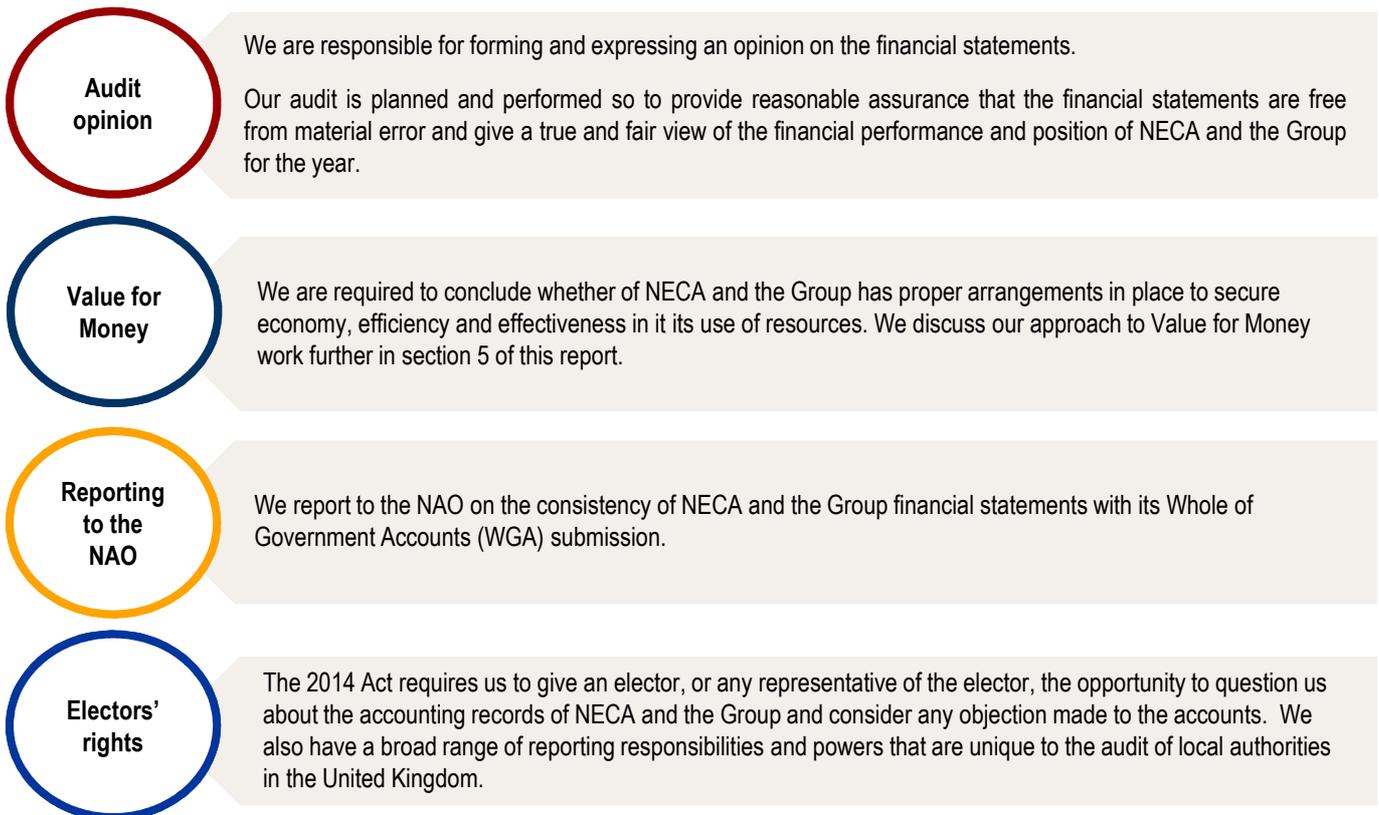
1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North East Combined Authority (“NECA”) and the Group for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>

Our responsibilities

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



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

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

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

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



2. YOUR AUDIT ENGAGEMENT TEAM



- Cameron Waddell, Partner
- Cameron.Waddell@mazars.co.uk
- 0781 375 2053



- Jim Dafter, Senior Manager
- Jim.Dafter@mazars.co.uk
- 07815 876 042



- Holly Madin
- Holly.Madin@mazars.co.uk
- 07881 283 718

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

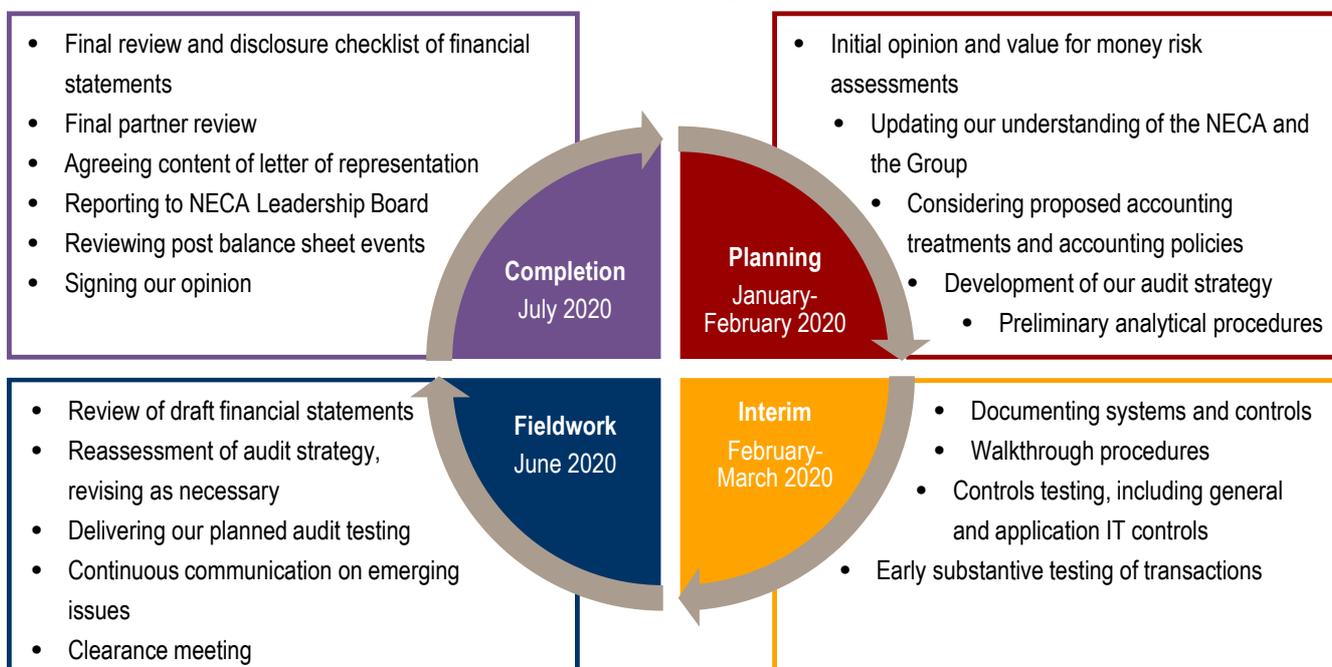
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

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

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

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

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

Management's and our experts

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

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures (relevant to Group accounts only)	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Arlingclose	NAO

Service organisations

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

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

We are responsible for the audit of the group consolidation. For the year ended 31 March 2020, the Group will be made up of the following components:

- North East Combined Authority (NECA);
- Nexus;
- North East Metro Operations Limited (NEMOL); and
- Tyneside Transport Services Limited.

Cameron Waddell will be responsible for ensuring appropriate audit procedures are performed to obtain assurance for the group and Trust.

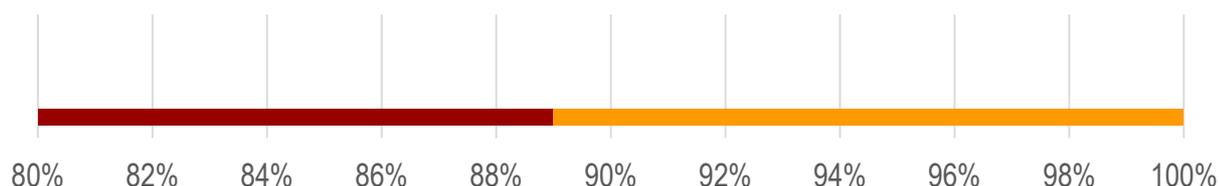
An analysis of the group is shown below setting out :

- an overview of the type of work to be performed on the financial information of the components; and
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group), the percentage audited by Craig Maxwell (Mazars Responsible Individual/Director for NEMOL).

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2019/20 estimate	100%	0%	0%

Percentage of group (using operating expenditure) audited by responsible individual



- Cameron Waddell (Responsible Individual)
- Craig Maxwell (Other Mazars Responsible Individual)



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

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

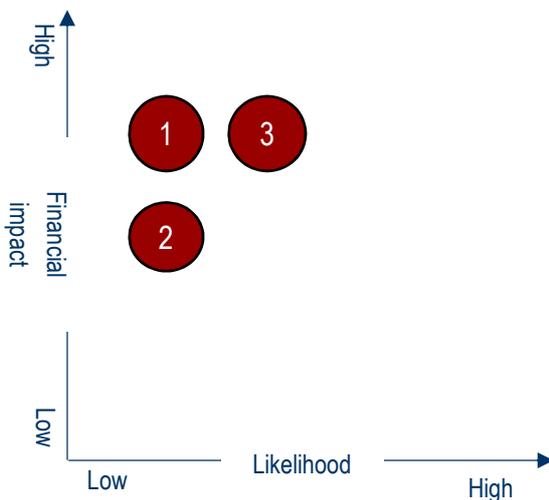
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

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



Risk	
1	Management override of control
2	Revenue recognition - in relation to Tyne Tunnel tolls and grant income
3	Defined benefit liability valuation



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

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

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls (relevant to single entity and Group)</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 plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<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 is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met. 	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.
3	<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 plan to address the defined benefit liability valuation risk through performing audit work over</p> <ul style="list-style-type: none"> • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</p>



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

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

	Area of management judgement / enhanced risk	Planned response
1	With effect from 2 November 2018, the footprint of NECA changed with the introduction of the North of Tyne Combined Authority. As a result of this decision, management took advice on how this reconfiguration should be reflected in the financial statements of NECA.	<p>In 2018/19 we addressed this judgement by reviewing the advice supplied to management by their appointed expert (Deloitte) to ensure that it was reasonable and complied with the Code of Audit Practice and applicable accounting standards.</p> <p>For 2019/20 we will update our review of the proposed accounting treatment to ensure that apportionments remain reasonable. In addition, we will also test transactions and balances included in the Statement of Accounts are complete, accurate and relate to NECA.</p>



5. VALUE FOR MONEY

Our approach to Value for Money

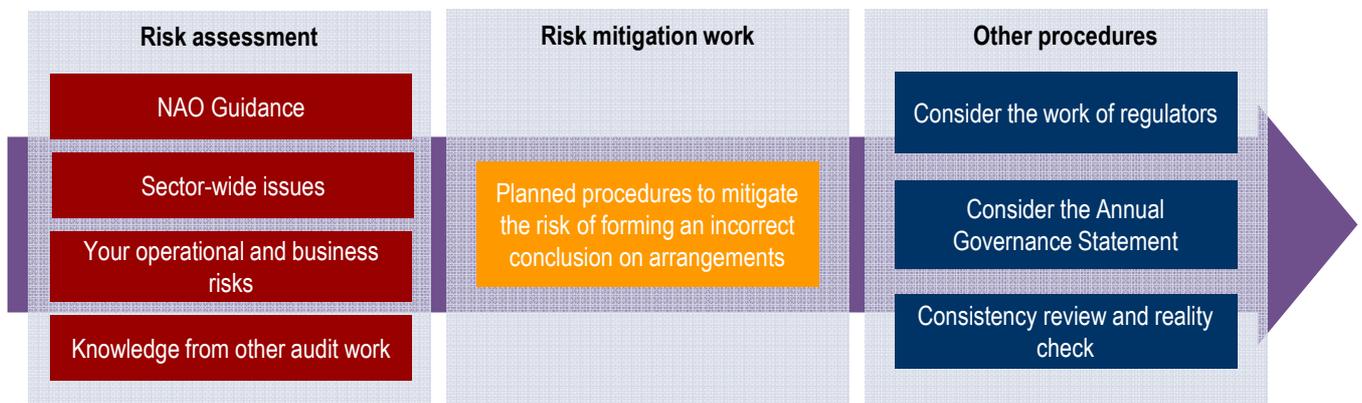
We are required to form a conclusion as to whether NECA and the Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and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

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

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

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

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



Significant Value for Money risks

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

For the 2019/20 financial year, we have identified no significant risk to our value for money conclusion.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as NECA and the Group's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter 17 April 2019.

Service	2018/19 fee	2019/20 fee
Code audit work	£18,709 (plus VAT)	£18,709 (plus VAT)
Additional audit fee	£6,102 (plus VAT)*	N/A
Total	£24,811 (plus VAT)	£18,709 (plus VAT)

* Additional fee relates to the additional work required in relation to Devolution to ensure the opinion on the 2018/19 accounts was given by the deadline of 31 July 2019.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by NECA and the Group to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within NECA's group

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

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



7. OUR COMMITMENT TO INDEPENDENCE

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

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

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

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

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

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

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



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold NECA (£'000s)	Initial threshold Group (£'000s)
Overall materiality	6,310	11,738
Performance materiality	4,733	8,804
Trivial threshold for errors to be reported to the Audit & Standards Committee	189	352

Materiality

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

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of total assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Standards Committee.

We consider that total assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of total assets.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on our preliminary assessment of materiality we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £6.3m (£3.3m in the prior year).

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

Performance Materiality

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

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
Officers' remuneration	5

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

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Standards Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold for NECA is £0.189m and Group is £0.325m, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit & Standards Committee

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

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



APPENDIX A – KEY COMMUNICATION POINTS

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

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



APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee’s Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>



Audit and Standards Committee

Agenda Item 5

Date: 8 September 2020

Subject: NECA Internal Audit Annual Report 2019/20

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

This report provides a summary of the Internal Audit work undertaken during 2019/20, together with the opinion on the Authority's internal control arrangements, and details of the performance of Internal Audit against its agreed performance indicators.

Two audits were planned for 2019/20 and both were scheduled to be conducted in the fourth quarter of the year, both due to be completed by the end of March 2020.

Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, clients were made aware of this.

The report identifies that both of these audits have since been completed. Details are provided at Appendix 1 for these audits.

In terms of performance against the key performance indicators for the internal audit service, unfortunately, the Covid 19 outbreak has had a negative impact on the performance in relation to the timeliness of the completion of the audits. Under normal circumstances performance in these areas is usually within target.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the Internal Audit Annual Report for 2019/20 which includes the key performance measures for the provision of the service.

Audit and Standards Committee

1 Background Information

1.1 In September 2019 the Audit and Standards Committee agreed the Internal Audit Strategy and Internal Audit Plan for 2019/20, which included two audits for completion during the year. The audits were:

- Governance Arrangements, and
- Financial Arrangements Assurance

1.2 Both of the audits were being conducted in the fourth quarter of the year and were due to be completed by the end of March 2020. Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, clients were made aware of this. Both of these audits have since been completed and the draft reports issued.

2. Proposals

2.1 Appendix 1 provides a summary of the audits, including the scope, conclusion and opinion at draft stage. The opinion for the Financial Arrangements Assurance audit is Moderate at the draft report stage, and the opinion for the Governance Arrangements audit is Substantial. The Moderate opinion for the Financial Arrangements Assurance is mainly due to the accounting arrangements sitting at Newcastle City Council but the financial responsibility now sitting with Durham County Council. Most of the issues will be resolved once the service moves to Durham County Council and an audit is planned for 2020/21 to review the new arrangements.

2.2 Appendix 2 shows Internal Audit's current performance against the performance indicators, activity directly relevant to NECA is shown where it can be. The response to the Covid 19 outbreak has had a negative impact on the performance in relation to the timeliness of the completion of the audits. Under normal circumstances performance in these areas is usually within target.

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 results of the Internal Audit work have been considered in drafting the Annual Governance Statement which is included within the Statement of Accounts.

5. Potential Impact on Objectives

Audit and Standards Committee

- 5.1 There will not be a direct impact on NECA's objectives, however the report supports NECA by providing assurance that the internal control arrangements in place to manage risks are effective or where assurance cannot be given highlighting opportunities for improvement.

6. Finance and Other Resources Implications

- 6.1 There are no financial implications arising from this report other than the agreed fee for the service to be delivered.

7. Legal Implications

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

8. Key Risks

- 8.1 There are no 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 directly 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 Internal Audit Annual Report 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

Appendix 1 – Summary of Internal Audit work undertaken during 2019/20.

Appendix 2 – Performance of Internal Audit for 2019/20 where available.

14. Background Documents

- 14.1 NECA Standing Orders.

Audit and Standards Committee

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
Tracy.Davis@sunderland.gov.uk

16. Sign off

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

Audit and Standards Committee

Summary of Internal Audit Work 2019/20

Appendix 1

Audits 2019/20	Scope	Opinion	Overall Opinion
Governance Arrangements	<ul style="list-style-type: none"> • 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. 	<p>The findings of the audit give substantial assurance regarding the governance arrangements in place, to ensure that they are operating as envisaged.</p> <p>The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. The issues identified are minor in nature and should not prevent objectives being achieved as they mainly relate to extending the delegation scheme and ensuring Members and Officers are aware of the Policies and Procedures.</p>	M
Financial Arrangements Assurance	<ul style="list-style-type: none"> • Arrangements for delivery of financial services (including capacity and business continuity) • Accounting arrangements • Project management for changes in delivery of financial services 	<p>The findings of the audit give moderate assurance regarding NECA's existing financial arrangements under its current hosting arrangements. Overall NECA has effective accounting arrangements. It has developed its capacity to enable it to deliver its financial responsibilities and effective arrangements regarding the change in the delivery of financial services.</p> <p>The audit has identified improvements to existing arrangements for documenting delegated responsibilities, budget preparation, management and monitoring arrangements, business continuity and transfer planning.</p>	

Audit and Standards Committee

Audits 2019/20	Scope	Opinion	Overall Opinion
		A number of these matters are already being considered by management, but implementation of the actions identified will provide greater assurance that management objectives can be achieved.	

Assurance Level (Opinion) Key:

F – Full S – Substantial M – Moderate L – Limited N – None

Audit and Standards Committee

Appendix 2

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20			
Efficiency and Effectiveness			
Objectives	KPI's	Targets	Progress
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) All key risk areas covered over a 3 year period	N/A
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	Behind target – 0% (Covid impact)
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 85%	Behind target – 0% (Covid impact)

Audit and Standards Committee

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20			
Quality			
Objectives	KPI's	Targets	Progress
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant risk. 90% for medium risk	No Information yet
Client Satisfaction			
Objectives	KPI's	Targets	Progress
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	No Information yet
	2) Results of other Questionnaires	2) Results classed as 'Good'	N/A
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	None in year

Audit and Standards Committee

Agenda Item 6

Date: 8 September 2020

Subject: NECA Internal Audit Plan 2020/21

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

This report provides members with the proposed Internal Audit Plan and associated performance measures for 2020/21.

It is intended as part of the Audit Plan for 2020/21, in addition to completing the 2019/20 Governance Audit, to carry out two further audits. These relate to the following areas:

- a) General Data Protection Regulations – Data Protection Officer Role.
- b) Finance Service Relocation.

The scope of these planned audits is included in the Audit Plan attached at Appendix 1 to this report.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the proposed Internal Audit Plan for 2020/21 which includes the key performance measures for the provision of the service.

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 NECA 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 is provided to NECA by the internal auditors of Sunderland City Council.

2. Proposals

- 2.1 The Internal Audit Strategy was agreed by the Committee in 2019/20 and as no changes have been made to it this report sets out only the proposed Internal Audit plan and performance measures for 2020/21.
- 2.2 The draft Internal Audit Plan for 2020/21 is set out in Appendix 1. The Audit Plan covers Internal Audit's key performance measures and outlines the proposed internal audit work for NECA.
- 2.3 It was intended that a Strategic Audit Plan for the next three years would be developed during the previous financial year, however the outbreak of Covid 19 delayed such work as the Internal Audit service was made available to support other areas. This will be progressed during the current year.

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 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 Audit and Standards Committee.

Audit and Standards Committee

5. Potential Impact on Objectives

- 5.1 The development of the audit plan 2020/21 will not impact directly on NECA's objectives, however the delivery of the audit plan will support NECA by providing assurance that the internal control arrangements in place to manage risks are effective or where assurance cannot be given highlighting opportunities for improvement.

6. Finance and Other Resources Implications

- 6.1 There are no financial implications arising from this report other than the agreed fee for the service to be delivered.

7. Legal Implications

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

8. Key Risks

- 8.1 There are no 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 directly 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 Internal Audit Plan 2020/21.

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

Appendix 1 – Internal Audit Plan 2020/21 provides a description of the audit work to be carried out during the year.

Audit and Standards Committee

14. Background Documents

14.1 NECA Standing Orders.

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.

Tracy.Davis@sunderland.gov.uk

16. Sign off

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

Audit and Standards Committee

Appendix 1

Internal Audit Plan 2020/21

1. Introduction

This document presents the Internal Audit Plan for 2020/21 including the key performance measures for Internal Audit.

2. Division of Responsibilities

- 2.1 It is management's responsibility to manage the systems of NECA to ensure that risks 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. The plan was developed based on consultation with the NECA's statutory officers and consideration of the key activities and risks relevant to NECA. A three 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.
- 3.1 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.
- 3.2 Time has also been allocated for the provision of advice and guidance on internal control matters.

Audit and Standards Committee

4 Planned Audit Work for 2020/21

4.1 The following audits are planned.

General Data Protection Regulations (GDPR) – Data Protection Officer Role

4.2 A review of the arrangements for the Data Protection Officer's role to be carried out in line with the GDPR requirements.

4.3 The scope of the audit includes the following:

- Role of Data Protection Officer;
- Schedule of compliance checks;
- Reporting arrangements; and
- Investigating and reporting of breaches and required improvements.

Finance Service Relocation

4.4 Audit work in relation to the relocation of the Finance Service from Newcastle City Council to Durham County Council.

4.5 The scope of the audit includes:

- Roles and responsibilities
- Accounting Arrangements
- Access Arrangements
- Financial Monitoring and reporting

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 progress against the audit plan on a twice yearly basis.

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

Audit and Standards Committee

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.

Audit and Standards Committee

Annexe 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2020/21

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2020/21		
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

Audit and Standards Committee

Agenda Item 7

Date: 8 September 2020

Subject: Draft Annual Governance Statement 2019/20

Report of: Senior Manager – Assurance (Sunderland City Council)

Executive Summary

This report presents the outcome of the annual review of the Authority's governance and internal control arrangements. The review highlighted no areas requiring improvement. Action planned during 2019 to address one area requiring improvement around the Tyne pedestrian and cycle tunnels has been undertaken.

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

Recommendation

It is recommended that the Committee:

- I. Agree the draft 2019/20 Annual Governance Statement narrative and consider the evidence provided to support its production;
- II. Acknowledge that the Statement will be subject to further review following the completion of the external audit of the accounts and before it is signed by the Head of Paid Service and Chair of the Combined Authority.

Audit and Standards Committee

1 Background Information

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 Amended 2020) to do the following on an annual basis:

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

1.2 The final accounts and Annual Governance Statement (AGS) will be approved by the Leadership Board at the September meeting, therefore Audit and Standards Committee are requested to consider the draft 2019/20 Statement at today's meeting to ensure the deadlines are met.

2 2019/20 Annual Governance Statement

The approach to produce the 2019/20 Statement is based on a framework of assurance from a number of areas and in preparing it, it was necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members – The Audit and Standards Committee
- Internal Audit Activity – including annual opinion
- Risk Management
- Performance Management - Outcomes reported during 2019/20
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements
- Nexus – Completion of assurance statement and also opinion from Head of Nexus' Internal Audit function.

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

Audit and Standards Committee

- 2.2 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective controls are in place. The Monitoring Officer as the Senior Information Risk Owner (SIRO), has also certified an appropriate assurance statement. The signed statements can be found at Appendix 2.
- 2.3 **Members** – The Audit and Standards Committee have reviewed evidence throughout 2019/20 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.
- 2.4 **Internal Audit Activity** – The Internal Audit Plan included two audits which were agreed to be undertaken in the fourth quarter of the year and were due to be completed by the end of March 2020. Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, and clients also found it difficult to support the audit process due to the response required within their own Councils. Both audits are now complete, and the draft reports issued. Based on this audit activity the overall internal audit opinion for the year will provide independent assurance and is to be included on the agenda of this Committee meeting.
- 2.5 **Risk Management** – A risk management policy and strategy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The strategic risk register is included on this meeting's agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.6 **Performance Management** – Performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weakness in the control environment.
- 2.7 **External auditor** – The external auditor Mazars issued an unqualified opinion on the NECA 2018/19 accounts and an unqualified value for money opinion. An audit of the Authority's 2019/20 accounts will be undertaken, and further assurance will be given at that point before the accounts are finalised.

Audit and Standards Committee

- 2.8 **Key Partnerships** – There is a register of significant partnerships which sets out associated partners to NECA, the purpose of the partnerships, link officer and review dates for each one.
- 2.9 **Nexus** - Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement has been signed by their Director of Finance and Resources, which states Nexus have an effective control environment in place. A copy of the Statement can be found at Appendix 3. Also the overall opinion of Nexus Chief Internal Auditor for the year states “...based on the internal audit work undertaken in year, there is an adequate and effective framework of governance, risk management and control.”
- 3. Outcomes of the Review of Assurances**
- 3.1 The review highlighted no significant weakness in the internal control environment during 2019/20.
- 4. Proposals**
- 4.1 The Committee are asked to review the draft 2019/20 Annual Governance Statement and the evidence provided to support its production. The Committee are also asked to acknowledge that the Statement will be subject to a further review in September 2020, following approval of the financial accounts and consideration by the Leadership Board.
- 5. Reason for the Proposals**
- 5.1 Audit and Standards Committee’s role is to provide an ongoing review, challenge and assurance role in relation to governance and internal control issues. The Committee therefore reviews the Annual Governance Statement process and supporting evidence before the Statement is approved and certified.
- 6. Next Steps and Timetable for Implementation**
- 6.1 The final Annual Governance Statement will be considered once more by the Audit and Standards Committee in September 2020, before it is included in the 2019/20 Statement of Accounts. This is to consider any significant weaknesses should they arise before the 2019/20 accounts are audited and finalised.

Audit and Standards Committee

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

7. Potential Impact on Objectives

7.1 No direct impact on objectives.

8 Financial and Other Resources Implications

8.1 This work to develop the Annual Governance Statement has been carried out by Sunderland City Council's Internal Audit Service under the SLA for 2019/20.

9. Legal Implications

9.1 No direct legal implications arising specially from this report.

10. Key Risks

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

11. Equalities and Diversity

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

12. Crime and Disorder

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

13. Consultation/Engagement

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

14. Other Impact of the Proposals

Audit and Standards Committee

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

15. Appendices

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

16. Background Papers

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

17. Contact Officers

17.1 Tracy Davis, Assistant Head of Assurance
E mail: tracy.davis@sunderland.gov.uk
Tel: 0191 5612861

18. Sign off

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



ANNUAL GOVERNANCE STATEMENT 2019/20

In partnership with



Annual Governance Statement 2019/20

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

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North East Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective.

Section 2: Scope Of Responsibility

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

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

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

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

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

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

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

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

The Combined Authority has developed a Risk Management Strategy and Strategic Risk Register, which is reported to regular meetings of the Authority's Audit and Standards Committee. This information can be found under the [Audit and Standards Committee on the Authority's web-site](#).

Section 3: Purpose Of The Governance Framework

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

The Governance Framework has been in place for the year ended 31 March 2020 and up to the date of approval of the Authority's Annual Report and Accounts.

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

Section 4: The Governance Framework

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

1. Ensuring openness and comprehensive stakeholder engagement

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

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

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

1.4 Impact of COVID-19 on Governance Arrangements – Due to the COVID-19 pandemic, the usual operations and meetings of the Combined Authority have been affected. In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and the Coronavirus Act 2020, the Combined Authority stood down Committee Meetings from 19 March 2020 onwards. Only statutory, business-critical meetings have been taking place. The Annual Meeting of the Combined Authority, which was scheduled to take place 9 June 2020, has been stood down until such a time when all of the constituent authorities have held their Annual Meetings.

Governance Arrangements including the review of the NECA Constitution, Appointment of Committees, Agreement of Membership, Appointment of Chairs and Vice-Chairs and Appointment of Membership to Outside Bodies will therefore not be considered until the

Annual Meeting is held at a later date in the Municipal Year. In line with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, Appointments made by NECA will roll over until they are considered at the next Annual Meeting.'

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

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

1.7 The Authority maintains a list of significant partners which set out the purpose of the partnerships, link officers and review dates.

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

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

2.1 We have defined and documented in our [Constitution](#) the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and Officers have been agreed by the Combined Authority.

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

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

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

3.2 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The [Constitution is available on the NECA website](#).

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

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

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

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

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making, The Overview and Scrutiny Call-in Sub Committee acts in accordance with the principles of

decision making as set out in our Constitution (Part 13.3) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

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

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

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

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

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

5.3 We have arrangements in place to manage significant change evidenced by the establishments of the Combined Authorities Reconfiguration Programme to oversee the implementation of the governance arrangements for NECA following its split with the North of Tyne Authorities.

5.4 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2019/20 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.5 The Authority has a robust internal control process in place which supports the achievement of its objectives while managing risks. The Audit and Standards Committee acts

as principle advisory committee to NECA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.6 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2019/20 to support this AGS.

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

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

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

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

7.1 Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy and effectiveness of our governance, risk and control framework.

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

7.3 We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2018.

Section 5: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by Officers and Members of Audit and Standards Committee who provide independence and challenge. The outcomes of the review will be reported to the Audit and Standards Committee.

The review is informed by:

- (a) The views of our internal auditors, reported to Audit and Standards Committee through regular progress reports, and the Annual Internal Audit Opinion. The Internal Auditor's opinion will be reported to the September meeting of the Audit and Standards Committee. The internal Audit service complies with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and the Public Sector Internal Audit Standards. The service receives a regular independent review against these standards, the last being in December 2018 which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'
- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) *The views of our external auditors, reported to Audit and Standards Committee through regular progress reports, the Annual Audit Letter and Annual Completion Report.*
- (d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements (Annexe 1).

- (f) The views of Members through the ongoing activities of Audit and Standards Committee (providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (g) The Risk Management process, particularly the Strategic Risk Register.
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.
- (i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.
- (j) The North East LEP Annual Performance Review 2019/20, undertaken by MHCLG in January 2020. The outcomes against each of the three areas are as follows:
 - a. Governance - Good
 - b. Delivery – Exceptional
 - c. Strategy - Pass. This criterion was a straightforward 'pass' or 'fail' assessment – changed criteria from last year.
- (k) An Assurance Statement from Nexus has been obtained and is attached at Appendix 4 of the Annual Governance Statement 2019/20 Report. The opinion of the Nexus Chief Internal Auditor for 2019/20 is "...based on the internal audit work undertaken in year, there is an adequate and effective framework of governance, risk management and control."

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

The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the

seven local authorities that made up a single Combined Authority splitting and forming two combined authorities. This change happened on 2 November 2018. NECA now constitutes the four Local Authority areas south of the River Tyne. The North of Tyne Mayoral Combined Authority now constitutes the three Local Authority's north of the River Tyne, Newcastle, North Tyneside and Northumberland.

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

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

Section 7: Significant Weaknesses In Governance and Internal Control

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

The review highlighted no significant weaknesses in governance or internal control during 2019/20.

Section 8: Conclusion

We consider the governance and internal control environment operating during 2019/20 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

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

The annual review has shown that the arrangements for 2019/20 are in place and operating as planned.

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

Head of Paid Service

Chair of the North East Combined Authority

Full Name:

Full Name:

Signature:

Signature:

Date:

Date:

Chief Finance Officer Assurance Statement for 2019/20

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

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

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

Within the Authority the following processes have been in place during 2019/20 to provide the Chief Finance Officer with assurance on financial affairs:

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

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

Chief Finance Officer Signature:



Full Name (Capitals) JOHN HEWITT

Date: 19 March 2020

Monitoring Officer Assurance Statement for 2019/20

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

Within NECA the following processes have been in place during 2019/20 to provide the Monitoring Officer with assurance on the NECA's governance arrangements:

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

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

Deputy Monitoring Officer Signature:

Full Name (in capitals): NICOLA ROBASON



Date: 10 March 2020

Assurance Statement for 2019/2020

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

Within Nexus the following arrangements have been in place during 2019/2020 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Senior Leadership Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;
- The 2019/2020 Internal Audit Plan was kept under review by Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;
- External Audit provided clean opinions on the 2018/2019 statutory accounts (true and fair view, and value for money conclusion);
- Effective partnership and contracting arrangements were in place;
- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place, with a positive report received
- External scrutiny of the procurement of the suite of contracts for the replacement fleet of Metrocars took place through a Department for Transport sponsored OGC Gateway Review, with a positive report received
- Before the end of the financial year, the COVID-19 pandemic began to adversely affect Nexus and the services it provides on an unprecedented scale. Patronage on public transport in general, fell by around 95% before the

end of March 2020, with losses at that level sustained during the early part of 2020/21 also. In relation to Metro, Nexus reported losses in its fare and commercial revenues of around £1.3m during March 2020. In response, Nexus sought emergency financial support from the DfT and HM Treasury and £8.6m of special grant, payable for 12 weeks from 17 March to 9 June 2020 was announced by the DfT in May 2020. This was followed by an additional £7.6m of emergency support, payable until 4 August.

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

Director of Finance & Resources Signature:

A handwritten signature in black ink, appearing to be 'J. Fenwick', written over a light blue rectangular stamp.

Name in full: JOHN FENWICK

Date: 24th June 2020