



Audit and Standards Committee

Tuesday 22 November at 10.00am

Meeting to be held at: Reception Room, South Shields Town Hall, NE33 2RL

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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 28 June 2022 **1-6**

4. Minutes of the Meeting Held On 27 September 2022 **7-10**

Items 3-4 for approval as a correct record.

5. NECA Internal Audit Progress Report 2022/23 **11-16**

6. Audit Completion Report 2021/22 *Report to follow* **17**

7. Statement of Accounts 2021/22 *Report to follow* **19**

8. Date and Time of Next Meeting: 11 April 2022 at 10.00am.

Contact Officer: Toby Ord
Tel: 0191 4247541
Email: toby.ord@northeastca.gov.uk

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

28 June 2022

(10.02am – 10.45am)

Meeting held at: Whickham Room, Gateshead Civic Centre, NE8 1HH

Present:

Independent Members: M Scrimshaw (Chair), S Green (Vice-Chair)

Councillors: A Huntley (South Tyneside), L Kirton (Gateshead), L Mavin (Durham), K Dawes (attended as member of public)

Officers: Ged Morton (representing the Monitoring Officer, NECA), Eleanor Goodman (Finance Manager, NECA), Adam Robson (Principal Auditor - Sunderland City Council), Tracy Davis (Senior Manager of Assurance, Sunderland City Council), Gavin Barker (Audit Director, Mazars), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Cllr Mullen and Gavin Armstrong

2 DECLARATIONS OF INTEREST

None.

3 MINUTES OF THE PREVIOUS MEETING HELD ON 5 APRIL 2022

The minutes of the meeting held on 5 April 2022 were approved as a correct record.

4

EXTERNAL AUDIT PROGRESS REPORT

Submitted: Report of the External Auditor (previously circulated and copy attached to the official minutes).

The External Auditor delivered a brief update on the status of the external audit.

It was noted that there had been a lack of process regarding the external audit. Members were informed that the 20/21 accounts were finished however the auditors were awaiting the outcome of deliberations for infrastructure and further work was on hold due to consultation with the Chartered Institute of Public Finance and Accountability (CIPFA).

It was also noted that Jim Dafter would be making the value for money section of the 20/21 audit a priority once his engagement with the healthcare audit has been completed.

Members were assured that the 21/22 audit was underway with the commencement of the Nexus accounts, working with a strong team who will progress onto NECA, following this, NTCA.

Resources were said to be in place in order to make sure deadlines are achieved, aiming to sign off by the end of November. The Chair suggested that an extraordinary meeting, or the re-scheduling of an established meeting be made in order to accommodate for these deadlines.

RESOLVED that: -

- i. the report be noted.
- ii. an extraordinary / re-scheduled meeting be organised to accommodate for audit sign-off

5

CONSIDERATION OF 'GOING CONCERN STATUS' FOR THE STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2022

Submitted: Submitted: Report of the Chief Finance Officer (previously submitted and copy attached to the official minutes).

The Finance Manager delivered the report on behalf of the Chief Finance Officer which gave Members a brief explanation of the Going Concern Status regarding the Statement of Accounts.

It was noted that the Going Concern Status needs to be considered each year, and that there is a general presumption for Local Authorities that there will always be a going concern due to:

- Changes in Authority boundaries
- Transferral of services
- Devolution

Members were informed that NECA should still be able to prepare its accounts on a going concern basis. The financial position of the Authority was said to be healthy, with a general level of market reserves and net assets standing at £139m.

It was also stated that there remains some financial and operating risks, however none that could jeopardise NECA operations. The continuation of the going concern status stands.

The Vice-Chair questioned whether a possible negative return from the Value for Money evaluation would have any implications on the going concern, however the External Audit Director assured that a negative return is not anticipated.

Members queried whether the rise of financial reserves after the drop following the COVID-19 pandemic was anticipated to continue, however the Finance Manager clarified that this drop was due to a transfer of services to the LEP, and further transport investment is causing the current rise.

RESOLVED that: -

- i. the report be noted.

6 **NORTH EAST COMBINED AUTHORITY STRATEGIC RISK REGISTER**

Submitted: Report of the Senior Manager - Assurance (previously submitted and copy attached to the official minutes).

The Principal Auditor delivered the report on behalf of the Senior Assurance Manager which provided an insight on the status of the strategic risk register.

As things stand, 6 of the 7 key risks laid out in the register remain at red status due to high impact factors affecting these, however operational risks were said to be a lot better. It was noted that the register is very reliant on Government policy - the Government prefers the mayoral governance model, something which NECA does not exercise.

A brief overview of the intricacies of the Risk Register were covered to familiarise new Members. It was also noted that that public transport usage is struggling to reach pre-pandemic levels, however, there have been some positive denotations from Government, implying that big companies are being engaged to invest in order to combat the cost of living crisis.

More positives - society has begun to open up again post-pandemic, the Transport for the North are due to rollout their decarbonisation strategy, Local Transport funding and the Bus Service Plan has been improved. As well as this, there is positive activity around the Joint Transport Committee; much of the action around this has a large impact on risk scores.

Members stated their desire for a headline document to accompany the register which details the main focal points of the register so that the document can be easily absorbed. The Principal Auditor and Members agreed that such course of action was possible and will be considered moving forward.

RESOLVED that: -

- i. the report be noted.

7 **DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22**

Submitted: Report of the Senior Manager - Assurance (previously submitted and copy attached to the official minutes).

The Senior Manager for Assurance delivered the report which provided an update on the Annual Governance Statement for 2021/22.

It was noted that in completion of the statement, the Assurance Team undertake an annual review of governance arrangements of the Combined Authority - details in the report laid out areas of information and assurance used to complete the statement.

Statutory Officers submitted assurance letters appended to the report, in addition to a letter received from Nexus. It was noted that the internal audit was completed along with risk management, returning no discernible issues or major weaknesses.

RESOLVED that: -

- i. the report be noted.

8 **DRAFT STATEMENT OF ACCOUNTS 2021/22**

Submitted: Report of the Chief Finance Officer (previously submitted and copy attached to the official minutes).

The Finance Manager delivered the report on behalf of the Chief Finance Officer which gave an update of the status of the Draft Statement of Accounts.

Apologies were made on the size of the report however Members were reminded that there are constraints over this issue due to accounting standards and the CIPFA Code of Practice. It was noted that the Government had extended deadlines for final accounts to ease pressures on Local Authorities and assist the External Audit Sector. The deadline for draft accounts is 31 July 2022, however it was proposed that these are published to the NECA website by 30 June - subject to public inspection period.

This period will run 1 July to 30 August 2022, allowing anyone to inspect the audits and raise issues with the external auditor should they see necessary.

It was also noted that capital grant income had been received to fund projects managed by the JTC, however there is a time delay in Local Authorities claiming said funding.

The Comprehensive Income and Expenditure Statement was said to show a surplus of £39m as a result of grant income as NECA hasn't yet had the expenditure to offset this. The Balance Sheet were also said to show a £139m increase, and the Cash Flow Statement classifies how NECA has and has not used cash equivalents. It was also stated that the Group Accounts consolidate the financial result of Nexus, JTC and the Annual Governance Statement.

Members were informed that NECA and NTCA produce their own set of accounts for JTC, further information is detailed within the report. Joint assets such as the Tyne Tunnel are split proportionate to the population of each Authority.

Members queried whether the rising interest rates will have a negative impact on the Combined Authority, however the Finance Manager clarified that rising rates will benefit NECA as lots of the Authority's borrowing is at a fixed term rate - rates on investment will only increase whereas borrowing will not.

RESOLVED that: -

- i. the report be noted.

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DATE AND TIME OF NEXT MEETING: 27 September 2022 at 10am.

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

27 September 2022

(10.15am – 10.50am)

Meeting held at: Committee Room A, South Shields Town Hall, NE33 2RL

Present:

Independent Members: M Scrimshaw (Chair), S Green (Vice-Chair)

Councillors: K Dawes (South Tyneside), J Doyle (Sunderland)

Officers: Eleanor Goodman (Finance Manager, NECA), John Rumney (attending on behalf of Nicola Robason), Gavin Barker (Audit Director, Mazars), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Councillor Mullen, Councillor Mavin, Nicola Robason and Gavin Armstrong.

2 DECLARATIONS OF INTEREST

None.

3 MINUTES OF THE PREVIOUS MEETING HELD ON 28 JUNE 2022

The minutes of the meeting held on 28 June 2022 could not be approved as a correct record due to quorum, though an error was noted which referred to CIPFA as 'CITFA' and should be corrected accordingly.

AUDIT STRATEGY MEMORANDUM

Submitted: Report of the External Auditor (previously circulated and copy attached to the official minutes).

The Audit Director of Mazars opened the report by giving a brief update on work previously completed in February.

It was noted that there stands an issue of infrastructure which effects the whole auditing sector, not just Mazars, which inhibits the ability of auditors to issue an opinion. This position was said to remain unchanged and hopes to be resolved by the end of November, while CIPFA continue to search for a resolution. It was noted that a possible outcome would be a qualification of all accounts containing material infrastructure, although this is not the favoured approach by the Department for Levelling Up, Housing and Communities (DLUHC). A statutory overwrite is also in consideration. It was said that these issues are inhibiting the finalisation of accounts for 2021. Members were informed that a likely solution may include an assumption and a disclosure of net position.

The Audit Director went on to cover the Audit Memorandum appendaged to the covering report, initially drawing Members attention to the summary before swiftly moving onto the planned timeline. It was noted that Mazars are considerably further ahead with their progress in comparison to the previous year and are currently in the field work stage, with plans to report further progress to the next meeting.

It was also mentioned that Mazars do not tend to rely upon their controls, but rather conduct substantive testing to make sure a correct understanding can be formed. Members were reminded that results will be produced in a group audit due to shared assets between NECA, Nexus, NoTCA, etc. The Nexus audit was said to be near completion – once completed, NECA's will begin.

The Audit Director continued to cover three significant risks – specific testing will be conducted to negate likelihood of an override of controls from management with regards to fraud and data manipulation. The Chair queried why such controls cannot be removed, to which it was clarified that journals used for data entry do have intended purposes therefore cannot be removed, but control measures such as the separation of powers and responsibility can negate an individual's ability to manipulate data. Other risks mentioned included revenue recognition in relation to Tyne Tunnel tolls and grant income, as well as defined benefit liability valuations around pension liabilities, which tend to concern Nexus more than NECA.

Members were made aware that the value for money for 20-21 is in its first draft, however it is difficult to properly disclose without issuing the audit – one of the many products of the aforementioned infrastructure problem, including the year 21-22, though work is still being done on the financial sustainability, governance, efficiency and effectiveness. Any significant weaknesses will be identified and recommendations will be made in regard.

Members were made aware that the Public Sector Audit Appointments (PSAA) had released a statutory fees list for the year 2021, to which Mazars have selected the minimum to reflect the Authority's patience.

The Audit Director also stated Mazars commitment to independence – employees who have the most insignificant of connections to the Authority cannot work on the audit. This is monitored on an ongoing basis. As for materiality, Mazars was said to apply industry standards to its evaluations, not solely driven by calculations but looking at the nature of each item within the Authority in an attempt to identify its significance.

In response to questions from the Vice-Chair, the Audit Director clarified that there has been no requirement to reassess anything within the field work phase, but there exists a possibility a delay due to reliance upon the Tyne and Wear Pension Fund, dependant upon whether pension fund auditor assurances are received in time, though Mazars continue to attempt communication on the matter. It was also stated that the narrative regarding the value for money may change off of the back of infrastructure issues, however it isn't expected to lead to any significant weaknesses or recommendations in light of this.

The Audit Director of Mazars closed by apologising for the lack of capability with regards to concluding past audits and thanked Members for their patience.

RESOLVED that: -

- i. the report be noted.

5 **DATE AND TIME OF NEXT MEETING:** 22 November 2022 at 10.00am.



North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Item 5

Audit and Standards Committee

Date: 22 November 2022

Subject: NECA Internal Audit Progress Report 2022/23

Report Of: Senior Manager – Assurance, Sunderland City Council

Executive Summary

This report provides an update in relation to the Internal Audit Plan for 2022/23 and the performance of Internal Audit against its agreed performance indicators.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the Internal Audit Progress Report 2022/23 which includes the key performance measures for the provision of the service.

1 Background Information

1.1 In April 2022 the Audit and Standards Committee agreed the Internal Audit Plan for 2022/23, which included one audit for completion during the year, as follows:

- Coordination of the Audit Certificate for the Local Transport Grant Claim.

1.2 The audit set out above has been completed. In addition, an unplanned piece of audit work was also completed in relation to the Local Authority Major Project Grant - SSTC3. The assurance rating for both audits was Substantial.

2. Proposals

2.1 Appendix 1 provides a summary of the audits completed this year and in previous years. An overall opinion for each of the organisational risk areas is also included.

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.

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 will be considered in drafting the Annual Governance Statement which will be included within the Statement of Accounts.

5. Potential Impact on Objectives

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 report.

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 for 2022/23.

Appendix 2 – Performance of Internal Audit for 2022/23 where available.

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 ✓

Summary of Internal Audit Work

Organisational Risk Areas	Audits 2019/20	Opinion	Audits 2020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Overall Opinion
Future Availability of Funding									
Funding Opportunities									
Use of Funding and Resources	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim	S	
					Home to School Transport 2 nd half spring term	S	Local Authority Major Project Grant - SSTC3	S	
					Demand Travel Management	S			
					Demand Travel Management Top up	S			
					Home to School Transport summer term	S			
					Home to School Transport 2020/21 Academic Year	S			
Governance Arrangements	Governance Arrangements	S	Information Governance/GDPR	M					
Operational Capacity and Resourcing	Financial Arrangements Assurance	M	Finance Service Relocation	S	Business Continuity Arrangements	M			
Delivery of Projects/Programmes							Note: Audit work is undertaken within the JTC in this regard		
Infrastructure Assets							Note: Audit work is undertaken within the JTC in this regard		

Assurance Level (Opinion) Key: **F** – Full **S** – Substantial **M** – Moderate **L** – Limited **N** – None

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23			
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) Complete sufficient audit work to provide an opinion on the organisational risk areas	Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	Ahead of Target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 85%	Ahead of Target – 100%
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	High and significant risk – N/A Medium risk – 100%
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)	Achieved – score of 1
	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

NECA Audit and Standards Committee

Date: 22 November 2022

Subject: Audit Completion Report 2021/22

Report of: External Auditor

Report to follow

Report to follow

NECA Audit and Standards Committee

Date: 22 November 2022

Subject: Statement of Accounts 2021/22

Report of: Chief Finance Officer

Report to follow

Report to follow