Audit and Standards Committee

Tuesday 11 April 2023 at 10.00am

Meeting to be held at: Committee Room 1A, Durham County Hall, DH1 5UZ

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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**

5. **Minutes of the Meeting held on 22 November 2022** **11-15**

   Items 3-5 for approval as a correct record.

6. **NECA Internal Audit Plan 2023/24** **17-26**

7. **Agreement of Accounting Policies for Application in the 2022/23 Financial Statements** **27-56**

8. **Changes to the Code of Practice for Local Authority Accounting in the UK** **57-62**

9. **Audit Completion Report 2020/21** - *Report to follow*

10. Statement of Accounts 2020/21 – *Report to follow*

11. Date and Time of Next Meeting: 27 June 2023 at 10.00am.
(To be agreed at AGM)

Contact Officer: Toby Ord
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North East Combined Authority
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Item 3

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.

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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.

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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.

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

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Item 4

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.

4 **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.

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Item 5

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

22 November 2022

(10.10am – 10.45am)

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

Present:

Independent Members:	M Scrimshaw (Chair), S Green (Vice-Chair)
Councillors:	K Dawes (South Tyneside), P Mann (Sunderland)
Officers:	Paul Darby (Chief Finance Officer, NECA), Eleanor Goodman (Finance Manager, NECA), John Rumney (attending on behalf of Nicola Robason), Tracy Davis (Senior Manager of Assurance, Sunderland City Council), Gavin Barker (Audit Director, Mazars), Naser Alkobir (Audit Team Leader, Mazars), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Councillor Mavin 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.

4 **MINUTES OF THE PREVIOUS MEETING HELD ON 27 SEPTEMBER 2022**

The minutes of the meeting held on 27 September 2022 could not be approved as a correct record due to quorum.

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5 **NECA INTERNAL AUDIT PROGRESS REPORT 2022/23**

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

The Senior Manager of Assurance at Sunderland City Council delivered a brief summary of the report, noting that there has only been one audit planned for this year, as well as additional unplanned grant work such as the Sunderland Strategic Transport Corridor (SSTC3). Aside from the aforementioned, there would be no further planned audits this year.

It was also noted that the summary of audits laid out within Appendix 1 paints a positive picture, and Appendix 2 shows that NECA's performance indicators show all targets being reached. It was concluded that all is going smoothly with regard to the internal audit and there is nothing significant to bring to the attention of the Committee.

RESOLVED that: -

i. the report be noted.

6 **AUDIT COMPLETION REPORT 2021/22**

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

The Audit Director of Mazars delivered the report which provided a summary of the audit completion for the 2021/22 year.

The Committee was informed that there has been no further progress with regard to the audit completion for the year 2020/21 – there remains a technical issue regarding infrastructure which prohibits Mazars from issuing an opinion on financial statements. Subsequently, Mazars are also unable to issue commentary on the value for money arrangements, also required for the audit completion. Despite obstacles, the Audit Director assured Members that Mazars have continued to draft value for money arrangement to allow them to move quickly once the technical issue is resolved. It was stressed that such issues are out of both Mazars and NECA Officers control.

It was noted that there are no anticipated significant weaknesses arising from the value for money arrangements, with generally positive commentary arising from said arrangements. Currently, no Government account returns can be completed due to the aforementioned technical issue.

Members were advised to anticipate a substantial delay before arriving at a position where Mazars are able to complete the audit for the year 2021/22. HM Treasury is said to be focussed on the previous financial year currently, with an expected delay of 12-18 months for current arrangements to be organised. Members were reminded that the Government tends to work in the past with regards to accounts, though recent delays are an outlier when compared to past years.

It was also noted that there were no queries or representations raised regarding the publication of financial statements, though there remain outstanding issues regarding infrastructure and pensions. Mazars await response from the Tyne & Wear Pension Fund in order to resolve the pension related matter, though they don’t expect the Pension Fund Auditor to provide the assurance required by the end of November and have yet to receive an expected timescale, though it was noted that this shouldn’t prove obstructive as the issue surrounding infrastructure remains. The Audit Manager added that this issue affects all authorities with substantial material infrastructure and reiterated that it is not an isolated issue with NECA. It was also noted that there are other outstanding issues, however these were said to be fairly routine and are expected to be resolved in due course.

Members were informed that Governmental departments who deal with this sector have devised that issuing qualifications on accounts due to technical issues out of auditor’s control wouldn’t be appropriate and have subsequently allowed for auditors to sign off accounts without qualifying an opinion on financial statements through the use of a ‘statutory instrument’ which enables a statutory override. This solution will likely be in place until 2024/25.

It was noted that CIPFA will also need to adopt this statutory instrument, and that the next infrastructure position will necessitate a disclosure of net position. The implementation date for this was said to be Christmas Day, although the Audit Manager advised that relevant work would likely begin in the new year. Members were reminded of aspects covered in previous meetings such as significant risks. There was also mention of 2 adjusted misstatements within the report which have now been reclassified.

The Audit Manager concluded by reiterating that the delay in issuing a certificate rests solely on the issues raised above, particularly regarding infrastructure, and that the quality and timeliness of NECA Officers work is to be commended. He continued, stressing the importance of independence to Mazars, and how committed they are to upholding it.

The Chief Finance Officer expanded on these comments, noting that neither the External Auditors nor the NECA Team are able to influence the current outcome of the audit any more than they currently have. It was noted that these issues won't affect NECA's financial positions nor the quality of Mazars work, though it was conceded that an override is necessary, and that this is a difficult position to be in for all involved. The Audit Manager was thanked for his praise.

RESOLVED that: -

i. the report be noted.

7 **STATEMENT OF ACCOUNTS 2021/22**

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

The NECA Finance Manager delivered a brief summary of the updated Statement of Accounts. It was reiterated that a couple of misstatements within were identified and amended accordingly, with no significant differences to draft accounts.

Attention was drawn to key info;

- There have been no changes to reserve figures;
- There has been a significant increase in total reserves due to unused capital grants allocated for project funding;
- Potential reduction forecast in next year's accounts useful reserves to reflect timing of large capital programmes;
- Usable and unusable reserves remain the same as in draft accounts;
- Cash flow statement shows a slight increase, isn't as great as increase in reserves.

The Committee was also informed of accounting costs, and that gross cost of services include Nexus and other relevant public transport, as well as revenue expenditure. It was noted that capital assets are owned by third parties; through grant programmes, we make large payments to third parties.

Members were made aware of the two appendices which give further support and guidance, including control recommendations which were said to have no projected effect on next year's Annual Governance Statement.

It was noted that responsibility for approving the statement lies with the Leadership Board, although accounts cannot be formally signed-off until issues covered by the Audit Manager are resolved.

RESOLVED that: -

i. the report be noted.

8 **DATE AND TIME OF NEXT MEETING:** 11 April 2023 at 10.00am.

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Item 6

Audit and Standards Committee

Date: **11 April 2023**

Subject: **NECA Internal Audit Plan 2023/24**

Report Of: **Senior Manager – Assurance, Sunderland City Council**

Executive Summary

This report provides members with the proposed Internal Audit Plan and performance measures for 2023/24.

It is intended as part of the Audit Plan for 2023/24 to carry out one audit, as follows:

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

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the proposed Internal Audit Plan for 2023/24 which includes the key performance measures for the provision of the service.

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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 under a Service Level Agreement.

2. Proposals

2.1 The Internal Audit Strategy was agreed by the NECA Audit and Standards Committee in 2019/20 and as no changes are proposed to it this report sets out only the proposed Internal Audit Plan and performance measures for 2023/34.

2.2 The draft Internal Audit Plan for 2023/24 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.

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.

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Audit and Standards Committee

5. Potential Impact on Objectives

5.1 The development of the audit plan 2023/24 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. The Internal Audit Service is provided to NECA and the Audit and Standards Committee under a formal Service Level Agreement (SLA). The audit days factored into that SLA are deemed sufficient to meet the audit plan requirements.

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 2023/24.

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 2023/24 provides a description of the audit work to be carried out during the year.

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14. Background Documents

14.1 NECA Standing Orders.

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
Tel - 07342704254
Tracy.Davis@sunderland.gov.uk

16. Sign off

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

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Appendix 1

Internal Audit Plan 2023/24

1. Introduction

This document presents the Internal Audit Plan for 2023/24 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.

3.2. As specific areas of concern or irregularity may require investigation as and when they arise, a small contingency is made for this work. Should a significant piece of work be required there may be a need to replace a planned audit, in consultation with the NECA.

3.3 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the NECA's Chief Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

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

4 Planned Audit Work for 2023/24

4.1 The audits undertaken so far are shown in Annex 2 against each of the organisational risk areas. The following audit is planned for 2023/24.

Coordination of the Audit Certificate for the Local Transport Grant Claim

4.2 Each local authority which is part of NECA must undertake audit work to confirm that the Local Transport Grant has been spent in accordance with the grant conditions for the year. Internal Audit receive the audit certificates from each local authority and submit a consolidated certificate on behalf of NECA.

4.3 In addition to the audit, time has been allowed to provide assurance support for the transition into the North East Mayoral Combined Authority from 2024/25.

5 Reporting Protocols

5.1 At the conclusion of each individual audit, if necessary, a draft report and a proposed action plan (where required) 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 An Annual Report will be prepared for the Audit and Standards Committee, in order to give assurance, or otherwise, regarding the NECA's internal control environment

6 Performance Management

6.1 All work undertaken will be in accordance with the internal audit service's policies and procedures, which are based upon the Public Sector Internal Audit Standards.

6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year are shown in Annex 1.

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Annex 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2023/24		
Efficiency and Effectiveness		
Objectives	**KPIs**	**Targets**
1) To ensure the service provided is effective and efficient.	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	1) All organisational risk areas covered over a 3 year period 2) 90% 3) 85%
Quality		
Objectives	**KPIs**	**Targets**
1) To maintain an effective system of Quality Assurance **2)** To ensure recommendations made by the service are agreed and implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	**KPIs**	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaire 2) Results of Audit Questionnaire 3) Number of complaints and compliments	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

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Annex 2

Summary of Internal Audit Work

Organisational Risk Areas	Audits 2019/20	Opinion	Audits 020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Audits 2023/24	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	Local Transport Grant Claim		
					Home to School Transport 2nd 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					

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Organisational Risk Areas	Audits 2019/20	Opinion	Audits 020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Audits 2023/24	Opinion	Overall Opinion
					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

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Item 7

Audit and Standards Committee

Date: **11 April 2023**

Subject: **Agreement of Accounting Policies for Application in the 2022/23 Financial Statements**

Report of: **Chief Finance Officer**

Executive Summary

The purpose of the report is to update the Audit and Standards Committee on NECA's accounting policies to be applied in the preparation of the 2022/23 Statement of Accounts and to seek confirmation from the Audit and Standards Committee that appropriate policies are being applied.

The accounting policies applied within the draft 2021/22 Statement of Accounts remain appropriate for the preparation of 2022/23 Statement of Accounts, with the exception of 13, Property, Plant and Equipment, which has been renamed Property, Plant and Equipment (Excluding Highways Infrastructure Assets) and all references to Infrastructure removed. A new policy, 14, Property Plant and Equipment (Highways Infrastructure Assets), has been included.

This change is required as a result of the Code updated highlighted in the Accounting Code changes report included in today's agenda in respect of Infrastructure Assets, and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022.

Policy 22, Tyne Tunnels Income has been updated to reflect the change to a cashless payment system at the tunnels which was introduced in November 2021 and means that no cash was received at the Tunnels throughout the whole of the 2022/23 financial year.

The other CIPFA Code changes for 2022/23 are considered minor and there are no further accounting policies which require amendment as a result of changes in the Code.

The full list of accounting policies the combined authority proposes to disclose in its Statement of Accounts notes are detailed in Appendix 1.

Recommendations

The Audit and Standards Committee is recommended to:

a) Review the accounting policies outlined in Appendix 1;

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Audit and Standards Committee

b) Approve their use in the preparation of the 2022/23 financial statements;
c) Authorise the Chief Finance Officer to review the accounting policies as necessary and report any changes to the Audit and Standards Committee.

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1. Background Information

1.1 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code) which is based upon approved accounting standards.

1.2 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

1.3 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2022. It supersedes the 2021/22 Code.

1.4 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

1.5 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

1.6 As highlighted in the Accounting Code changes report, included in today's agenda, CIPFA/LASAAC issued an exceptional update to the Code in November 2022 to include a temporary relief in respect of the reporting of Infrastructure Assets.

1.7 In addition, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 allows that where a local authority in England replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, the authority is able to determine that the amount to be derecognised is nil.

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

1.9 Accounting policies are defined in the Code as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".

1.10 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

1.11 Paragraph 11 of the Audit and Standards Committee's terms of reference requires it to "review the accounting policies used to compile NECA's Statement of Accounts".

2 Proposals

2.1 The proposed accounting policies are in line with those used within the draft 2021/22 accounts, with the exception of 13, Property, Plant and Equipment and 22, Tyne Tunnels Income. Policy 13 has been renamed Property, Plant and Equipment (excluding Highways Infrastructure Assets) and references to Infrastructure have been removed. A separate policy (14) has been added for Property, Plant and Equipment (Highways Infrastructure Assets).

2.2 This change is required as a result of the Code update highlighted in the Accounting Code changes report included in today's agenda in respect of Infrastructure Assets, and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022.

2.3 Policy 22, Tyne Tunnels Income has been updated to reflect the change to a cashless payment system at the tunnels which was introduced in November 2021 and means that no cash was received at the Tunnels throughout the whole of the 2022/23 financial year.

2.4 The other CIPFA Code changes for 2022/23 are considered minor and there are no further accounting policies which require amendment as a result of changes in the Code.

2.5 The full list of accounting policies the authority proposes to disclose in its Statement of Accounts notes are detailed in Appendix 1.

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3. Reasons for the Proposals

3.1 This report is presented to the Audit and Standards Committee in accordance with paragraph 11 of its terms of reference: "the Audit and Standards Committee will review the accounting policies used to compile NECA's Statement of Accounts."

4. Alternative Options Available

4.1 There are no alternative options arising from this report.

5. Next Steps and Timetable for Implementation

5.1 The Code of Practice for 2022/23 will be followed in the production of the draft Statement of Accounts for 2022/23 which will be presented to the Committee in the summer.

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 direct financial implications arising for the authority as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the authority's financial affairs.

8. Legal Implications

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

8.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 allows that where a local authority in England replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, the authority is able to determine that the amount to be derecognised is nil.

9. Key Risks

9.1 There risk implications arising from this report.

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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 on this report 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 – Accounting Policies 2022/23.

15. Background Papers

15.1 Code of Practice for Local Authority Accounting in the UK 2022/23.

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
Eleanor.goodman@northeastca.gov.uk

17. Sign off

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

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Appendix 1

Audit and Standards Committee

Accounting Policies 2022/23

Accounting Policy		New policy	Amended policy	No change	In line with Code
1	General Principles			✓	✓
2	Accruals of Income and Expenditure			✓	✓
3	Cash and Cash Equivalents			✓	✓
4	Exceptional Items			✓	✓
5	Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors			✓	✓
6	Charges to Revenue for Non-Current Assets			✓	✓
7	Employee Benefits			✓	✓
8	Post-Employment Benefits			✓	✓
9	Events after the Balance Sheet date			✓	✓
10	Fair Value Measurement			✓	✓
11	Financial Instruments			✓	✓
12	Government Grants and Contributions			✓	✓
13	Property, Plant and Equipment (Excluding Highways Infrastructure Assets)		✓		✓
14	Property, Plant and Equipment (Highways Infrastructure Assets)	✓			✓
15	Public Private Partnership (PPP) Contracts			✓	✓
16	Provisions			✓	✓
17	Contingent Liabilities			✓	✓
18	Reserves			✓	✓
19	Revenue Expenditure Funded from Capital			✓	✓

Audit and Standards Committee

	Under Statute (REFCUS)				
20	VAT			✓	✓
21	Overheads			✓	✓
22	Tyne Tunnels Income		✓		✓
23	Group Accounts			✓	✓
24	Joint Transport Committee			✓	✓
25	Transfer of North East Local Enterprise Partnership Accountable Body role			✓	✓

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Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

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

the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

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

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than 90 days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Exceptional Items

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

No such amounts are payable in 2022/23.

8. Post-Employment Benefits

NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the NECA Corporate line.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the NECA Corporate line.
- Net interest on the net defined liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
- Gains or losses on settlements and curtailments – these result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements comprising:
    - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not counted for as an expense.

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

11. Financial Instruments

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

Financial Assets

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

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

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

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

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal

Audit and Standards Committee

receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Authority can make loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in Movement in Reserves Statement.

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

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value Through Other Comprehensive Income (FVOCI)

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

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

Where assets are identified as impaired, because of a likelihood arising rom a future event that cashflows due under the contract will not be made, a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

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

Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

12. Government Grants & Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Funded from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

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

13. Property, Plant and Equipment (Excluding Highways Infrastructure Assets)

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

Audit and Standards Committee

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:
- Assets Under Construction – cost
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

The following useful economic lives are use for NECA's PPE assets: Plant and Equipment 10-30 years.

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2023, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

Audit and Standards Committee

The written-off value of disposals is not a charge against the General Fund, as the cost of fixed assets is fully provided from under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

14. Property, Plant and Equipment (Highways Infrastructure Assets)

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges and tunnels), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. NECA holds highways infrastructure assets in the form of the Tyne Tunnels – the two vehicle tunnels and the pedestrian and cyclist tunnels.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Impairment

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network have been assessed by the authority using industry standards where applicable as follows:

- Structures (tunnels) – useful life of up to 120 years

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the ‘Other operating expenditure’ line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

The written-off amounts of disposals are not a charge against the General Fund, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

15. Public Private Partnership (PPP) Contracts

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

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

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

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

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement’s financing by recording and measuring a long term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator’s cost of finance. However, in the New Tyne Crossing project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnel. NECA may therefore have no long term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

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

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

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

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

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

16. Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

17. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2022/23.

18. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

19. Revenue Expenditure Funded from Capital Under Statute

Audit and Standards Committee

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

20. VAT

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

21. Overheads

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

22. Tyne Tunnels Income

Prepayments on permit accounts are received, and the balance on these accounts are accrued as income received in advance at the year end, since these must be refunded to customers should they choose to close their account. Income is recognised at the point the journey is made.

23. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2022/23 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2022/23 and comparators for 2021/22. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

24. Joint Transport Committee

On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new mayoral combined authority.

The reconfiguration of NECA has been classed as a transfer by absorption meaning:

- NECA has accounted for its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred; and
- Assets and liabilities transferred at book value.

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

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

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

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

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

25. Transfer of North East Local Enterprise Partnership Accountable Body role

On 1 April 2020, the Accountable Body responsibility for the North East Local Enterprise Partnership (North East LEP) transferred from NECA to the North of Tyne Combined Authority.

The transfer has been accounted for as a transfer by absorption. The Authority will disclose in the financial statements that the transfer has taken place (including a brief description of the transferred function) giving the date of the transfer, the name of the transferring body and the effect on the financial statements.

Functions transferred to NECA will be disclosed separately in the comparative year. Where the transfer requires reporting in the notes to the accounts, a separate line disclosing the transfer shall be included after the balance brought forward from the previous year. A new sub-total shall be inserted to disclose the restated opening Balance Sheet figures. These lines will be required in the notes showing the movements in assets, liabilities and reserves, including the Movement in Reserves Statement.

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Item 8

Audit and Standards Committee

Date:	**11 April 2023**
Subject:	**Changes to the Code of Practice for Local Authority Accounting in the UK**
Report of:	**Chief Finance Officer**

Executive Summary

In preparing the annual Statement of Accounts, we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards.

The 2022/23 Statement of Accounts will be prepared in accordance with the CIPFA Code 2022/23.

An exceptional update to the Code was issued in November 2022 to include a temporary relief in respect of the reporting of Infrastructure Assets.

The key accounting changes to the Code from 2021/22 to 2022/23 are outlined in Appendix 1, detailing their relevance and applicability to the Combined Authority.

Recommendations

The Audit and Standards Committee is recommended to note the changes detailed in the report and in Appendix 1, which will be taken into account in the preparation of the 2022/23 statements.

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Audit and Standards Committee

1. Background Information

1.1 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code) which is based upon approved accounting standards.

1.2 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

1.3 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2022. It supersedes the 2021/22 Code.

1.4 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

1.5 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. In November 2022, the board issued an update to the 2022/23 Code, which will apply to subsequent years until the 2024/25 financial year, to include a temporary relief in respect of the reporting of Infrastructure Assets.

2 Proposals

2.1 Appendix 1 provides a key summary of the key accounting changes to the Code and their relevance to the authority in preparing its Statement of Accounts for the year ended 31 March 2023.

3. Reasons for the Proposals

3.1 This report is presented to the Audit and Standards Committee in accordance with paragraph 12 of its terms of reference: "the Audit and Standards Committee will review key information relating to NECA's Statement of Accounts". The Code of Practice is used as the basis for the production of the Statement of Accounts.

4. Alternative Options Available

4.1 There are no alternative options arising from this report.

5. Next Steps and Timetable for Implementation

5.1 The Code of Practice for 2022/23 will be followed in the production of the draft Statement of Accounts for 2022/23 which will be presented to the Committee in the summer.

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 direct financial implications arising for the authority as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the authority's financial affairs.

8. Legal Implications

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

9. Key Risks

9.1 There are no risk 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 on this report has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

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14. Appendices

14.1 Appendix 1 – Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23

15. Background Papers

15.1 Code of Practice for Local Authority Accounting in the UK 2022/23

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, Eleanor.goodman@northeastca.gov.uk

17. Sign off

17.1

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

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Appendix 1

Audit and Standards Committee

Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23

The table below provides a summary of the key accounting changes in the 2022/23 CIPFA Code and their applicability to NECA.

	Change	**Relevant to NECA?**
1	Amendments to Section 1.3 (Applicability of the Code) to clarify and expand the applicability of the Code to Welsh authorities and bodies including corporate joint committees.	No
2	Revision of Section 4.2 (Leases) to allow authorities to voluntarily adopt the provisions of IFRS 16 in advance of mandatory implementation, in line with requirements set out in Appendix F.	No, as we are not intending to voluntarily adopt IFRS 16 early
3	Revision of Section 4.3 (Service Concession Arrangements: Local Authority as Grantor) to specify that if IFRS 16 is adopted in advance of mandatory implementation, then the service concession arrangement liability is measured in accordance with the measurement requirements of IFRS 16, as set out in Appendix F. However, at the time of writing, CIPFA LASAAC is considering deferring this to 2023/24 to be consistent with central government adoption.	Only relevant to early adopters of IFRS 16
4	Amendments to Section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) to clarify the treatment of social benefits under IAS 37/IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.	Yes
5	Confirmation in Appendix C (Changes in Accounting Policies: Disclosures in the 2021/22 and 2022/23 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2022/23 Code, while also having regard to requirements in relation to voluntary adoption of IFRS 16.	Yes

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	Change	Relevant to NECA?
6	Confirmation in Appendix D (New or Amended Standards Introduced to the 2022/23 Code) of the new or amended standards introduced to the 2022/23 Code.	Yes
7	Minor change to Disclosure Requirements, paragraph 4.1.4.3 (bullet point 5) to clarify that the actual capital financing requirement at the end of the reporting period measured in accordance with paragraph 90 of the Prudential Code.	Yes
8	Update to the Code in respect of Infrastructure Assets: Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given. Where a local authority choses to apply this temporary relief, the Code requires that additional information is provided to explain an authority's rationale for this decision.	Yes

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Item 9

Audit and Standards Committee

Date: **11 April 2023**

Subject: **Audit Completion Report 2020/21**

Report of: **External Auditor**

Report to follow

Report to follow

Item 10

Audit and Standards Committee

Date: 11 April 2023

Subject: Statement of Accounts 2020/21

Report of: Chief Finance Officer

Report to follow

Report to follow