

## **Audit and Standards Committee**

Tuesday 17 November 2020 at 10.00 am

The meeting will be held virtually and live streamed at: <https://youtu.be/euJP1MNYeuk>

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## **SUPPLEMENTAL AGENDA**

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## Audit and Standards Committee

17 November 2020

**Subject:** Strategic Risk and Opportunities Register

**Report of:** Risk Advisor to North of Tyne Combined Authority (NTCA)

### Report Summary

The aim of the report is to provide assurance to Audit and Standards Committee that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to address them.

As NTCA is now the accountable body for the North East Local Enterprise Partnership (North East LEP), a new opportunity has been added to the register and will be reported regularly to the Committee.

### Recommendations

The Audit and Standards Committee is recommended to:

1. Review and where necessary challenge the outcomes of the strategic risk review
2. Acknowledge the new opportunity which has been added to the strategic risk register to monitor the developing arrangements between NTCA and the North East LEP
3. Note a summary of the strategic risks identified by the North East LEP (Appendix C) and North East Joint Transport Committee (North East JTC) (Appendix D) are included for information

## 1. Background Information, Proposals and Timetable for Implementation

1.1 The report aims to provide members with an update of the strategic risks and opportunities, which may impact upon the achievement of the Authority's priorities. The strategic risk register has been reviewed and updated to reflect the current and emerging situation as the Authority responds to the impact of the Coronavirus pandemic.

### 1.2 New North East LEP Partnership Opportunity

The North East LEP is a partnership of private and public sector representatives and not a corporate entity, therefore it cannot hold funding and property or employ staff. It can only do so through a legal entity acting on its behalf as an "accountable body". The North East Combined Authority (NECA) was previously the accountable body for the North East LEP, however the role transferred to NTCA in April 2020. This has resulted in a new opportunity being added to the register to cover this position as follows:

"As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges."

Following the transfer of the North East LEP accountable body status to NTCA, Newcastle City Council is providing risk management support to the North East LEP. This will allow the reporting of North East LEP risks to this Committee alongside NTCA risks. This will provide the committee with an overview of the major risks which may impact upon the achievement of the Authority's priorities. The North East LEP risks are included at Appendix C.

1.3 The NTCA risks are strategic risk areas which will be monitored by this Committee and presented at each meeting. Lower level operational and project risks will continue to be managed at a project level. However, there are communication plans and escalation processes developed to ensure the biggest risks to individual programmes/projects are communicated and/or escalated to the strategic risk register.

1.4 Transport continues to be of strategic importance to the North East and the collaborative working of both Combined Authorities allows effective decision making across the region. The North East JTC is responsible for bringing together members from both Combined Authorities allowing the collective identification and management of the most significant risks to the successful operation of the North East JTC and delivery of its objectives and plans.

The JTC Strategic Risk Register, which records the biggest threats to the operation of the North East JTC, has been updated by NECA's risk management service, and presented to the JTC Audit Committee as the responsible committee, at its meeting on 7 October 2020.

A summary of the North East JTC strategic risks is provided at Appendix D. A full copy of the JTC strategic risk register and mitigation plans can be found on the JTC Audit and Standards Committee Agenda [here](#).

## 2. Potential Impact on Objectives

2.1 The development of the strategic risk and opportunities register will not impact directly on the objectives of NTCA, however the approach to strategic risk management will

support delivery of its aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

### **3. Key Risks**

- 3.1 There are no direct risk management implications from this report. The approach to risk management is documented within the NTCA's risk management policy and strategy. The key risks will continue to be reported regularly to the Audit and Standards Committee.

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

- 4.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NTCA (and the North East LEP) during 2020/21 through a Service Level Agreement with Newcastle City Council.

### **5. Legal Implications**

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

### **6. Consultation/Engagement**

- 6.1 Cabinet have approved the Strategic Risk Register including risks and opportunities. The Head of Paid Service, Monitoring Officer and Chief Finance Officer have been consulted on the Strategic Risk and Opportunity Register.

### **7. Appendices**

- 7.1 Appendix A – 'Risk at a glance' shows the strategic risks and opportunities, including the risk priorities and direction of travel assessments
- Appendix B – Provides a detailed assessment of the NTCA strategic risks and opportunities and future activity to reduce the overall risk exposure
- Appendix C – Provides an assessment of the North East LEP strategic risks and future activity to reduce the overall risk exposure
- Appendix D – A summary of the strategic risks, risk priorities and direction of travel assessments identified by the North East Joint Transport Committee
- Appendix E – Risk Analysis Toolkit to determine the risk priority

### **8. Background Papers**

- 8.1 The North East Joint Transport Committee (JTC) strategic risks can be found on the NECA website as part of the [JTC Audit Committee agenda 7 October 2020](#).

### **9. Contact Officers**

- 9.1 Philip Slater – Chief Internal Auditor – Newcastle City Council. (acting as Risk Advisor to NTCA)

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### **10. Glossary**

10.1 None

**11. Sign-off**

11.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

Strategic Risks and Opportunities		
	Risk Priority	Direction of Travel
<b>Strategic Risks &amp; Opportunities</b>		
<b>Risks</b>		
<b>Delivery of Devolution</b> Failure to deliver the Devolution Deal, and secure future negotiations with Government will restrict powers in future funding years.	<b>Red 12</b>	<b>Improving</b>
<b>Operational Capacity and Resources</b> The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver the devolution deal, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	<b>Amber 8</b>	<b>Static</b>
<b>Opportunities</b>		
<b>Partnerships</b> The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region, and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.	<b>Amber 8</b>	<b>Static</b>
<b>North East LEP</b> As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges.	<b>Amber 8</b>	<b>New</b>

## Strategic Risks and Opportunities

<p><b><u>Risk – Delivery of Devolution</u></b>            Failure to deliver the Devolution Deal, and secure future negotiations with Government will restrict powers in future funding years.</p>	<p><b><u>Risk Owner</u></b>            Director of Economic Growth</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Current controlled score – Red 12</b></p>
	<p><b>Target Score – Green 4</b></p>
<p><b>Cause:</b></p> <ul style="list-style-type: none"> <li>• As a result of the Coronavirus Pandemic, projects and schemes are not delivered within agreed timeframes and do not satisfy key criteria or achieve required outcomes, such projects will cover all aspects of the devolution deal including:               <ul style="list-style-type: none"> <li>▪ Investment Fund Programme</li> <li>▪ Adult Education Budget</li> <li>▪ Education Challenge</li> </ul> </li> <li>• Decisions are not aligned to the Authority’s Vision and Strategic Framework which has already been agreed with Government</li> <li>• Insufficient projects/schemes are identified to meet investment fund spending targets</li> <li>• Government do not fulfil their commitments under the devolution deal</li> </ul>	
<p><b>Impact:</b></p> <p>Investment Fund:</p> <ul style="list-style-type: none"> <li>• As Government coronavirus restrictions are in place there will be a delay of delivery/underachievement in project outputs due to public closures/lockdowns</li> <li>• Possible reallocation of the Investment Fund Programme to support recovery in the NTCA area</li> <li>• Economic shock post pandemic will impact businesses/organisations in the NTCA region</li> <li>• As details of Government’s response to the pandemic becomes clearer, it may be necessary to adjust elements of the NTCA programme to avoid duplication and maximise impact.</li> </ul> <p>Adult Education Budget:</p> <ul style="list-style-type: none"> <li>• As a result of the pandemic, other sources of income available to adult education providers is now at risk which could result in financial instability and longevity of the institution/organisation.</li> <li>• Continuity of funded provision for NTCA residents is at risk if providers become financially unstable.</li> <li>• The published Strategic Skills Plan may not be relevant for post-Covid inclusive economic recovery</li> </ul>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• AEB Provider Performance and Management Framework in place and used from 1 August 2020</li> <li>• Existing intelligence sharing process with regional ESFA, sharing notices of concern regarding the NTCA provider base</li> <li>• Ongoing dialogue with NTCA adult education providers to ensure delivery continues to meet area skills needs</li> <li>• NTCA Strategic Skills Plan will be updated in 2021 and will reflect the area’s skills needs for an inclusive economic recovery</li> <li>• Assurance Framework agreed with Government which operates effectively</li> <li>• Constitution is in place setting out governance arrangement for the Authority</li> <li>• Establishment of the Investment Fund through which NTCA is administering the North of Tyne Single Pot allocation of Government funding</li> <li>• Housing and Land Board supports NTCA’s governance arrangements regarding the integrated strategic approach to improving the quality and quantity of homes in the North of Tyne area</li> </ul>	

<ul style="list-style-type: none"> <li>• M9 Group of Metro Mayors working together to influence government on agreed priorities which will strengthen devolved powers</li> <li>• Covid-19 response paper agreed in March 2020</li> <li>• Covid-19 Capacity Fund grants of £1.5m offered to Constituent Authorities in the North of Tyne region to meet local needs</li> <li>• Ongoing and regular engagement with Government departments at an officer level</li> </ul>		
<b>Next Steps</b>	<b>Deadline</b>	<b>Lead Officer(s)</b>
We are continuing to assess the impact of the Covid-19 crisis across our programmes as required, working with applicants to consider alternative methods of achieving outputs and outcomes from our existing Investment Fund Programmes.	Review January 2021	Director of Economic Growth
Delivery of our £5m Covid-19 Capacity Fund is underway to support businesses and residents, some early impact is evident with further benefits expected in the coming months.	Review January 2021	Director of Economic Growth
A review of the Investment Fund Programme to identify opportunities through existing and new funding vehicles to aid recovery in the coming months. The on-going review of projects and programmes, adapting them as required, has had some immediate success however other results will not be evident for a few months.	Review January 2021	Director of Economic Growth
AEB became operational 1 August 2020. Provider Performance and Management processes are ongoing.	Review December 2020	Director of Economic Growth
Continued engagement with NTCA AEB providers to ensure a collaborative approach to aligning adult skills to deliver the Authority's vision. This includes additional funding allocated to NTCA under the AEB for 2020/21 to support a Covid-19 response. NTCA will work with our current providers to operationalise this additional funding to reflect the Authority's vision and Government guidelines.	Review December 2020	Director of Economic Growth
To inform priorities and allocations dialogue continues with AEB providers to ascertain immediate impact of Covid-19 and medium/long term mitigation planning.	December 2020	Director of Economic Growth
AEB Skills Plan to be updated in line with the area's skills needs for the 2021/22 academic year.	December 2020	Director of Economic Growth
The Authority has a newly appointed Education Improvement Challenge strategic lead. The lead officer will focus upon agreed priorities for the Challenge: such as making sure children are ready for school, no one is left behind and leadership, recruitment and retention. The officer will work with the Mayor, North of Tyne Cabinet and Government to develop the initial prospectus into an approved proposal to secure powers and investment to improve education across Newcastle, North Tyneside and Northumberland.	Ongoing - review progress December 2020	Director of Economic Growth

<p><b><u>Risk – Operational Capacity and Resources</u></b>  The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver the devolution deal, within the constraints of approved funding streams, timeframes, conditions and performance criteria.</p>	<p><b><u>Risk Owner</u></b>  Director of Policy and Performance</p>
	<p><b><u>Risk Score</u></b></p>
	<p><b>Current controlled score – Amber 8</b></p> <p><b>Target Score – Green 4</b></p>

**Cause:**

- Staffing levels are changeable due to different working patterns as a result of working from home due to the Coronavirus pandemic
- There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of the officers working on the Devolution agenda and supporting the Combined Authority.
- Coronavirus pandemic is leading to significant increases in workload, reducing constituent council's capacity which can be allocated to NTCA operations.

**Impact:**

- Inability to maintain relationships with partners and stakeholders during Coronavirus pandemic
- Duplication of activity and conflicting priorities within Constituent Authorities
- Existing resources are not fully utilised to effectively deliver the Authority's strategic priorities
- Projects and schemes are not delivered within the approved timeframes and do not meet performance criteria

**Existing Controls:**

- Interim Statutory Officer appointments (Head of Paid Service, Monitoring Officer, Chief Finance Officer) Mayor and other key officers
- Senior Officer appointments including Director of Policy and Performance, Director of Economic Growth, Head of Inclusive Growth, Education Improvement Challenge Strategic Lead
- Constituent Authorities provide support services to the Authority through Service Level Agreements
- Recruitment Plan in place and some appointments have been made
- A structured exercise has been undertaken to develop resource plans, gauge capacity and clarity with assigned roles and responsibilities to facilitate the effective operation of the Authority. A work programme has been developed for officer use and is referenced in all appraisals
- Implementation funding has been approved and paid by DfE, to ensure appropriate capacity and resources are put in place for the devolution of the Adult Education Budget.

<b>Next Steps</b>	<b>Deadline</b>	<b>Lead Officer(s)</b>
A Covid-19 Contingency Plan is in place to support central government guidance, homeworking and officer deployment instructions. The Plan worked well and work is now underway on a return policy for the office and the 'new normal'. First small cohort successfully returned to the office in early September, no plans to increase numbers currently.	Ongoing - review January 2021	Director of Policy and Performance
Business Continuity Plan (BCP) – the formulation of a full BCP has begun with an information gathering exercise underway. Development has stalled due to the impact of Covid-19 with delays to the receipt of information sought from other organisations.	Review progress December 2020	Director of Policy and Performance

Organisational Development – Following the completion of staff appraisals, a Pulse survey has been undertaken and a staff group to discuss the results has been established. A second Pulse survey has been conducted in October 2020.	Second Pulse survey - Outcomes in November 2020	Director of Policy and Performance
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<p><b><u>Opportunity – Partnerships</u></b></p> <p>The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region, and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.</p>	<p style="text-align: center;"><b><u>Risk Owner</u></b> Director of Policy and Performance</p> <p style="text-align: center;"><b><u>Opportunity Score</u></b></p> <p style="text-align: center;"><b>Current controlled Score – Amber 8</b></p> <p style="text-align: center;"><b>Target Score – Green 6</b></p>	
<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Strengthening the synergy between Cabinet, the North East Local Enterprise Partnership and Local Authorities</li> <li>• Influencing regional approaches to growth</li> <li>• Improving how we work with Government, business, investors and partners</li> </ul>		
<p><b>Barriers:</b></p> <ul style="list-style-type: none"> <li>• The success of the Combined Authority will rely on the on-going commitment of all member authorities and how NTCA works with other partners in the region</li> <li>• It is important that Cabinet share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned</li> <li>• It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact</li> </ul>		
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• The NTCA is working closely with LAs, North East LEP, NECA, and other partners in the region to ensure we have a joined-up response to Covid-19. This work has progressed well, with a single regional plan developed.</li> <li>• Mayor’s Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) appointed and Accord agreed.</li> <li>• Regular meetings with the Business Community i.e. CBI, Federation for Small Businesses, Entrepreneurs’ Forum</li> <li>• Community and Voluntary Sector engagement meetings</li> <li>• The North East LEP is leading the regional development of the Local Industrial Strategy</li> <li>• NTCA representation on: <ul style="list-style-type: none"> <li>▪ The North East LEP Boards (Investment, Employment &amp; Skills, Innovation and Business Growth)</li> <li>▪ The Board of Transport for the North</li> <li>▪ The North East Joint Transport Committee (and sub-committees), responsible for preparing a single transport plan for the area of both Combined Authorities</li> </ul> </li> <li>• NTCA and DWP Framework Agreement to coordinate employment, skills and health services across the North of Tyne area</li> </ul>		
<p><b>Next Steps</b></p>	<p><b>Deadline</b></p>	<p><b>Lead Officer(s)</b></p>
<p>Regular meetings of the North East Covid-19 Economic Response Group - launched to provide maximum support for businesses in the immediate term and to plan for long-term economic recovery.</p>	<p>Ongoing</p>	<p>Director of Economic Growth</p>
<p>Mayoral Ambassador for the business sector – Further engagement and consultation with the business community will continue post Coronavirus outbreak, to develop the role and invite nominations.</p>	<p>Review December 2020</p>	<p>Director of Policy and Performance</p>
<p>VCSE Accord - begin to scope how the NTCA can add value to the work of our local government partners with the VCSE to build capacity, sustainability and be a catalyst for an inclusive economy.</p>	<p>Review December 2020</p>	<p>Director of Policy and Performance</p>

Continued engagement with AEB providers, employers and stakeholders in the North of Tyne area to ensure a collaborative approach to aligning adult skills to deliver the Authority's vision.	Ongoing	Director of Economic Growth
Good Work Pledge – The implementation, promotion and development of the Good Work Pledge continues. A Coronavirus impact analysis to determine the next steps and timelines has been undertaken. The Good Work Pledge will be launched publicly in November 2020.	Review January 2021	Director of Policy and Performance

<p><b>Opportunity – North East LEP Partnership</b></p> <p>As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges.</p>	<p><b><u>Risk Owner</u></b> Chief Finance Officer</p>	
	<p><b><u>Opportunity Score</u></b></p>	
	<p><b>Current controlled Score – Amber 8</b></p>	
	<p><b>Target Score – Green 6</b></p>	
<p><b>Benefits:</b></p> <p>Maximising the partnership arrangements between NTCA and the North East LEP through working together to coordinate and manage resources. Embedding effective governance arrangements will help to develop a greater awareness and understanding of the North East LEPs programmes and objectives.</p>		
<p><b>Barriers:</b></p> <p>The governance, roles and responsibilities need to be clear and understood to ensure effective partnership working.</p>		
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• Cabinet received an update on the North East LEP project funding decisions during the first five months of the 2020/21 financial year at its September 2020 meeting</li> <li>• North East LEP Chair is a non-voting member of NTCA Cabinet</li> <li>• The new Accountable Body Agreement was signed at the end of March 2020</li> <li>• The alignment of both NTCA and the North East LEP Service Level Agreements support delivery of the North East LEP operations</li> <li>• In both the new Accountable Body Agreement and Deed of Cooperation, changes made to support arrangements and financial model ensure there is no detrimental impact to the North East LEP.</li> <li>• North East LEP staff are NTCA employees and NTCA is the legal entity responsible for administering its budget</li> <li>• The North East LEP strategic risk register is reported regularly to NTCA Audit and Standards Committee alongside NTCA strategic risks</li> </ul>		
<b>Next Steps</b>	<b>Deadline</b>	<b>Lead Officer(s)</b>
NTCA as the accountable body, must satisfy itself of the legality and financial probity of any decisions of the North East LEP. Those actions will be endorsed through NTCA’s decision making structure and authorised by the Head of Paid Service on behalf of NTCA.	Ongoing	Chief Finance Officer
In order to provide assurance that NTCA is properly discharging its role as accountable body to the North East LEP, quarterly reports on this area of work will be presented to Cabinet.	Ongoing Quarterly	Chief Finance Officer

## North East Local Enterprise Partnership – Strategic Risks

<p><b><u>Operational capacity and resourcing</u></b></p> <p>Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit, the impact of the Covid-19 pandemic and emerging Government policies due to multiple short term (often annual) funding sources.</p>	<p><b>Risk Owner</b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> All funding sources relating to staff resourcing, the core operational budget and project delivery are time limited and are not sufficient to allow the Local Enterprise Partnership (LEP) to effectively plan a medium-term budget and operational model.</p>	
<p><b>Impact/Consequence:</b> The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered, if future funding is not made available and/or secured.</p>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• The 2020/21 LEP operational budget was agreed by the LEP Board and its accountable body</li> <li>• Some financial reserves are held by the LEP from previous financial years</li> <li>• Potential to call on financial resources relating to Enterprise Zone income if required</li> <li>• On-going monitoring of external funding landscape and actions to secure alternative sources</li> <li>• A new company limited by guarantee is in place alongside the LEP structure which enables a wider source of funding applications to be made and the LEP to seek funding from other sources</li> </ul>	
<b>Next Steps</b>	<b>Lead Officer(s)</b>
Budget management and forecasting on-going	Helen Golightly (Chief Executive)
Lobbying of Government to secure additional and longer-term resources for LEPs on-going	Helen Golightly (Chief Executive)
On-going horizon scanning for funding opportunities to support the team and delivery.	Helen Golightly (Chief Executive)

<p><b><u>Increase in the role and scope of LEPs by government with no new resource to support the additional responsibility(ies)</u></b></p> <p>Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular as a consequence of Brexit and the Covid 19 pandemic.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>	
	<p><b><u>Risk Score</u></b></p>	
	<p><b>Red 12</b></p>	
	<p>Likelihood – Medium Impact – Critical</p>	
<p><b>Cause:</b> Government have reviewed the role and scope of LEP activity which is set out in the paper 'Strengthening LEPs'. Government requires LEPs to be independent of local authorities with a wider remit around Local Industrial Strategies, funding and Brexit and a shared role in responding to the Covid 19 pandemic. There needs to be sufficient financial resources made available to LEPs to carry out any increased responsibility and activity.</p>		
<p><b>Impact/Consequence:</b> The LEP operational budget does not have sufficient headroom for additional staffing capacity. This could lead to current staff resources being spread too thinly, reducing impact and effectiveness in facilitating the delivery of the Strategic Economic Plan and responding to Brexit and the pandemic.</p>		
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• The LEP continues to work closely with government to try to influence policy and its practical delivery implications</li> <li>• The LEP Network (national body) plays a key lobbying role with government</li> </ul>		
<b>Next Steps</b>		<b>Lead Officer(s)</b>
Continue to lobby and influence Government		Helen Golightly (Chief Executive)
Consider and respond to any changes as they emerge		Helen Golightly (Chief Executive)

<p><b><u>Government Capital Funding</u></b></p> <p>Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP, the emerging Local Industrial Strategy (LIS) and Covid-19 response plan.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b></p> <p>There is uncertainty around the design, function and level of future regional/local strategic capital and revenue funding sources from government. The UK Shared Prosperity Fund (UKSPF) which is due to fill the gap after the European Structural and Investment Fund (ESIF) and Local Growth Fund (LGF) was proposed to come into effect in April 2021. The government consultation has been delayed until autumn 2021 at the earliest and more likely to be Spring 2022. There is no clarity on the level of funding available for the North East beyond March 2021 (LGF) and no further progress made in relation to ESIF successor fund beyond June 2023, other than the short-term Getting Building Fund announced July 2021. There is therefore a significant risk that funding for capital pipeline projects is not available.</p>	
<p><b>Impact/Consequence:</b></p> <p>Without a clear understanding of future potential funding, the development and delivery of strategic projects related to the SEP, the emerging Local Industrial Strategy post 2021 and Covid 19 response planning is at risk.</p>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• The 2019 refreshed SEP is strongly aligned to key government policies which should attract investment if it becomes available.</li> <li>• The LEP is working with government to influence policy and funding thinking</li> <li>• The LEP is leading the regional development of the emerging Local Industrial Strategy, although this has stalled during the pandemic, which will enable a conversation with government about strategic projects and investment to work with us to increase productivity in the North East.</li> <li>• The LEP is working with regional partners to develop a pipeline of strategic projects in preparation including innovation projects.</li> <li>• The LEP is working with regional partners on a Covid 19 economic response plan.</li> </ul>	
<b>Next Steps</b>	<b>Lead Officer(s)</b>
Continue to develop a pipeline of projects (where appropriate) to be ready to 'win' funding as it becomes available.	Helen Golightly (Chief Executive)
Continue to work with government and influence emerging policy thinking.	Helen Golightly (Chief Executive)
Develop a portfolio of innovation projects with regional partners	Alan Welby (Innovation Director)

<p><b><u>European Funding</u></b></p> <p>Failure of the North East LEP area to secure the full notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes will significantly impact on the delivery of the Strategic Economic Plan.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Amber 9</p>
	<p>Likelihood – Medium Impact – Significant</p>
<p><b>Cause:</b> ESIF programme implementation was delayed whilst the impact of the EU Referendum was reviewed by government departments. This has led to national underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund (UKSPF) is likely to replace the ESIF Programmes beyond 2023, however the consultation document expected from government continues to be delayed. Therefore, the future funding opportunities beyond ESIF continue to be uncertain.</p>	
<p><b>Impact/Consequence:</b> The ability to secure the North East LEP area's full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.</p>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• Government have confirmed ESIF projects will be underwritten following departure from the European Union, however, there is no guarantee that each region will maintain its notional allocation.</li> <li>• The seven local authorities with the LEP secured £58.5m of ESIF to continue the JEREMIE programme. A Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises known as the North East Fund Ltd.</li> <li>• The North East LEP with both combined authorities work with partners to develop local content to feed into the national project calls to ensure the funding is appropriately focussed on local need in order to maximise spend in the North East.</li> <li>• The Strategic Economic Plan (SEP) was refreshed in early 2019 to ensure its priorities remain current. The SEP is aligned to the North East ESIF Strategy, to direct the allocation of European Funding to grow the North-East Economy</li> <li>• The LEP has employed a dedicated officer to work with partners to maximize the spend of European Social Fund (ESF) in the North East.</li> </ul>	
<p><b>Next Steps</b></p>	
<p>The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m Euros.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>The LEP Executive Team is working with key stakeholders to prepare projects ready for Government releasing further 'calls' for applications for funding.</p>	<p>Helen Golightly (Chief Executive)</p>

<p><b><u>North East regional governance</u></b></p> <p>The LEP area covers seven local authorities and two combined authorities, one of which is mayoral. The LEP area is unique in England to have more than one combined authority which may impact on clarity of roles and decision making.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p><b>Cause:</b> The North East Combined Authority’s (NECA) decision to proceed with the North of Tyne Mayoral Combined Authority led to the regional governance structures changing as two combined authorities were created in November 2018, both of which have agreed to support and operate effectively with the North East LEP. The LEP economic remit therefore spans both combined authority areas. One of the combined authorities should also act as the accountable body for the LEP. It was agreed that NTCA would be the North East LEP accountable body from 1 April 2020.</p>	
<p><b>Impact/Consequence:</b> The governance, roles and responsibilities need to be clear at a local level and understood by national government to ensure effective strategy development, delivery of economic development activity, investment and partnership working.</p> <p>It is also vital that the change in accountable body must not be detrimental to the current effective operations or financial position of the LEP.</p>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP as set out in their signed Deed of Cooperation which was reviewed and re-signed at the end of March 2020.</li> <li>• The new Accountable Body Agreement was signed at the end of March 2020 and Service Level Agreements (SLA) are in place to support the delivery of LEP operations.</li> <li>• In both the new Accountable Body Agreement and Deed of Cooperation, changes made to support arrangements and financial model are to ensure no detrimental to the North East LEP.</li> </ul>	
<b>Next Steps</b>	<b>Lead Officer(s)</b>
Continue to work effectively with all seven local authorities and both combined authorities on shared agendas, strategy development and delivery.	Helen Golightly (Chief Executive)
Work with NTCA and SLA providers to ensure a smooth transition which enables the North East LEP to carry out its functions in an effective and compliant way.	Helen Golightly (Chief Executive)

<p><b><u>Covid-19 or any other epidemic / pandemic</u></b></p> <p>The lockdown imposed as a result of the Covid-19 in March 2020 in the UK has had a significant impact on the regional economy and demonstrated that epidemics/pandemics pose a high risk to regional, national and global economies.</p>	<p><b><u>Risk Owner</u></b> Chief Executive</p>
	<p><b><u>Risk Score</u></b></p>
	<p>Red 12</p>
	<p>Likelihood – High Impact – Critical</p>
<p><b>Cause:</b> Epidemics and pandemics are rare but can have catastrophic effect. They stem from a range of factors and have various levels of infection and mortality rates. The global dimension of our society and economy means that highly infectious diseases and viruses such as Covid-19 can spread quickly, and containment and other mitigation efforts are complex and require joined up efforts across the world or a group of countries. The lockdown measures essential to control the virus has forced businesses to close or operate in different ways and often to reduced capacity during the lock down period, having a dramatic negative impact on the economy.</p>	
<p><b>Impact/Consequence:</b> Covid-19 has had a severe impact on the economy forcing a large number of businesses to stop trading or slow down their activities and leading to a significant volume of the workforce to be furloughed and/or made redundant. The UK and regions potentially now face the worst economic downturn in centuries. In practical terms for the North East LEP, initially this meant a change of focus for the LEP as it responded to the immediate impact of the pandemic working with regional partners and Government. It has stalled the finalisation of the Local Industrial Strategy and focussed on translating ambitions in a different way through a response plan. It has also affected partners ability to deliver projects.</p>	
<p><b>Existing Controls:</b></p> <ul style="list-style-type: none"> <li>• A North East Covid-19 Economic Response Group is in place. It is a regional partnership comprising of the North East LEP, North of Tyne and North East Combined Authorities, CBI representing businesses, VONNE, the TUC, the universities and transport colleagues.</li> <li>• The Group meets on a regular basis</li> <li>• Work is on-going to put in place a recovery plan with short-term, medium-term and long-term interventions</li> <li>• On-going liaison with the LEP Network and NP11 on Covid-19 issues</li> </ul>	
<p><b>Next Steps</b></p>	<p><b>Lead Officer(s)</b></p>
<p>Continue to support and facilitate the Covid-19 Economic Response Group and produce an economic recovery plan.</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Ensure continued alignment and co-ordination of key messaging and interventions</p>	<p>Helen Golightly (Chief Executive)</p>
<p>Actively lobby government including through the LEP Network and NP11</p>	<p>Helen Golightly (Chief Executive)</p>

### North East Joint Transport Committee Strategic Risks

*The North East JTC Strategic Risk Register has been prepared by NECA's risk management service. The register is presented regularly to the North East JTC Audit Committee.*

JTC Risks to Achievement of Strategic Objectives	Risk Priority	Direction of Travel
<p><b>Carbon Neutral Transport</b> Failure to achieve the aspiration of carbon neutral transport network within the JTC area by 2035.</p>	<b>Red 12</b>	<b>New</b> <i>Due to possible negative impact of Covid-19 on future funding and need for behavioural change</i>
<p><b>Inequality and Growth of the Economy</b> Failure to achieve the planned outcomes to overcome inequality and support the growth of the economy in the JTC area.</p>	<b>Red 12</b>	<b>New</b> <i>Due to possible negative impact of Covid-19 on future funding and cost and service availability to users of public transport</i>
<p><b>Health</b> Failure of the transport system to achieve the planned outcomes to contribute the improvements in health of the population in the JTC area.</p>	<b>Amber 8</b>	<b>New</b> <i>Positive impact of Covid-19 on active travel counterbalanced by possible negative impact of Covid-19 on future funding and need for behavioural change</i>
<p><b>Appealing Sustainable Transport</b> The transport network within the JTC area fails to achieve the planned outcomes regarding the offer of appealing sustainable transport choices to people living or working in the area or visiting or travelling through the area.</p>	<b>Red 12</b>	<b>New</b> <i>Due to possible negative impact of Covid-19 on future funding and cost and service availability to users of public transport</i>
<p><b>Safety and Security</b> The transport system within the JTC area fails to achieve the planned outcomes regarding its safety and security.</p>	<b>Amber 8</b>	<b>New</b> <i>Arrangements in place but possible negative impact of Covid-19 on future funding</i>
<b>JTC Organisation Risks</b>		
<p><b>Future Availability of Funding</b> Sources and levels of funding available to the JTC to develop the North East regions transport infrastructure within the region may reduce.</p>	<b>Red 12</b>	<b>Static</b>
<p><b>Funding Opportunities</b> Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North East region.</p>	<b>Amber 8</b>	<b>Static</b>

<p><b>Use of Funding and Resources</b> Funding secured for transport initiatives within the North East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects.</p>	<p><b>Amber 8</b></p>	<p><b>Static</b></p>
<p><b>Governance Arrangements</b> The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives.</p>	<p><b>Green 4</b></p>	<p><b>Static</b></p>
<p><b>Operational Capacity and Resourcing</b> The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.</p>	<p><b>Amber 8</b></p>	<p><b>Static</b></p>
<p><b>Delivery of Transport Improvement Projects/Programmes</b> Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.</p>	<p><b>Amber 8</b></p>	<p><b>Static</b></p>
<p><b>Transport Infrastructure Assets</b> Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.</p>	<p><b>Green 6</b></p>	<p><b>Static</b></p>
<p><b>Service Delivery</b> Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC's transport delivery partners.</p>	<p><b>Green 6</b></p>	<p><b>Static</b></p>
<p><b>'Catastrophic Event'</b> Inadequate arrangements are in place should a 'catastrophic' event occur which seriously impacts the transport system in the North East. e.g. public health emergency, security incident, infrastructure collapse (e.g. power, fuel)</p>	<p><b>Amber 8</b></p>	<p><b>New</b> <i>Arrangements in place but always uncertainty due to the nature of event and potential impact.</i></p>

Risk Management Toolkit – Criteria to assess the likelihood of a risk occurring and its impact i.e. High (4) x Critical (4) = Red (16) **Appendix E**

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

Assess the likelihood of the risk occurring	
High (4)	Risk will almost certainly occur or is occurring at present
Medium (3)	Risk is likely to occur in most circumstances
Low (2)	Risk may occur
Negligible (1)	Risk is unlikely to occur

**Assess the impact should the risk occur**

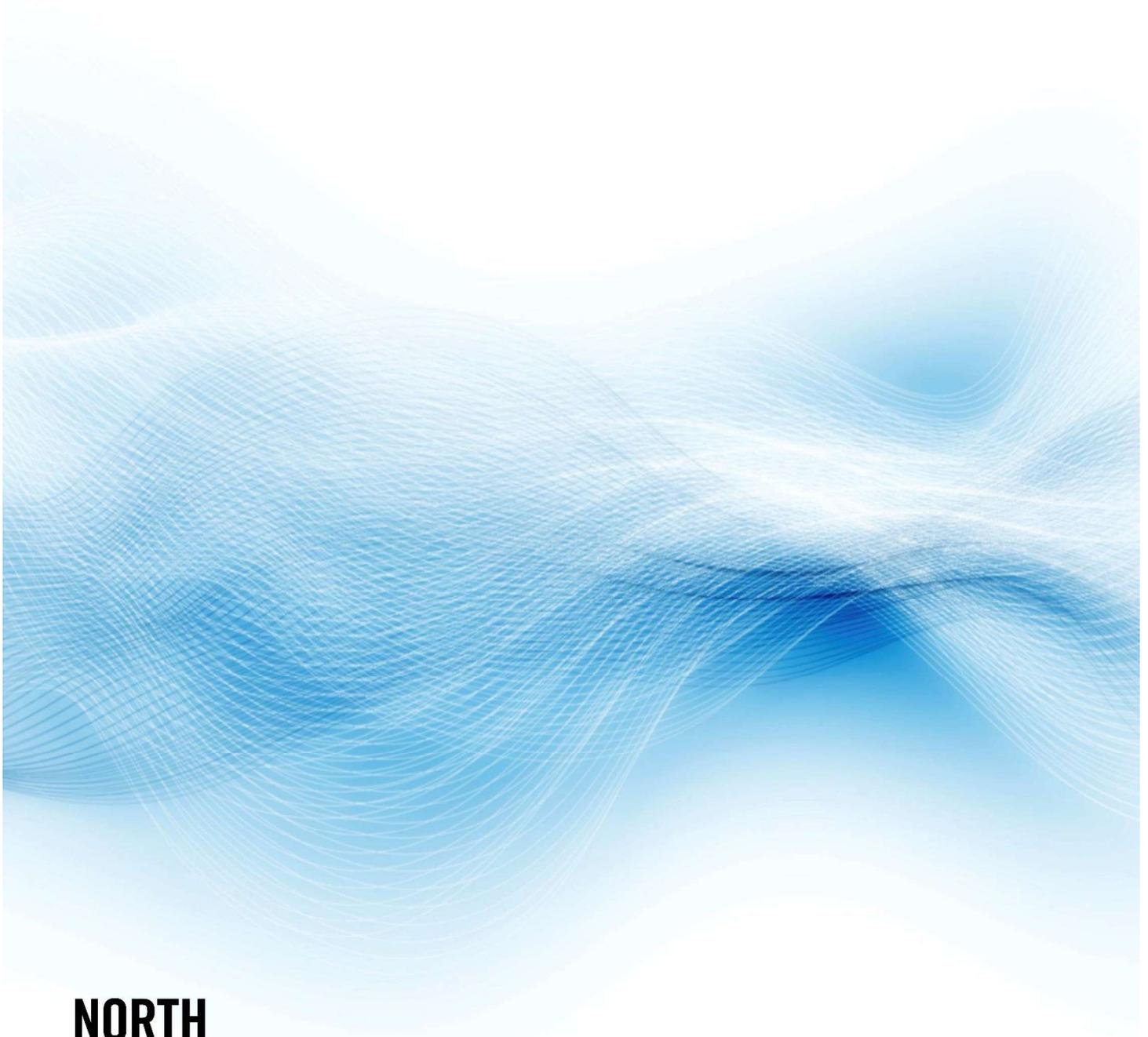
	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	<ul style="list-style-type: none"> <li>Over half the objectives/programmes affected</li> <li>More than one critical objective affected</li> <li>Partners do not commit to the Shared vision</li> </ul>	<ul style="list-style-type: none">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



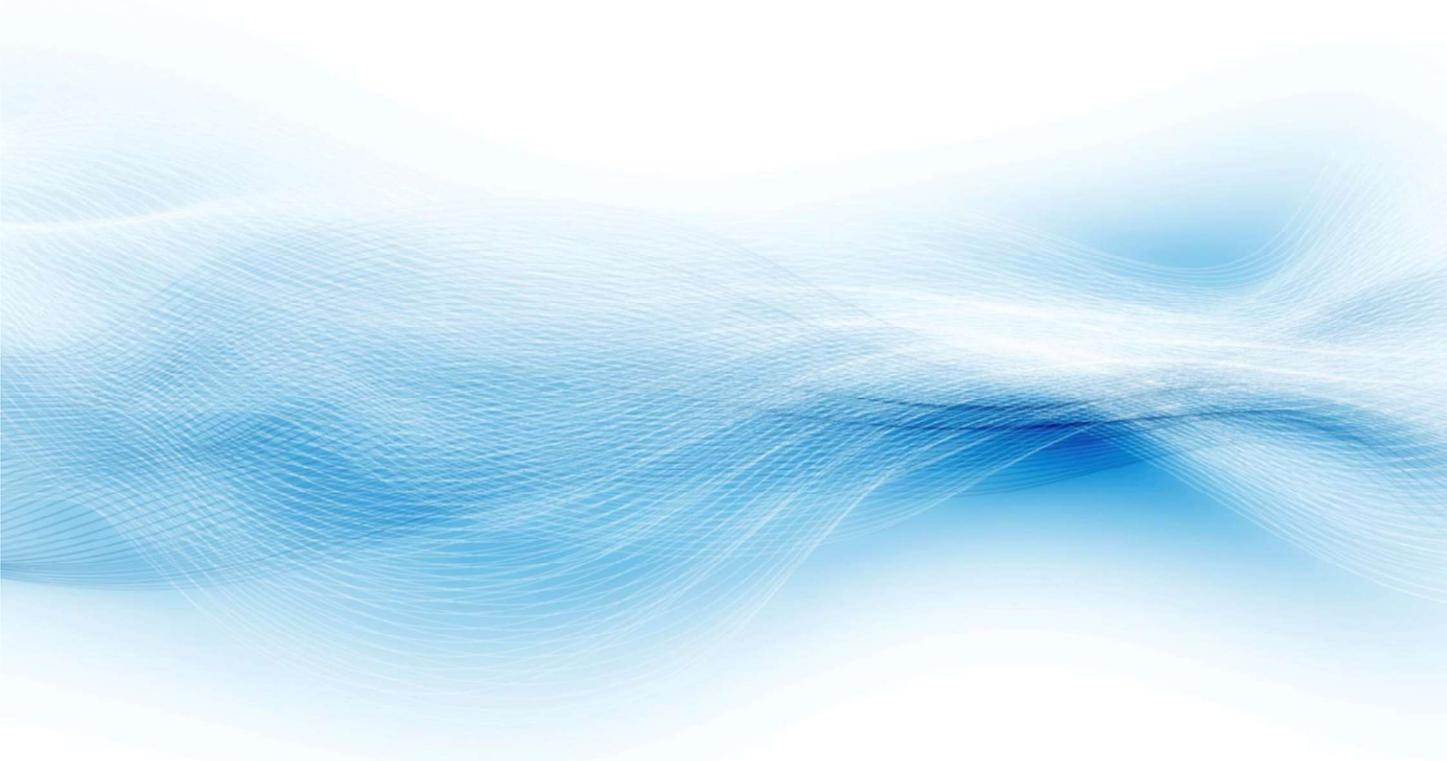


# Audit Completion Report

North of Tyne Combined Authority  
Year ending 31 March 2020



**NORTH  
OF TYNE**  
~~~~~  
**COMBINED  
AUTHORITY**



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1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the ‘Statement of Responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Authority are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Members of the Cabinet  
North of Tyne Combined Authority  
North Tyneside Council  
Quadrant West  
The Silverlink North, Cobalt Business Park  
North Tyneside  
NE27 0BY

13 November 2020

Dear Members

**Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 28 July 2020. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Authority was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: 

Cameron Waddell  
Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North of Tyne Combined Authority ('the Authority') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Standards Committee meeting on 17 November 2020.

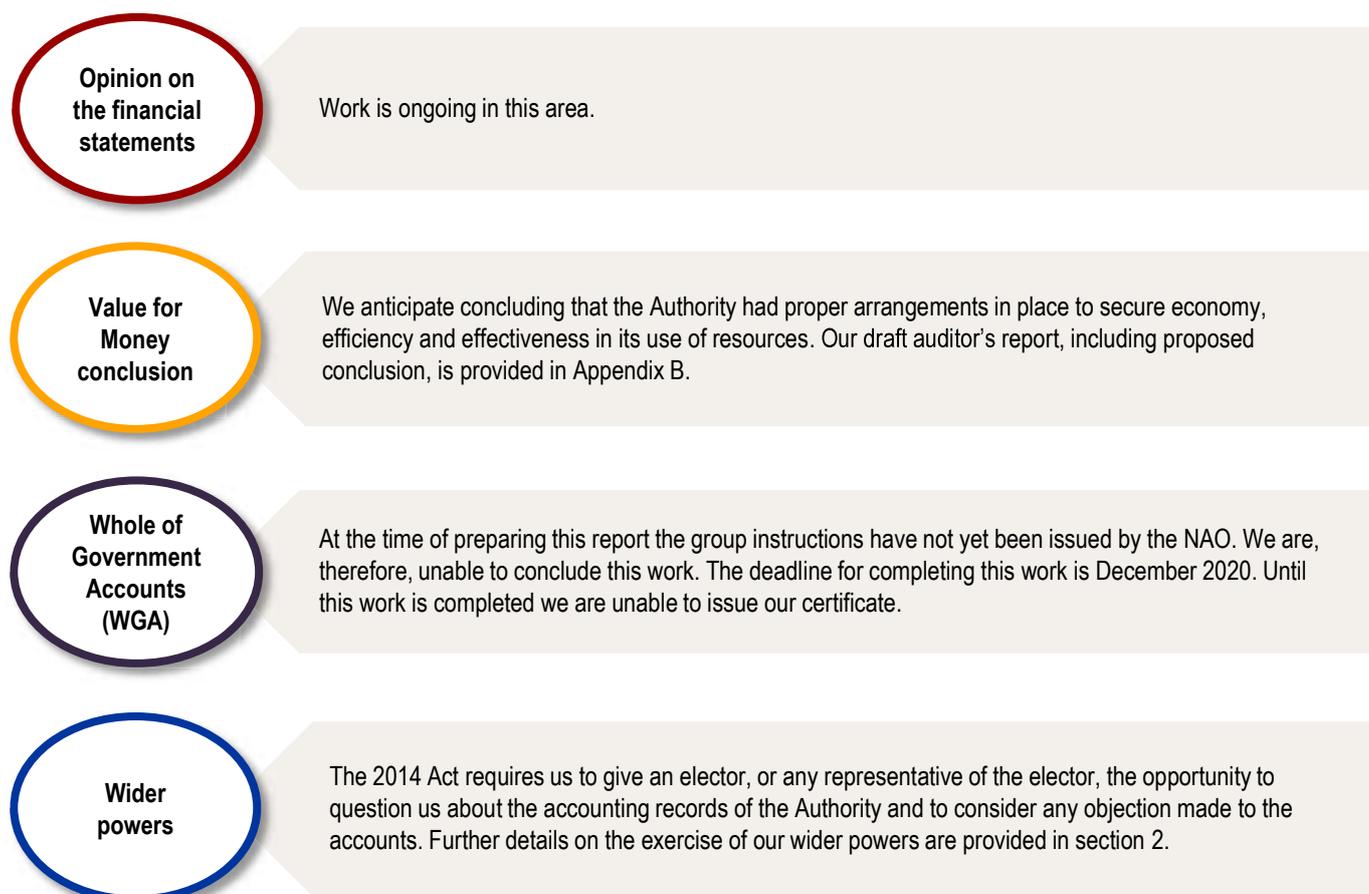
The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (relevant to single entity and group accounts).
- Revenue recognition in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts).
- Defined benefit liability valuation (relevant to group accounts only).

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:



# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

| Audit area                       | Status | Description of outstanding matters                 |
|----------------------------------|--------|----------------------------------------------------|
| Related parties                  | ●      | Awaiting declarations of interest for one members. |
| Cashflow Statement               | ●      | Awaiting response to queries.                      |
| Expenditure and Funding Analysis | ●      | Awaiting evidence from the client.                 |
| Going concern                    | ●      | Work is ongoing.                                   |
| Group consolidation              | ●      | Awaiting revised working paper from client.        |

### Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Standards Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £4.574 million for NTCA single entity and £8.906 million for the Group using a benchmark of 2% Total Assets. Our final assessment of materiality, based on the final financial statements and qualitative factors is £5.081 million for NTCA single entity and £9.784 million for the Group, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Standards Committee, at £152,000 for NTCA single entity and £294,000 for the Group based on 3% of overall materiality.

## Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Standards Committee in a follow-up letter.

## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Our audit work has not identified any material issues to bring to your attention.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

| Significant risk                                                                                                      | Description of the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue recognition -in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts) | <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> <li>• cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and</li> <li>• grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.</li> </ul> <hr/> <p><b>How we addressed this risk</b></p> <p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>• cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>• the judgements made by management in determining when grant income is recognised;</li> <li>• for Tyne Tunnel toll income, perform a substantive analytical review; and</li> <li>• for major grant income, obtaining counterparty confirmation.</li> </ul> <hr/> <p><b>Audit conclusion</b></p> <p>Our audit work has not identified any material issues to bring to your attention.</p> |

| Significant Risk                                                      | Description of the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Defined benefit liability valuation (relevant to group accounts only) | <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <hr/> <p><b>How we addressed this risk</b></p> <p>We plan to address the defined benefit liability valuation risk through performing audit work over -</p> <ul style="list-style-type: none"> <li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary;</li> <li>• consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office; and</li> <li>• we will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</li> </ul> <hr/> <p><b>Audit conclusion</b></p> <p>Work is ongoing on NTCA Group. However, we have received and considered the assurance from the Pension Fund auditor for NTCA. NTCA and the Group have included in its revised financial statements, a disclosure in respect of material uncertainty due to Covid 19 for the pension fund property investments. We have therefore updated our auditor's report wording to draw attention to this in an Emphasis of Matter paragraph.</p> |

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### **Qualitative aspects of the Authority's accounting practices**

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority on 14 August 2020. As last year, we identified a number of errors in the draft accounts including incorrect headings, internal consistency, incorrect prior year information, grammatical, incorrect accounting treatment or other typographical matters that we would have expected to be identified in the Authority's own internal quality review prior to draft publication, as the majority of notes required an amendment to be made. Although the matters were not always of a significant nature (although many of our findings, per section 4, were material) they were quite extensive in number, and more amendments were required than we would expect. The Authority should consider how to strengthen its own quality assurance of the statements prior to draft publication, and audit. Section 3 includes an internal control deficiency on this issue.

### **Significant matters discussed with management**

#### ***Covid-19***

Over and above our normal challenge of management assertions in respect of the financial statements, we also discussed the impact of Covid-19 on NTCA's business, including potential impact on risks of material misstatement and going concern.

#### ***McCloud Judgement***

The McCloud judgement relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. This has no impact for NTCA in 2018/19. For the financial year 2019/20 the respective actuarial reports included the likely impact.

In July 2020 Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgement.

Management enquired of Aon Hewitt, in relation to the expected outcome of this change on the LGPS. Aon Hewitt confirmed that the estimate made in the 2019/20 IAS 19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

#### ***Goodwin Case***

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

Management enquired of Aon Hewitt, and they have confirmed that there will be an additional liability arising from the Goodwin judgement. Full information is not yet available to accurately calculate the impact, however, based on an estimation, it is expected to have a minor impact. As the impact of this is expected to be well below materiality, no adjustment to the financial statements has been made.

As the McCloud and Goodwin issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements in section 4.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant difficulties during the audit

During the course of the audit we had the full co-operation of management. However, we did experience a number of difficulties, for example slow response time to queries and requests for information as well as poor quality accounts due to a significant number of errors (note: 79 general errors were raised during the casting process), incorrect accounting treatments and numerous versions of the same working paper obtained to correct an error.

In the prior year, we reported that some of the systems and practices were not fully developed and embedded due to the Authority being newly established. We have followed up on that this year and found that the majority of systems and practices have been put in place however, an internal control deficiency has been raised regarding partnership working (see section 3).

Given the Government's Covid-19 instruction for the public to work from home if possible, our audit was completed remotely but this did not cause significant difficulties during the audit because:

- we used technology, such as video conferencing, to ensure the audit was completed to the required standards;
- all working papers provided were electronic; and
- we used a team of public sector audit specialists with the same engagement lead, senior manager and team leader as in 2018/19.

At the conclusion of our audit we will review our proposed audit fees, discuss and agree any adjustments needed with management, and report final fees in our Annual Audit Letter.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

### 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking  | Description                                                                                                                                                                                                                                                        | Number of issues |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>1 (high)</b>   | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0                |
| <b>2 (medium)</b> | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.                                                                                                             | 3                |
| <b>3 (low)</b>    | In our view, internal control should be strengthened in these additional areas when practicable.                                                                                                                                                                   | 0                |



### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

In 2018/19 we raised that for NTCA to strengthen their governance arrangements they should consider having a list of significant partners disclosed on their website showing signed assurance statements for governance – we have raised this as a recommendation for 2018/19 rather than an internal control deficiency as NTCA should consider their governance arrangements as they are still embedding in due to the Authority only being established in November 2018. Management's response was that work is already underway to develop a partnership risk register – was not in place for 2018/19 as newly established Authority. We have therefore followed up this recommendation as part of the 19/20 audit and found that a partnership risk register has not been made available on NTCA's website.

##### Potential effects

Governance arrangements that are weak could lead to NTCA working with unsuitable partners or partners being omitted from the related party note.

##### Recommendation

NTCA should have a partnership risk register published on their website.

##### Management response

An exercise was undertaken with NTCA Officers to identify NTCA's significant partnerships - this is a partnership arrangement between NTCA and an organisation or body who is entirely or substantially responsible for delivering or managing an outcome for NTCA. A draft register was produced which includes the North East LEP, Nexus and the Voluntary, Community and Social Enterprise Organisations (VCSE). To support the 2019/20 Annual Governance Statement (AGS), Annual Partnership Assurance Statements were received from the North East LEP and Nexus, however work is underway to determine how to gather the necessary evidence from across the VCSE sector to support production of the 2020/21 AGS. Officers will work with VCSE organisations during 2020/21 to support the information gathering exercise to support production of the 2020/21 AGS.

Our new Website has only been up and running for a matter of weeks. The pandemic has inevitably caused delays to this work. We will place the required information on the site as soon as practicable. The authority will publish details of significant partners. That authority by its very nature a partnership organisation and works collaboratively with external anchor organisation across the region.

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

There are numerous errors that have been highlighted as part of the audit that should have been picked up as part of a quality control review of the accounts for instance, double counting of levy income, omission/misclassification of levy income, missing 2018/19 figures etc.

##### Potential effects

Possible material misstatement due to incorrect accounting treatment, error or omission. Increased officer time in responding to audit queries and amending the accounts. A longer audit period, leading to delayed completion and increased audit fees.

##### Recommendation

Quality control arrangements should be strengthened to ensure that the draft statement of accounts are of a higher standard before published online and audited.

##### Management response

The Chief Finance Officer has been considering the level of finance capacity supporting the NTCA , particularly following the event of becoming the Accountable Body for the North East LEP and the impact this has had on the capacity within the team. Whilst many financial systems and processes have been embedded during 2019/20, there is a recognition that the approach to the production of the Statement of Accounts could be improved to include more review and quality assurance. The intention is to continue to work with key finance officers from NECA and Nexus regarding timetable for the sharing of relevant financial information, and further with the NTCA constituent authorities agree an independent review process to support what is a very small finance team. This will enable the sharing of knowledge and skills around the final accounts process with the expectation of improved performance for the 2020-21 Statement of Accounts.

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

Related party declarations should be updated and obtained annually for all members and made available on the website.

We identified numerous members whose declaration forms were not available on the website and when requested Democratic Services stated the forms were outstanding.

A couple of members tested had a form on the website however the link did not work therefore was not available for the public to view. Democratic Services also stated that members were expected to provide any changes to their declarations but nil responses are not followed up to confirm if there has been any changes. We requested a response for one of the members and a response had not been received to confirm any changes.

The declaration of interests available on the websites are not dated therefore unable to view when they have been completed.

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##### Potential effects

Related parties may not be identified which potentially may lead to fraud and error.

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##### Recommendation

Ensure that related party declarations are completed, received annually (including nil responses and form dated) and made available on the website.

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##### Management response

Under the Authority's Code of Conduct Members are required to register a range of interests and are under a continuing obligation to update their register entries when any change is submitted. The entries are therefore undated because the register reflects the current position as notified to the authority by the members.

With regard to the comments that numerous members' declaration forms were not available and that there were defects in the links on the website, it is acknowledged that the Authority had recently launched its new website and that there had been technical issues with the availability of members' entries on the register of interests. These issues were resolved after they were identified. At that time two members of the authority included in the sample by the auditors had not submitted their declaration forms. One declaration form has now been submitted and the other remains outstanding – this has been raised with the member in question

Whilst there is no requirement under the Authority's Code of Conduct or legislation that members make an annual declaration that they have not been involved in any related party transaction, it is noted that the auditors consider that this is good practice and the Authority will seek these from members in future.

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## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.152 million (NTCA) and £0.294 million (Group).

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2019/20

|                                                                                                                                                                                                                                                                                                                    | Comprehensive Income and Expenditure Statement |            | Balance Sheet |            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|------------|---------------|------------|
|                                                                                                                                                                                                                                                                                                                    | Dr (£'000)                                     | Cr (£'000) | Dr (£'000)    | Cr (£'000) |
| 1                                                                                                                                                                                                                                                                                                                  | Dr: NECA Cash                                  |            | 796           |            |
|                                                                                                                                                                                                                                                                                                                    | Cr: NTCA Cash                                  |            |               | 796        |
| On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process.                                                                                                                                                    |                                                |            |               |            |
| 2                                                                                                                                                                                                                                                                                                                  | Dr: Debtors                                    |            | 187           |            |
|                                                                                                                                                                                                                                                                                                                    | Cr: Grant Income                               | 187        |               |            |
| This error was identified as part of the NECA audit. Covid-19 grant received in May 2020 related to a 4 week period commencing on 17th March 2020 and was not apportioned and accrued for in 2019/20. This unadjusted misstatement is NTCA's share (as relates to JTC) of 19/20 portion of the extrapolated grant. |                                                |            |               |            |
| <b>Total unadjusted misstatements</b>                                                                                                                                                                                                                                                                              |                                                | <b>0</b>   | <b>187</b>    | <b>994</b> |
|                                                                                                                                                                                                                                                                                                                    |                                                |            | <b>796</b>    |            |

### Adjusted misstatements 2019/20

|                                                                                                                                                                      | Comprehensive Income and Expenditure Statement  |            | Balance Sheet |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|------------|---------------|------------|
|                                                                                                                                                                      | Dr (£'000)                                      | Cr (£'000) | Dr (£'000)    | Cr (£'000) |
| 1                                                                                                                                                                    | Dr: JTC Levy Income                             | 33,168     |               |            |
|                                                                                                                                                                      | Cr: JTC Levy Expenditure                        |            |               | 33,168     |
| Error due to double counting JTC levy income and expenditure in costs of services when included in Taxation and Non Specific Grant Income and Transport expenditure. |                                                 |            |               |            |
| 2                                                                                                                                                                    | Dr: Transport - Northumberland                  | 6,094      |               |            |
|                                                                                                                                                                      | Cr: Taxation and Non Specific Grant Income Levy |            |               | 6,094      |
| Error due to the omission of Northumberland's levy and levy expenditure.                                                                                             |                                                 |            |               |            |

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2019/20 (continued)

|                                                                                                      | Comprehensive Income and Expenditure Statement |            | Balance Sheet |            |
|------------------------------------------------------------------------------------------------------|------------------------------------------------|------------|---------------|------------|
|                                                                                                      | Dr (£'000)                                     | Cr (£'000) | Dr (£'000)    | Cr (£'000) |
| <b>3</b> Dr: Corporate Income                                                                        | 2,461                                          |            |               |            |
| Cr: Investment Expenditure                                                                           |                                                | 2,461      |               |            |
| Error due to double counting the investment fund income and expenditure.                             |                                                |            |               |            |
| <b>4</b> Dr: Cash                                                                                    |                                                |            | 2,879         |            |
| Cr: Short term investments                                                                           |                                                |            |               | 2,879      |
| Cash equivalent with Newcastle Council has been incorrectly classified as a short term investment.   |                                                |            |               |            |
| <b>5</b> Dr: Cash                                                                                    |                                                |            | 26,000        |            |
| Cr: Short term investments                                                                           |                                                |            |               | 26,000     |
| Numerous cash equivalents have been incorrectly classified as short term investments.                |                                                |            |               |            |
| <b>6</b> Dr: General Fund Balance                                                                    |                                                |            | 4,909         |            |
| Cr: Earmarked General Fund Reserves                                                                  |                                                |            |               | 4,909      |
| Error due to a misclassification between reserves on the face of the Movement in Reserves Statement. |                                                |            |               |            |

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which are considered significant have been listed here:

- Statement of Responsibilities – omitted the requirement to reference to the Accounts and Audit Regulations 2015;
- Comprehensive Income and Expenditure Statement – incorrect disclosure of figures in 'transferred from NECA' section for 19/20 has led to numerous material changes between lines on the face of CIES;
- Movement in Reserves Statement – statement amended as figures omitted from 18/19 earmarked reserve and a footnote was not included to show that the 18/19 MIRS had been restated due to a presentational change;
- Cashflow Statement – numerous amendments have been made to the cashflow statement and supporting notes due to transactions not being split for JTC, being double counted or incorrectly calculated. In addition, NTCA omitted the new disclosure requirement for changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes;
- Note 2 Expenditure and Funding Analysis – numerous amendments have been made to ensure note is consistent with the rest of the accounts. In addition, the corporate line was incorrectly aggregated as it is more than 10% of gross income in CIES;
- Note 3 Adjustments between Accounting Basis and Funding Basis Under Regulations – amendment has to been made to ensure internally consistent with the pension reserve;
- Note 6 Grant Income – due to a formula error, 18/19 figures have been omitted from the note;
- Note 10 Related Parties - numerous amendments have been made to the related party table due to an incomplete listing of transactions feeding into the table and incorrect split of transactions for devolution;
- Note 12 Financial Instruments – incorrect maturity date has been used in the fair value calculation of the LOBO's. The change in fair value calculation has also impacted the Nexus fair value. Loan debtors fair value level has also been amended as it was incorrect. Numerous issues were identified in the NECA audit that impacts the JTC for instance, the Nexus creditor has been incorrectly classified as non-financial liabilities instead of amortised cost. As part of the NTCA audit, numerous errors were identified for instance financial liabilities, current creditors, current investments and current debtors were not internally consistent with the balance sheet figures;
- Note 13 Financial Instruments – the market risk section of the note omitted a narrative regarding the impact of a 1% increase in interest rate. In the Liquidity risk section, current borrowings is not internally consistent with the balance sheet. In addition, credit risk figures have also been amended due to error in NTCA and JTC incorrect classification of cash equivalents as investments.
- Note 18 Private Finance Initiatives – contract payment should have disclosed the split between NTCA and NTCA. Also, the first line of the table should state 'payable in 20/21';
- Note 19 Defined Benefit Pension Schemes - a narrative should be included in the note to disclose information about the basis of estimation of the IAS 19 liabilities with reference to the McCloud/Sargeant Judgements. Both the single entity and Group pension note narrative has been updated to include Covid-19 material uncertainty wording for direct property valuations and pooled residential property funds;
- Note 20 Useable Reserves – this note was amended to ensure it was consistent with Movement in Reserves Statement and should include a footnote as presentation changed since 18/19 audited accounts;
- Note 22 Pension Reserve – figures included in this note are not consistent with Note 19 or the actuary report;
- Note 27 Accounting Standards issued but not yet adopted – omitted some of the suggested standards issued but not yet adopted per the CIPFA Bulletin; and
- Note 29 - Assumptions made about the Future and Other Major Sources of Estimation Uncertainty – was not internally consistent with Sensitivity Analysis figures in Note 19. In addition, Covid-19 wording has been updated to refer to pension material uncertainty mentioned above as well as including information about Covid-19's impact on Tyne Tunnel income and local authority funding.

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## 5. VALUE FOR MONEY CONCLUSION

### Our approach to Value for Money

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

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

| Sub-criteria                    | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Arrangements in place? |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Informed decision making        | <p><b>Overview and Scrutiny Committee</b> - The responsibility for scrutinising the decisions of the Mayor and Cabinet is carried out by this Committee. The membership comprises of 3 representative members from each of the constituent councils (independent of NTCA's Cabinet). The Committee are entitled to call-in and scrutinise decisions taken either by the Cabinet or the Mayor. Scrutiny of the decisions of the Joint Transport Committee are dealt with by a separate joint overview and scrutiny committee established between NECA and NTCA.</p> <p><b>Audit &amp; Standard Committee</b> – This Committee is responsibility for fulfilling the audit and risk responsibilities and for dealing with matters relating to the Code of Conduct for Members of NTCA. The Committee comprises of 3 members from each constituent council and one independent person who is a co-opted member of the Committee. The audit and risk responsibilities of the Joint Transport Committee are dealt with by a separate joint audit committee established between NECA and NTCA.</p> <p>A calendar of committee meetings is available on NTCA's website to allow anyone to view upcoming meeting agendas.</p> <p>Risk management arrangements along with an up to date risk register are in place. A risk update is reported regularly to the Audit and Standards Committee to provide the necessary challenge.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p> <p>No indicators of inappropriate governance arrangements have been identified.</p> | Yes                    |
| Sustainable resource deployment | <p>The 2019/20 revenue budget was approved by the Cabinet in February 2019. In February 2020, Cabinet approved NTCA's 20/21 budget alongside the Medium-Term Financial Strategy covering periods to 21/22. No funding gaps have been identified.</p> <p>A very experienced officer team is in place at NTCA, mainly through secondments from constituent authorities and has been built upon since 2018/19.</p> <p>Arrangements are in place for Cabinet to receive quarterly financial report to outline the current financial position of the Authority.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Yes                    |

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

| Sub-criteria                                  | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Arrangements in place? |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Working with partners and other third parties | <p>NTCA constitution (section 1.1) outlines the areas in which the Authority have developed relationships. These are in relation to:</p> <ul style="list-style-type: none"> <li>• economic development, skills, housing and regeneration. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers;</li> <li>• certain transport functions, these are dealt with through a joint transport committee made up of members from both NTCA and the North East Combined Authority (“NECA”) which comprises the areas of Durham, Gateshead, South Tyneside and Sunderland Councils. This ensures that the integrated transport arrangements across the North East region are maintained, this service is carried out by Nexus. In addition North East Metro Operations Limited (NEMOL) continues to operate and maintain the Tyne and Wear metro service on behalf of the joint transport committee.</li> </ul> <p>NTCA is committed to working with neighbouring local authorities, combined authorities and the Local Enterprise Partnership (LEP) in support of common objectives. The LEP covers the areas of both combined authorities, i.e. NTCA and NECA, and therefore it encompasses the area of the seven local authorities in the North East region. Effective engagement between NTCA, the LEP and the wider business community is critical to delivering the ambitions for the area. The LEP arrangements have delivered a significant number of development and growth projects which have begun to transform the North East area and provide an effective framework to manage and commission the multi-million-pound investment programmes designed to improve and support the North East’s economy. The seven authorities will continue to work closely with and through the LEP in delivery of the Strategic Economic Plan.</p> <p>The bodies outlined above already have long standing partnerships with NECA and these have been passed to NTCA through the devolution. An internal control deficiency has been raised (see page 10) with regards to NTCA publishing a partnership register on their website.</p> <p>NTCA has Service Level Agreements (SLAs) in place with Newcastle City Council, North Tyneside Council and Northumberland County Council. The aim of SLAs is to summarise the nature of the services provided and the charges associated with the services, together with the performance management process which outlines service standards etc. A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p> | Yes                    |

### Significant Value for Money risks

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

### Our overall Value for Money conclusion

Our draft auditor’s report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mr Cameron Waddell  
Partner  
Mazars LLP  
Salvus House  
Aykley Heads  
Durham DH1 5TS

Date: X November 2020

### North of Tyne Combined Authority (NTCA) and Group -audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of NTCA and Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

#### My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within NTCA and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NTCA and Committee meetings, have been made available to you.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

#### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NTCA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NTCA and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NTCA and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NTCA and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of NTCA and Group's related parties and all related party relationships and transactions of which I am aware.

### Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

### Charges on assets

All NTCA and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### **Future commitments**

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **Going concern**

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Authority, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that NTCA and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### **Devolution**

I confirm that the asset/liability split between NTCA and the North East Combined Authority has been carried out in line with The Order and on the most appropriate basis.

### **Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Chief Finance Officer

Date.....

# APPENDIX B

## DRAFT AUDITOR'S REPORT

To be inserted on completion of audit work.

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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## Audit and Standards Committee

17 November 2020

**Subject: NTCA Audited Statement of Accounts for year ended 31 March 2020**

**Report of: Interim Chief Finance Officer**

**Portfolio: All**

**Subject: North of Tyne Combined Authority Audited Statement of Accounts for the year ended 31 March 2020**

**Report of: Chief Finance Officer**

### Report Summary

The purpose of this report is to present Audit and Standards with the Audited Statement of Accounts for the year ended 31 March 2020. The report covers the regulations under which the Statement of Accounts are prepared and details the items included within the Statement of Accounts including an update on the status of the Audit and the Audit Completion Report.

### Recommendations

The Audit and Standards Committee is recommended to consider the Audited Statement of Accounts 2019/20 including the Narrative Report.

## 1. Background Information, Proposals and Timetable for Implementation

- 1.1 The Accounts and Audit (Coronavirus) Amendment Regulations 2020 (SI 2020/404) extended the statutory deadline for completion and publication of the draft Statement of Accounts from 31 May to on or before the 1 September 2020, with the audit deadline for all local and combined authorities from 31 July to November 30 2020, in line with these regulations NTCA are presenting the NTCA Statement of Accounts to Audit and Standards Committee for consideration and for recommendation to the NTCA Cabinet on the 24<sup>th</sup> November 2020.

The NTCA Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2020 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

## 1.2 **The Statement of Accounts**

The Statement of Accounts includes:

- Narrative Report (Appendix A to this report already circulated)
- Single Entity Accounts (Appendix B to this report already circulated)
- Group Accounts consolidating the accounts of Nexus Group within the NTCA single entity accounts (Appendix B to this report already circulated)
- Annual Governance Statement (tabled in a report circulated separately)

The NTCA Accounts reflect the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which established the North of Tyne Combined Authority (NTCA) on 2 November 2018. That order required the North East Combined Authority (NECA) and NTCA to appoint a Joint Transport Committee (JTC) through which the two combined authorities must exercise transport functions. The order also provided that the transport assets held by NECA should be held jointly with NTCA and managed through the JTC. The Constitution of the JTC is such that it meets the definition of Joint Control and is classified accordingly as a Joint Operation.

In order to comply with the requirements outlined above NECA as accountable body must split the revenue, expenditure, and assets and liabilities into those which relate to NTCA and NECA based on population.

## 1.3 **Audit Completion Report (ACR)**

Earlier on the agenda the External Auditors, Mazars, outlined their completion report providing their opinion in relation to the Financial Statements and Value for Money conclusion. At the time of writing this report the audit on the NTCA accounts is still not complete due to delays in the audit of the North East Combined Authority and Joint Transport Committee accounts. The auditors will provide an update on any findings since tabling their draft ACR.

The draft ACR set out a small number of recommendations in respect of improved controls including the need to improve the quality assurance process undertaken as part of the final accounts process. A plan is now in place to work with the 3 constituent authorities, NECA and Nexus to improve the quality assurance process, recognising that the North of Tyne finance team is small with limited opportunity for independent review and challenge of the draft accounts, and the opportunity to share knowledge and experience across the relevant finance teams.

An update will be provided to Cabinet on progress in implementing the actions from the ACR in the next Financial Management Report to Cabinet in January 2021.

## **2. Potential Impact on Objectives**

- 2.1 There are no direct implications from this report in respect of NTCA's vision, policies and priorities.

## **3. Key Risks**

- 3.1 The draft Statement of Accounts have been subject to review from an external audit prior to the final Statement of Accounts being brought back to Audit and Standards Committee in September.

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

- 4.1 There are no financial or resource implications arising from this report.

## **5. Legal Implications**

- 5.1 There are no legal implications arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

## **6. Consultation/Engagement**

- 6.1 The draft Statement of Accounts were published for public inspection on the NTCA website for the period from 13 August 2020 to 24 September 2020.

## **7. Appendices**

- 7.1 Appendix A Narrative Report (circulated separately to this report)  
Appendix B Statement of Accounts for the year ended 31 March 2020 (circulated separately to this report)

## **8. Background Papers**

- 8.1 None

## **9. Contact Officers**

- 9.1 Janice Gillespie, Chief Finance Officer  
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**10. Glossary**

10.1 None

**11. Sign-off**

11.1 Head of Paid Service: Yes  
Monitoring Officer: Yes  
Chief Finance Officer: Yes