

Audit and Standards Committee

18 January 2022

(10.00 - 11.00 am)

Meeting held: Banqueting Hall, Civic Centre, Newcastle upon Tyne, NE1 8QH

Approved Minutes

Present:

Chair: Doug Ross

Councillors C Ferguson, C Hardy, A McMullen, C Penny-Evans, JP Stephenson and C Seymour

11 WELCOME AND APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies for absence were received from Cllrs Chisholm, Cox, Rankin, and Purvis.

12 DECLARATIONS OF INTEREST

None.

13 MINUTES OF THE PREVIOUS MEETING HELD ON 23 NOVEMBER 2021

RESOLVED – That the minutes of the meeting held on 23 November 2021 be agreed as a correct record and signed by the Chair.

VARIATION TO AGENDA ORDER

AGREED - To vary the order of the agenda to consider item 6 Audit Completion Report as the next item.

14 AUDIT COMPLETION REPORT

Submitted: Report by Mazars LLP External Auditors (previously circulated and copy attached to Official Minutes)

G Barker, Mazars LLP (Extremal Auditor), presented the North of Tyne Combined Authority Audit Completion Report 2020/21 which, had been circulated on a supplemental agenda. Reviewing the report, the following key points were highlighted:-

- The audit of the Financial Statements was now substantially complete and it was anticipated that an unqualified audit opinion would be issued. The Financial Statements were being presented to Committee for review and would then be referred to Cabinet on 25 January for approval.
- Value for Money (VfM) – This work had not yet been completed because of constraints nationally in the audit sector. The National Audit Office (NAO) had agreed that auditors may complete VfM work within three months of the sign-off of financial statements. A report would be brought to a future meeting although it was not anticipated that any significant issues would be identified.
- Whole of Government Accounts – Preparation was delayed because Treasury had not yet informed the Authority of its requirements for submission. NAO guidance was also awaited by auditors. Once guidance was received it was expected to complete the work and issue the Assurance Statement quite quickly.
- Executive Summary - There had been no requirement to exercise wider powers and no questions or objections had been received from local electors on the Financial Statements.
Despite the pandemic there had continued to be effective working with officers in the North of Tyne Combined Authority and their co-operation was appreciated. There had also been effective working with the North East Combined Authority. Work had been undertaken to the same quality standard and with appropriate levels of professional scepticism and challenge.
- Status of Audit (page 8) – There was considered to be very low risk that any significant issues would be identified in work still to be completed. Nevertheless, once Cabinet Approval was received and the Authority was in a position to sign-off the Financial Statements, a follow-up letter would be sent to this Committee and to Cabinet, to identify any additional issues, as necessary, and to confirm the final audit position.
- Audit Approach (page 10) – There had been no change to the plan previously agreed in the Audit Strategy.
- Summary of Significant Findings (page 12) – All significant risks were noted to be typical of large organisations and were not specific to the Authority. There were no issues to report.
- Pensions – This was always a key area of focus for audit. In 2020/21 market volatility had affected asset valuations in the final quarter of 2021. As a consequence, in keeping with the approach taken with other similar organisations, the Authority and its subsidiaries had been asked to seek actuarial updates.
This had resulted in an increase in pension fund asset value for the Authority of £215k (below the trivial threshold for reporting). For Nexus the increase had been £13.55m of which the Authority's share was £6.035m. This was still not material to the group financial statements and management had determined not to adjust for these. Pension valuations reflected a position at a point in time and did not affect outturn position or resources available to subsidiaries.

- Qualitative Aspects (page 15) - The financial statements complied with CIPFA requirements. Draft accounts had been received from the Authority within required timescales and had been supported by comprehensive working papers.
- Reflecting the delay in completion of work relating to Value for Money and Whole of Government Accounts there would be a delay in the issue of the Audit Certificate to formally close the whole audit process. Appendix B to the report reflected that position. When the Audit Report and opinion on the financial statements was issued, the audited Statements could be published but not the formal completion notice which would invite members of the public to inspect the final audited position. Once all work was finalised a further Audit Certificate would be issued to reflect findings on Value for Money and Whole of Government Accounts. It would be helpful to include this on the website.
- Section 5: Internal Control Recommendations – No recommendations had been identified. Two previous recommendations had now been addressed and closed and one was expected to be closed shortly. For the first time, information relating to Nexus had also been included for which two control issues had been identified but neither were significant.
- Section 6: Summary of Mis-statements – This included the unadjusted mis-statement referred to earlier in connection with Nexus pension asset valuation. There was nothing else significant to note in this regard.
- “Other Issues” – This arose from differences in the estimation techniques used by the North of Tyne Combined Authority and North East Combined Authority to arrive at final financial positions. In 2020/21 this amounted to £553k (£796k last year). Whilst recorded, it was not considered appropriate to report it as an unadjusted mis-statement and no action was required.
- Value for Money (VfM) (page 25) – The approach to VfM reporting was noted to be changing to move away from qualified/unqualified conclusion to narrative comment. In future any significant weakness would be reported with recommendations and would be included in the Audit Report. Feedback on this approach had so far been positive.
- Draft Management Representation Letter (Appendix A) – Noted to be standard.
- Draft Audit Report (Appendix B) – This carried an unqualified clean audit opinion on the financial statements and would highlight the delay with work on VfM and Whole of Government Accounts.
- Independence (App C) – Auditor independence was very important and was continually monitored to identify any perceived weakness. It was considered that appropriate ethical standards and due diligence had been applied.

The Chair thanked G Barker for his comprehensive presentation which had provided the Committee with reassurance in key areas, including work still to be completed. He then invited questions from members.

Questions/Comments from Committee members

- (i) A member noted that the status of the Audit was reported as “substantially complete” and queried whether it was envisaged this may result in any significant disclosures. G Barker confirmed that all information had now been reviewed and a few final reports were being completed. It was not anticipated

there would be anything further to be reported by way of material adjustments or final disclosures and it was hoped that all matters would be finalised by the end of January.

- (ii) Reflecting on the causes of delay in the past year, a Board member queried whether any further delays were foreseen in future years. G Barker noted that some of the issues encountered had related to staff leaving (a feature across the sector) as well as to the pandemic. There had been significant recruitment across grades so that teams were up to full establishment and there had also been a focus on retaining staff. New staff would take time to settle in and there was also a backlog of work that had built up. Once this was cleared, the opportunity would be taken to assess the position. Additional staff should mean that there was capacity to complete work more quickly and it was helpful that government recognised the pressures and had already extended the deadline for the 2021/22 accounts to the end of November.
- (iii) A Committee member welcomed earlier statements around the importance of audit independence and asked how a professional audit relationship was maintained. G Barker explained that there were a range of mechanisms in place, including an Annual Declaration of Interest process to identify any potentially problematic connections that may exist. Where these were identified they were managed appropriately.

J Gillespie noted that finance officers also had a responsibility to work to ensure independence. Therefore, where professional financial advice was required this was sought from other external companies.

The Chair concluded that the Committee looked forward to the submission of the Financial Statements to Cabinet for approval on 25 January and receipt of the remaining reports.

RESOLVED – That the 2021/22 Audit Completion Report be received.

15 **2020/21 ANNUAL GOVERNANCE STATEMENT**

Submitted: Report by Risk Advisor to North of Tyne Combined Authority (previously circulated and copy attached to Official Minutes.

P Slater introduced the report which presented the outcome of the annual review of the Authority's governance and internal control arrangements. Audit and Standards Committee had approved the draft 2020/21 Statement at its July 2021 meeting and there had been no significant weaknesses identified since its approval. One minor amendment had been made to take into account the External Audit Opinion which had since been received.

The report was therefore largely unchanged since consideration in July and was submitted for approval.

RESOLVED – That the 2020/21 Annual Governance Statement be approved for inclusion in the final accounts, as attached at Appendix A to the report.

16 **NTCA 2020-21 AUDITED STATEMENT OF ACCOUNTS**

Submitted: Report by Chief Finance Officer (previously circulated and copy attached to Official Minutes)

J Gillespie introduced the report. The Audit and Standards Committee was asked to consider and recommend to Cabinet to approve the North of Tyne Combined Authority (NTCA) 2020-21 Audited Statement of Accounts. In presenting the report the following key points were highlighted:-

- It was noted that that Financial Statements were largely unchanged from those previously presented for discussion.
- The statements were now ready for sign off and it was pleasing to see recognition in the Audit report of the significant effort by officers to reach this stage and that advice previously received around Quality Assurance had been acted upon.
- In preparing the statements there had been significant close working with constituent authorities. Work with the North East Combined Authority and NEXUS would continue around planning and timetabling in relation to preparation of the 2021/22 accounts.

The Chair welcomed the report and acknowledged the work that had gone into the preparation of the statements.

RESOLVED – That Committee recommends to Cabinet to approve the North of Tyne Combined Authority (NTCA) 2020-21 Audited Statement of Accounts.

17 **INTERNAL AUDIT 2021/22 QUARTERLY UPDATE REPORT AND DEVELOPMENT OF STRATEGIC AUDIT PLAN 2022/23**

Submitted: Report by Acting Chief Internal Auditor (previously circulated and copy attached to Official Minutes)

K McDonald introduced the report which updated on progress against the 2021/22 Strategic Audit Plan agreed by the Committee at its meeting on 20 April 2021, and on other work undertaken during the year. The update also outlined the proposed approach to preparing the Strategic Audit Plan for 2022/23 for consideration and endorsement and sought to ensure that the Committee, as a key stakeholder in Internal Audit's work, was engaged in the assurance planning process.

In presenting the report the following key points were highlighted:-

- Members were referred to section 1.8 which detailed the 2021/22 quarterly progress update and the status of each item of the Plan. As this had only last been reviewed in November there was little to update.
- Work was also now starting to focus on development of the 2022/23 Strategic Audit Pan. The proposed approach was noted at sections 1.1 to 1.7 of the report. A risk based approach would be used to formulate that Plan which would be brought to the Committee in April for approval. Suggestions around that process would be welcomed.

In discussion the following key points were raised:-

- (i) In response to queries from the Chair, K McDonald confirmed that the risk report presented to Committee in November would be used to build up the Strategic Audit Plan for the coming year. He also confirmed that as well as work to check governance elements, a high priority would be given to ensuring that the Authority had suitable arrangements to deliver its objectives.
- (ii) The Chair also sought confirmation that input from members would be welcome throughout the year, drawing on any issues they became aware of, or any relevant work in their own authorities. K McDonald concurred noting that there was a formal invitation for members to come forward with any issues, suggestions or questions throughout the year and these would be taken on board.

RESOLVED – That

- (i) The report be received and update noted;
- (ii) The approach to preparation of assurance coverage and the resulting Strategic Audit Plan for 2022/23 be endorsed; and
- (iii) Committee note the invitation to highlight any areas for consideration by the Chief Internal Auditor, for inclusion in the 2022/23 Strategic Audit Plan.

18 REVIEW OF AUDIT AND STANDARDS COMMITTEE ARRANGEMENTS

Submitted: Report by K McDonald, Acting Chief Internal Auditor (previously circulated and copy attached to Official Minutes)

K McDonald presented the report which provided an updated assessment of current Audit and Standards Committee arrangements. The initial assessment, based on CIPFA good practice guidance had been reported to Audit and Standards Committee earlier in the year as a first step in undertaking a full review of Committee effectiveness. The update reflected changes during the current year.

In presenting the report the following key points were highlighted:-

- Committee was referred to the updated self-assessment which had been completed with the Chair and was being presented ahead of a wider review of committee arrangements involving members and other stakeholders.
- The full review for 2021/22 had now begun and the results would form the basis of an annual report from the Committee to Cabinet after year end. The decision to prepare an annual report was noted to have been agreed at the meeting in April 2021.

In discussion the following key points were raised:-

- (i) A member noted that initial discussion on the review had begun in April 2021 and the first Annual report to Cabinet would be presented over a year later. He asked whether the delay would cause any issues and for more detail on the review timescales and member involvement.

K McDonald responded noting changes in committee membership during the year had made it difficult to seek feedback. It was now expected that the first Annual Report would be presented in May/June and that the review process would involve members of the committee. There would be further discussion with the Chair on this.

- (ii) The Chair reported that it was envisaged there would be one to one conversations with members as part of the review. The pandemic had limited the ability to meet in person which had inevitably had an impact on the development of working relationships in the new committee. It was hoped that there would now be scope to develop roles and understand the priorities of Committee members.
- (iii) K McDonald noted that initial focus had been on establishing the core requirements of the new Committee. It was now an appropriate to ask members what they felt was required to help them discharge their duties.

At the request of the Chair, K McDonald then outlined items on the self-assessment where it was considered that the Committee were currently not meeting, or only partially meeting, CIPFA guidance.

- **Item 6: Are arrangements to hold the committee to account for its performance operating satisfactorily?** – Considered to be partly achieved and would be developed through the Annual Report process.
- **Item 8: Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?** – Considered to be partially achieved and would be developed through the Annual Report process
- **Item 9: Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?** – Not yet being undertaken in full. Core items were being carried out but not the other wider areas of possible activity. This would be discussed with committee members.
- **Item 19: Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?** – Similar to earlier questions but again would be covered by the feedback sought in the review and covered in the Annual Report as well as using the opportunity to seek feedback from Cabinet
- **Item 20: Are meetings effective with a good level of discussion and engagement from all the members?** – Considered to be being partially met. The level of debate in committee meetings was increasing as the committee became more established. There had been issues with quorum which again would be explored with members.
- **Item 21: Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?** - Currently assessed as being partially met. Key senior officers regularly attended. There was however scope for more thinking around broader officer attendance to respond to specific findings or particular reports and on the development of the committee’s workplan.
- **Items 22 – 25:** These carried some repetition with earlier items. The requirements would be addressed through the review and Annual Report to Cabinet and an action plan would be developed.

The Chair noted that a pulse questionnaire was also being circulated to members of Audit and Standards Committee and Overview and Scrutiny Committee which would also help to inform the overall assessment

RESOLVED – That

- (i) The report be received and the updated assessment of Audit and Standards Committee arrangements attached as Annex A be endorsed;
- (ii) Committee note the proposal to complete a full review of the effectiveness of the Combined Authority’s Audit and Standards Committee arrangements, based on relevant legal requirements and the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guidance, and for this to form the basis of the Committee’s first annual report to Cabinet.

19 DECISION TO OPT INTO NATIONAL SCHEME FOR AUDITOR APPOINTMENTS FROM APRIL 2023

Submitted: Report by Chief Finance Officer (previously circulated and copy attached to Official Minutes.

J Gillespie introduced the report which informed members of the proposal for the North of Tyne Combined Authority (NTCA) to ‘opt-in’ to the national scheme of appointing local auditors for the five consecutive financial years commencing 1 April 2023, operated by Public Sector Audit Appointments Ltd (“PSAA Ltd”).

The Committee was advised that options existed in the mechanisms by which the Authority appointed external auditors to either opt into the PSAA arrangement or to choose to tender to appoint its own external auditors. The Authority had currently contracted for audit services with the PSAA through the 2021/22 financial year. The recommendation to continue this from 1 April 2023 reflected that the PSAA process had been cost effective and had delivered an independent auditor able to meet service requirements. It also gave the Authority capacity to use the PSAA should there be a requirement to do so for commercial services.

In response to a query J Gillespie confirmed that delays this year with audit sign-off were not felt to be a result of PSAA arrangements and related to issues being experienced nationally in the audit sector at present.

RESOLVED – That Audit and Standards Committee recommend to Cabinet to accept the proposal for the North of Tyne Combined Authority to ‘opt-in’ to the national scheme of appointing local auditors for the five consecutive financial years commencing 1 April 2023 operated by Public Sector Appointments Ltd (“PSAA Ltd”).

20 DATE AND TIME OF NEXT MEETING

Tuesday 26 April 2022 at 10.00 am.