

Audit and Standards Committee

Tuesday 20 April 2021 at 10.00 am

The meeting will be held remotely and live streamed. To view the live stream follow the link below:

<https://youtu.be/gC8i6gcuUU>

AGENDA

Page No

1. **Welcome and Apologies**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Agreement of the Minutes of the Meeting held on 19 January 2021** 1 - 6

4. **Internal Audit Strategic Audit Plan 2021/22** 7 - 18

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12.	Date and Time of Next Meeting	

20 July 2021 at 10.00am

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Audit and Standards Committee

19 January 2021

(10.00 - 10.45 am)

The meeting was held remotely and live streamed to YouTube.

Draft Minutes

Present:

Chair: Doug Ross

Councillors: D Cox, A Chisholm, C Ferguson, C Penny-Evans, R Glindon, M Rankin, M Swinburn, C Seymour and L Dunn

71 WELCOME AND APOLOGIES

The Chair welcomed everyone to the meeting. Apologies were received from Cllr S Dickinson. Cllr Dunn attended in place of Cllr Dickinson. Cllr Seymour attended as a substitute.

72 DECLARATIONS OF INTEREST

None

73 AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 17 NOVEMBER 2020

RESOLVED - that the minutes of the meeting held on 17 November 2020 were agreed as a correct

74 INTERNAL AUDIT

(a) Quarterly Update

Submitted: Report of the Acting Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the report the purpose of which was to provide Audit & Standards Committee with an update on progress against the 2020/21 Internal Audit Plan, agreed by the Audit and Standards Committee at its meeting on 28 July 2020.

Members noted the work completed since the July meeting, work planned for quarter 4 and unplanned work.

Comments and questions from Members

- A member referred to Climate Change and asked if there is a report available with details of the Citizens Assembly which is scheduled to begin in February. Ruth Redfern, Director of Policy and Performance, advised that a report is available and can be circulated.
- Reference was made to the review of IT system controls in place within the OPS Project and Grant Management System and a question asked as to what system was in place prior to the new system. The Acting Chief Internal Auditor explained that internal audit will monitor the grant conditions and will look at what interim arrangements the Combined Authority have had in terms of the grant monitoring process. He also advised that as the Combined Authority develops, grants will increase; the grants will be included in the audit.

RESOLVED – that the Audit and Standards Committee noted the report.

(b) Development of Strategic Audit Plan 2021-22

Submitted: Report of the Acting Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Members considered the report the purpose of which was to outline the proposed approach to preparing the Strategic Audit Plan for 2021/22 for consideration and endorsement. The report also ensured that the Audit and Standards Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the assurance planning process.

Committee were advised that this is a procedural report in respect of the 2021/22 Audit Plan. Work is ongoing to put processes in place that will guide the Audit Plan. Uncertainties and impacts resulting from the coronavirus will be reflected in the Plan. The Acting Chief Internal Auditor emphasised the importance of involving committee members in the process.

Questions and Comments from Members

- The Acting Chief Internal Auditor responded to a question regarding Brexit and the coronavirus advising that the 2021/22 Audit Plan will be flexible and able to adapt to emerging risks.
- A Member referred to the evolving devolution agenda which adds complexity to the financial plans of the Combined Authority and asked to what extent this is covered in the Strategic Audit Plan. The Acting Chief Internal Auditor advised that the Devolution deal is included in this year's plan and will be an ongoing review in within future Strategic Audit Plans.

RESOLVED – that the Audit and Standards Committee endorsed the approach to preparation of assurance coverage and resulting Strategic Audit Plan for 2021/22.

75 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

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

Consideration was given to the report the purpose of which was 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.

The Risk Advisor to the Combined Authority drew Members attention to a revised risk in the register: the Devolution Deal risk description has been strengthened by the risk owner, to reflect the current uncertainties surrounding delivery of the Deal brought on by the Coronavirus pandemic and the potential impact this may have on NTCA's plans and ambitions. Members were also advised that there will be a fundamental review of the whole Strategic Risk Register in the coming months.

Comments and questions from Members included:

- A Member referred to the risk relating to Operational Capacity and Resources and asked the Risk Advisor if the comments about 'lack of clarity and shared understanding were due to communication, willingness or connected to the Service Level Agreement providing support services. The Risk Advisor explained that it was connected to the Service Level Agreements when the Risk first appeared on the register but due to work undertaken a Recruitment Plan is now in place and some staff appointments have been made. The Risk will begin to show signs of improvement.
- The Chief Finance Officer responded to a question regarding the reference to JERIMIE explaining that it is a source of funding that allows the delivery of programmes across the LA7 group.
- Referring to the 'red' rating score for the Devolution Deal a Member asked if this meant that the likelihood of the risk happening was outside officer control due to the impact of the pandemic and, assurance sought that the North of Tyne is in control of the situation. In response the Risk Advisor explained that prior to the pandemic the risk was rated as amber but subsequently reassessed because of the uncertainty created by the current crisis. The risk is closely monitored.
- Reference was made to the risk relating to the Joint Transport Committee (JTC) and the North East LEP and whether there was any concern that the Strategic Objectives will not be delivered. The Risk Advisor explained that the JTC has its own Audit Committee and the report is for information only. The Risk Advisor assured Members that any significant risk in respect of the North East LEP will appear on the register.

RESOLVED that the Audit and Standards Committee –

- 1) Acknowledged the devolution deal risk description that has been updated to reflect the current uncertainties surrounding delivery of the Deal and the impact that may have on NTCA's plans and ambitions.
- 2) Noted that following a review of the Authority's work programme a fundamental review of the strategic risks and opportunities register will be undertaken.
- 3) Noted 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) included for information.

76 ANNUAL AUDIT LETTER

Submitted: Report of the External Auditor (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the Annual Audit Letter which summarised the work undertaken by the auditor for the North of Tyne Combined Authority (NTCA) for the year ended 31 March 2020. Committee also noted the increase in fees.

The Chief Finance Officer reported that the Annual Audit Letter highlighted issues previously reported in respect of quality assurance. Members noted that the North of Tyne has engaged with the constituent authorities to seek short term resources to support the audit process, providing technical knowledge and expertise.

The External Auditor and the Chief Finance Officer addressed questions from Member which included:

The proposed fee versus the actual fee and the percentage increase. The External Auditor and the Chief Finance Officer explained that the increase is due to additional work arising from the quality of the accounts, but in addition additional work that had to be undertaken in relation to the Pension Triannual Review. The percentage increase is 30% , however this is not unique to the North of Tyne. All authorities in the LA7 group face similar increases. The External Auditor advised that there were a number of regulatory issues within the audit that required additional work and, all auditors are charging additional fees due to the impact of Covid 19 and in respect of the pension fund.

Responding to a question as to whether the fees will reduce for next year, it was noted that negotiations were underway with the aim of revising the audit fee.

RESOLVED – that the Audit and Standards Committee noted the Annual Audit Letter.

77 STANDARDS - REVISED MODEL CODE OF CONDUCT

Submitted; Report of the Interim Monitoring Officer (previously circulated and a copy attached to the Official Minutes).

The Interim Monitoring Officer introduced the report and confirmed that the Local Government Association (“LGA”) had now published its model code of conduct.

However, as the code was voluntary, it was a matter for each local authority (including the Combined Authority) to decide whether to adopt the model code in whole, in part or not at all. It was envisaged that, as had happened previously, there would be discussions between the local authorities within the region to see whether there was a consistent approach. The Committee would be updated on those discussions in due course but any comments from Members in the interim would be welcomed.

A Member suggested that the Committee should make a recommendation that the Combined Authority and the three constituent authorities should agree the model code in its entirety. In response the Interim Monitoring Officer advised that the Combined Authority’s existing code of conduct was largely based on the codes which were already in place at the three constituent authorities. He suggested that it may be best for the three constituent authorities to have time to review the new model code and consider what changes they might want to make before the Committee took a view on revising the Combined Authority’s code. The Chair suggested that Members wait until that review had taken place. A member suggested that the new model code should set out the basic threshold for what the Combined Authority’s code should contain in the future.

RESOLVED that the Audit and Standards Committee –

- 1) Noted the report.
- 2) Agreed that a further report be brought back to Committee when there had been the opportunity for the model code to be considered at a regional level.

78 **DATE AND TIME OF NEXT MEETING**

20 April 2021 at 10.00am. The meeting will be held remotely.

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Audit and Standards Committee

20 April 2021

Subject: Internal Audit Strategic Audit Plan – 2021/22

Report of: Kevin McDonald, Acting Chief Internal Auditor

Report Summary

The purpose of this report is to outline the proposed Strategic Audit Plan for 2021/22 for consideration and endorsement by the Audit and Standards Committee.

Recommendations

The Audit and Standards Committee is recommended to consider and endorse the proposed Strategic Audit Plan 2021/22, attached as Appendix A, which is based on an assessment of audit risk and designed to focus on the North of Tyne Combined Authority's key objectives in the 2021/22 year.

1. Background Information, Proposals and Timetable for Implementation

Proposed Internal Audit Plan for 2021/22

- 1.1 A copy of the Strategic Audit Plan 2021/22 is attached at Appendix A. The plan sets out detailed assurance coverage, following an assessment of audit risk and following engagement with senior officers. The Strategic Audit Plan helps to ensure that internal auditing can fulfil its prescribed definition as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” as established by the Public Sector Internal Audit Standards.
- 1.2 A number of emerging issues continue to be brought about by the pandemic situation. This continues to be a dynamic situation and Internal Audit must continue to reassess the emerging risk profile and its impact on assurance requirements, to ensure that audit resources are utilised in the most efficient way.
- 1.3 Progress against the Strategic Audit Plan will be reported to the Audit & Standards Committee throughout the year, along with any proposed revisions and key outcomes from work. A final outturn report and the Chief Internal Auditor’s annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control for 2021/22 will be reported to the Audit & Standards Committee in July 2022.

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit and the Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

- 3.1 The Internal Audit coverage proposed in this report is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

- 5.1 The Cities and Local Government Devolution Act 2016 established the requirement for Combined Authorities to appoint an audit committee whose functions include reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.
- 5.2 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 5.3 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.
- 5.4 The Strategic Audit Plan 2021/22 has been prepared in accordance with both the Accounts and Audit Regulations 2015, and the Public Sector Internal Audit Standards.

6. Equalities and Implications

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

- 7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

- 8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

- 9.1 The Head of Paid Service, Chief Finance Officer, Director of Economic Growth, and Director of Policy and Performance were consulted in preparation of Internal Audit's proposed 2021/22 coverage.

10. Appendices

None.

11. Background Papers

- (a) 'Development of Strategic Audit Plan 2021-22' Report to Audit and Standards Committee, January 2021 [Development of Strategic Audit Plan 2021-22](#)
- (b) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 [Public Sector Internal Audit Standards](#)
- (c) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019
- (d) The Accounts and Audit Regulations 2015, April 2015 [Accounts and Audit](#)
- (e) The Cities and Local Government Devolution Act 2016 [Cities and Local Government Devolution Act 2016](#)
- (f) North of Tyne Combined Authority Constitution, November 2018 [NTCA Constitution](#)

12. Contact Officers

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13. Glossary

None

<p>NORTH OF TYNE ~~~~~ COMBINED AUTHORITY</p>	<p>Internal Audit Report:</p> <p>Strategic Audit Plan 2021/22</p>
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1 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy/Chartered Institute of Internal Auditors describe Internal Audit as “*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*”. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.2 Internal Audit is an independent resource available to assist the organisation to explore areas of potential efficiency, and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Combined Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.
- 1.3 Internal Audit provides assurance to the organisation that controls established to manage risks to the achievement of the Combined Authority’s objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action which they are taking to control and manage risks is working as it should.
- 1.4 The Strategic Audit Plan has been prepared in accordance with the current PSIAS. These standards build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. Preparation has involved establishing a risk-based plan to determine the priorities of internal audit activity, consistent with the organisation’s goals and the aspirations of key stakeholders with regard to assurance activity for the Combined Authority.
- 1.5 The Strategic Audit Plan, which is included in section 9, helps to ensure that Internal Audit is able to meet its objectives as an independent assurance function for the Combined Authority and to provide an independent and objective opinion to the organisation on the adequacy and effectiveness of the framework of governance, risk management, and control. Internal Audit must be independent in its planning and operation. Accordingly, in producing the Strategic Audit Plan, the Chief Internal Auditor is required to determine the priorities of Internal Audit, following consultation with stakeholders and assessment of risk, and to present this Plan to senior management and the Board (Audit and Standards Committee) for review and approval.

2 Period Covered by the Strategic Audit Plan

- 2.1 The Strategic Audit Plan sets out the assurance coverage which Internal Audit will deliver within the coming financial year, 2021/22. The Plan needs to be realistic and achievable, and sufficiently flexible to respond to changing priorities as they occur.

- 2.2 On an annual basis, the areas which may benefit from audit review, and the audit risk associated with the Combined Authority's operations are reassessed. Every year, an updated Strategic Audit Plan is presented to the Audit and Standards Committee for approval in line with the PSIAS. The key objectives for the audit reviews identified to take place during 2021/22 are shown in section 9 of this document.

3 Risk Assessment and Audit Planning

- 3.1 It is important that audit resources are targeted at areas in which audit coverage will produce greatest benefit. Risk-based internal auditing requires Internal Audit to understand and analyse management's assessment of risk, and base audit efforts around this assessment of risk to the organisation.
- 3.2 The risks contained within the Strategic Risk Register were reviewed and discussed with risk owners and consultation has been undertaken with the Head of Paid Service, Chief Finance Officer, Directory of Economic Growth and Director of Policy and Performance. Potential assurance requirements were discussed, and views were sought on any additional areas considered worthy of audit review over the course of the Strategic Audit Plan.
- 3.3 Following this risk assessment and client engagement, a number of areas have been prioritised by Internal Audit in this Plan. Changes in the risk environment along with progress against the Plan will continue to be monitored and assessed throughout the year, and the results of this assessment used to inform in-year and future audit priorities. This includes continuing to monitor the impact of the Covid-19 pandemic on the Combined Authority's risk profile, and whether changes to Internal Audit's planned assurance coverage is required. This ensures that the Plan remains flexible and reflects the evolving risks facing the Combined Authority.
- 3.4 The Strategic Audit Plan has therefore been based on an assessment of the Combined Authority's objectives and business goals, risks facing the organisation and its achievement of these goals, known strengths and weaknesses in the internal control system, the Accounts and Audit Regulations 2015, and the views of consultees.

4 Internal Control: Roles of Management and of Internal Audit

- 4.1 It is a management responsibility to establish effective internal controls, in order that activities are conducted in an efficient and well-ordered manner. Internal control comprises the whole system of controls and systems, financial and otherwise, established by management to:
- safeguard assets and prevent fraud;
 - ensure the completeness and reliability of records;
 - monitor adherence to laws, regulations, policies and directives;
 - promote operational efficiency and good value for money; and
 - manage risk.
- 4.2 Amongst its responsibilities, Internal Audit examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will assist management of the organisation in delivering the objectives of the Combined Authority through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation or externally;
- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the Combined Authority's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

4.3 It is usual that a project brief is produced and distributed prior to an audit starting so that the objectives of the audit and approach to be adopted are understood by both Internal Audit and the audit client.

5 Quality Standards

5.1 As outlined above, Internal Audit will adopt the good practice set out in the PSIAS in the conduct of its assurance coverage for the North of Tyne Combined Authority.

5.2 The PSIAS incorporate a Code of Ethics for internal auditors, and a number of clear attribute and performance standards with which Internal Audit functions are required to comply.

6 Resource Management

6.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan and an indicative resource allocation has been identified for the 2021/22 audit of the North of Tyne Combined Authority. This will continue to be reviewed in conjunction with the Chief Finance Officer.

7 Key Themes in the Strategic Audit Plan, 2021/22

7.1 Based on Internal Audit's assessment of risk, including knowledge of the Combined Authority's internal controls, areas of strength and weakness and the Combined Authority's priorities, the Strategic Audit Plan is detailed in section 9 below.

7.2 The Strategic Audit Plan recognises Internal Audit's Project Assurance role. This increasing role involves advising on, and challenging, the approach to internal control within new or improved systems and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the business and adds maximum value to service improvement, in order to assist the organisation to achieve its objectives. This aspect of Internal Audit's role has increased in prominence over recent years. The value of this work to the Combined Authority was a recurring theme in Internal Audit's discussions with senior management as part of our consultation in relation to the 2021/22 Audit Plan. The proportion of Internal Audit resource allocated to this work has been increased in the 2021/22 Audit Plan.

7.3 As well as offering Advice & Programme Assurance, the Plan highlights key prioritised areas of assurance coverage. Two audits originally planned for 2020/21, Monitoring of Grant Conditions and Governance Arrangements in relation to the North East Local

Enterprise Partnership, have been reprogrammed into 2021/22. This is a normal part of the audit planning and management process and reflects that audits are undertaken on a continuous rolling programme, according to the optimum timing for each piece of work and to accommodate work not originally included in the plan which has arisen as a result of external and internal factors.

- 7.4 In addition to the above, reviews of key governance arrangements, including monitoring the effectiveness of and compliance with Service Level Agreements, and the operation of key financial systems have been prioritised for review in this year's Plan.

8 Annual Opinion on the adequacy of the framework of governance, risk management and control

- 8.1 An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Head of Paid Service and Section 73 Officer, The Interim Monitoring Officer and Audit and Standards Committee, outlining the audit work performed during the year and summarising key themes.

- 8.2 The undertaking to present an annual opinion of this nature means that the Chief Internal Auditor must have unrestricted access to all aspects of the Combined Authority's operations.

Section 9: North of Tyne Combined Authority - Strategic Internal Audit Plan 2021/22

Advice & Programme Assurance

Auditable Area	Audit Objectives
Advice & Guidance Contingencies & Work Requests Fraud & Special Investigations	<ul style="list-style-type: none"> • Responding to ad-hoc queries and requests for advice; • Responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; • Responding to allegations of fraud, if such allegations are received; • Assess whether appropriate consideration has been given to internal control & governance issues when new systems are introduced.
Programme Assurance – New Systems / Methods of Service Delivery	<p>Continue to support the Combined Authority in a project assurance role. The systems, programmes and new initiatives to be supported are continually reviewed and assessed. Consultation on the Audit Plan identified the following areas that may benefit from Internal Audit's support:</p> <ul style="list-style-type: none"> • Business Continuity Planning and associated ICT Solutions; • Covid-19 Pandemic Recovery; • Continued support to the Adult Education Budget project as the performance and financial management arrangements continue to be developed and the impact of the Covid-19 pandemic on service delivery is assessed and managed.

Corporate and Cross Cutting

Auditable Area	Audit Objectives
Annual Opinion	An annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control will be drafted and presented to the Chief Executive, Section 73 Officer, and Audit and Standards Committee, outlining the audit work performed during the year, summarising key themes and evaluating the control framework.
Follow up of Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. This will take the form of following up and evidence checking recommendations from those internal audits undertaken during 2019/20 and 2020/21.

Governance Reviews

Auditable Area	Audit Objectives
Monitoring of grant conditions (in respect of grant funding both received by NTCA and issued by NTCA)	<p>Whenever grant funding is issued to and accepted by an entity, the funding will be required to deliver specified objectives and outcomes. In order to exercise good governance over such external funding, it is essential that grant conditions and required outcomes are monitored. This applies to NTCA in two key ways:</p> <ul style="list-style-type: none"> a) NTCA has been the recipient of grant funding and must demonstrate that grant conditions have been met. b) NTCA has issued funding to other organisations to which grant conditions should apply. It is essential that NTCA assures itself that this grant funding issued is being used for the purposes specified and delivering the outcomes required. <p>This audit will therefore examine and evaluate the arrangements established by NTCA to monitor its own grant conditions as a grant funding recipient and ensure that specified outcomes are delivered; and secondly, to assess arrangements within NTCA as a grant funder to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions. In this respect the audit will build upon the Investment Fund audit undertaken in 2019/20 when the Combined Authority was at an embryonic stage in establishing its Investment Fund arrangements.</p>
Governance Arrangements in relation to the North East Local Enterprise Partnership (NELEP)	To review the financial management, decision making and reporting arrangements established between the Combined Authority and NELEP to ensure these adequately serve the Combined Authority's role as accountable body for the NELEP.
Information Systems and Technology	Review of IT system controls in place within the OPS Project and Grant Management System. We will continue to offer advice and guidance on system controls during the final development and implementation stage should this be requested and look to provide early assurance once the system is operational.

Auditable Area	Audit Objectives
Governance arrangements and Service Level Agreements	The Combined Authority has a number of Service Level Agreements (SLAs) in place with its constituent local authorities for the provision of key support services including, HR and Payroll, Legal, Internal Audit, Finance, Risk Management, Data Protection, Democratic Services, IT and Procurement. This audit will examine the arrangements for key governance functions and monitoring the effectiveness of and compliance with the SLAs in place.

Financial Systems & Probity

Auditable Area	Audit Objectives
Key Financial Systems	<p>The key financial systems are fundamental to internal financial control and management, as they are the systems by which the Combined Authority's income is received and disbursed. The Combined Authority needs to be assured that high standards of probity are present in these systems. During 2021/22 Internal Audit's review of the key financial systems will focus on the following areas:</p> <ul style="list-style-type: none"> • Creditor Payments • Payroll • Budget Monitoring and Reporting
National Fraud Initiative (NFI)	The NFI is the Cabinet Office's data matching exercise to prevent and detect fraud. During 2020/21 Internal Audit coordinated submission of the Combined Authority's and the NELEP's NFI data. All bodies participating in the NFI receive reports of matches that they should investigate, to detect instances of fraud, over or under-payments, and other errors. Results from this exercise have been received and during 2021/22 Internal Audit will undertake an analysis of the results, and liaise with Combined Authority staff to ensure appropriate follow-up action is undertaken should it be required.

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Audit and Standards Committee

20 April 2021

Subject: Internal Audit Quarterly Update Report

Report of: Kevin McDonald, Acting Chief Internal Auditor

Report Summary

A quarterly update from Internal Audit is included within the Work Programme for the Audit & Standards Committee at each scheduled meeting during the year. This report provides Audit & Standards Committee with an update on progress against the 2020/21 Internal Audit Plan, agreed by the Audit and Standards Committee at its meeting on 28 July 2020.

Recommendations

The Audit and Standards Committee is recommended to consider and note Internal Audit's report.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 The Internal Audit Plan approved by Audit and Standards Committee on 28 July 2020 set out a number of assignments. A summary of each of these, and any unplanned work undertaken during the year, is provided below.

Work Completed since Previous Meeting

Area of Review	Description of Assignment and Current Status
<p>Policy Framework – Governance and decision making</p>	<p>The objective of this audit was to assess the adequacy of governance arrangements in relation to the policy framework, and how effective these are in operation, in relation to:</p> <ul style="list-style-type: none"> • The completeness of the suite of policies in place; • The arrangements for implementing, approving, and reviewing policies; and • How policy owners are raising awareness, providing training and monitoring compliance. <p>A limited assurance opinion was provided, which reflects the stage the organisation is at in relation to the development and maturity of its Policy Framework.</p> <p>The audit found a comprehensive suite of policies was in place. The outward facing strategic policies have been developed to support the vision of the NTCA, as "a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high</p>

Area of Review	Description of Assignment and Current Status
	<p>quality of life, narrowing inequalities and ensuring that all residents have a stake in our region's future". The Director of Policy and Performance and Policy Leads are working towards further embedding the principles of these strategic policies into the day to day work of the NTCA.</p> <p>At the conclusion of the audit recommendations were agreed with management in relation to:</p> <ul style="list-style-type: none"> • Establishing the required level, and frequency, of training for each policy, developing training provision and monitoring compliance; • Developing the framework for the control of policy documents, including: <ul style="list-style-type: none"> • Documenting the processes for policy development and review, reviewing effectiveness, and policy approval and implementation, • Assigning control of policy documents to a responsible officer who will monitor that each policy has an assigned author, a review date, and that revised policies are submitted to the correct decision-making body or person for approval.

Work in Progress

Area of Review	Description of Assignment and Current Status
Risk Management	<p>To review risk management arrangements and assess the extent to which appropriate risk assessment and identification systems are in place and operating effectively.</p> <p>An Internal Audit Project Brief has been issued in relation to this piece of work, the audit fieldwork concluded and an exit meeting held with the Director of Policy and Performance and the Combined Authority's Risk Advisors to provide feedback on the outcomes from the audit.</p> <p>The draft audit report is undergoing Internal Audit's quality assurance processes prior to being issued to management. It is expected that a summary of the findings and conclusion from this audit will be provided to the July 2021 meeting of the Audit and Standards Committee.</p>

Area of Review	Description of Assignment and Current Status
Arrangements for ensuring and evidencing delivery of the Devolution Deal	<p>This audit will evaluate the effectiveness of the arrangements established to ensure that the effective delivery of the Combined Authority's key outcomes and outputs, as enshrined in the Devolution Deal, can be clearly evidenced.</p> <p>An Internal Audit Project Brief has been issued in relation to this piece of work and the audit fieldwork has commenced. It is expected that a summary of the findings and conclusion from this audit will be provided to the July 2021 meeting of the Audit and Standards Committee.</p>
Information Systems and Technology	<p>To undertake a programme of systematic reviews covering key risks associated with computerised delivery. Following discussions between Internal Audit and Combined Authority staff and it was agreed to undertake the following two audits during 2020/21:</p> <ul style="list-style-type: none"> • Mapping of ICT arrangements in place and evaluation as to whether these are suitably robust. This work is ongoing and it is anticipated that a summary of the findings and conclusion from this audit will be provided to the July 2021 meeting of the Audit and Standards Committee. • Review of IT system controls in place within the OPS Project and Grant Management System. Internal Audit will continue to offer advice and guidance on system controls during the system development stage should this be requested and look to provide early assurance once the system is operational. The assurance audit has been included in the 2021/22 Audit Plan.
Adult Education Budget (AEB)	<p>Ongoing support to the Combined Authority in a project assurance role whilst the organisation develops its governance arrangements around the implementation and ongoing management of the AEB. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, Internal Audit proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives.</p>

Work Reprogrammed to the 2021/22 Strategic Audit Plan

Area of Review	Description of Assignment and Current Status
Monitoring of grant conditions (in respect of grant funding both	<p>This audit will examine and evaluate the arrangements established by NTCA to monitor grant conditions as a grant funding recipient and ensure that specified outcomes are delivered; and also to assess arrangements within NTCA as a</p>

Area of Review	Description of Assignment and Current Status
received by NTCA and issued by NTCA)	<p>grant funder to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions.</p> <p>As reported to the January 2021 Audit and Standards Committee meeting it was agreed with the Director of Policy and Performance that this audit would be take place following completion of the Devolution Deal audit.</p>
Governance Arrangements in relation to the North East Local Enterprise Partnership (NELEP)	<p>This audit will review the financial management, decision-making and reporting arrangements established between the Combined Authority and NELEP to ensure these adequately serve the Combined Authority's role as accountable body for the NELEP.</p> <p>As reported to the January 2021 Audit and Standards Committee meeting it was agreed with the Director of Policy and Performance that that this audit would take place following completion of the Devolution Deal and Monitoring of Grant Conditions Audits. The Devolution Deal audit is currently being undertaken, therefore it has been agreed that this audit will be taken forward for inclusion in the 2021/22 Audit Plan.</p>

Previously Completed and Reported Work

Area of Review	Description of Assignment and Current Status
Annual Opinion Report 2019/20	<p>This report was presented to the Audit and Standards Committee on 28 July 2020. The opinion of the Chief Internal Auditor was that the framework of governance, risk management and control for 2019/20 was satisfactory overall, at that stage in the authority's development and given the range of responsibilities it is required to discharge.</p>
Follow-up of Recommendations from the 2019/20 financial diagnostic toolkit work and Investment Fund audits	<p>Evidence checking was undertaken of the implementation of all five high priority recommendations from the financial diagnostic tool and a sample of the 26 medium priority recommendations. The results of this work were reported to Audit and Standards Committee on 28 July 2020. Three of the five high priority recommendations had been implemented and work was underway regarding the remaining two, relating to updating Financial Regulations and Contract Standing Orders. Internal Audit have confirmed that updates to these key financial governance documents were approved by Cabinet on 28 July 2020.</p>

Area of Review	Description of Assignment and Current Status
	Internal Audit will undertake further follow up work as the year progresses and report on progress to management and the Audit and Standards Committee.
National Fraud Initiative	<p>The NFI is the Cabinet Office’s data matching exercise to prevent and detect fraud. In October 2020 Internal Audit was advised that the Combined Authority was required to participate in the Cabinet Office’s 2020/21 NFI data matching exercise. Internal Audit co-ordinated the initial work requirement, including preparation of data submissions and privacy notice compliance for the Combined Authority and the NELEP.</p> <p>The Combined Authority and the NELEP’s data, covering Payroll and Trade Creditors, was provided to the Cabinet Office by Internal Audit in accordance with the submission timetable.</p> <p>The results from this exercise have now been received and analysis of the results has been included in the 2021/22 Audit Plan and will be undertaken early in the year. We will liaise with the Combined Authority staff to ensure appropriate follow-up action is undertaken should it be required.</p>

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority’s objectives, vision, policies and priorities.

3. Key Risks

- 3.1 The Internal Audit coverage is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority’s main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority’s use of financial resources and value for money.

5. Legal Implications

- 5.1 The Cities and Local Government Devolution Act 2016 establishes that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. This includes reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.
- 5.2 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 5.3 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. This report and the Internal Audit Strategic Plan 2020/21 have been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Equalities and Implications

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

- 7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

- 8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

- 9.1 The Interim Chief Executive, Chief Finance Officer, Director of Policy and Performance, and Director of Economic Growth were consulted in preparation of Internal Audit's 2020/21 coverage.

10. Appendices

None

11. Background Papers

- (a) [Internal Audit Strategic Audit Plan 2020/21](#)
- (b) [Cities and Local Government Devolution Act 2016](#)
- (c) [Accounts and Audit Regulations 2015](#)
- (d) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
[Public Sector Internal Audit Standards](#)
- (e) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019

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13. Glossary

Abbreviation	Description
NFI	National Fraud Initiative - The Cabinet Office's data matching exercise
NELEP	North East Local Enterprise Partnership
AEB	Refers to the devolved Adult Education Budget

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Audit and Standards Committee

20 April 2021

Subject: Proposed Audit and Standards Committee Work Programme – 2021/22

**Report of: Kevin McDonald, Acting Chief Internal Auditor
John Softly, Interim Monitoring Officer**

Report Summary

This report sets out a proposed programme of core business to be considered by the Audit and Standards Committee during the 2021/22 Municipal Year, in line with its Terms of Reference as set out in the Combined Authority's Constitution.

Recommendations

The Audit and Standards Committee is recommended to:

- (a) Agree the proposed core business work programme set out within this report for the 2021/22 Municipal Year;
- (b) Note that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year; and
- (c) Note that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference;

1. Background Information, Proposals and Timetable for Implementation

- 1.1 Having regard to the Audit and Standards Committee's responsibilities as set out in its Terms of Reference in the Constitution, a proposed core programme of work has been developed. This work programme aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Combined Authority's overall governance arrangements, and to highlight which reports are planned for presentation to each meeting in the 2021/22 Municipal Year.
- 1.2 The Terms of Reference agreed by the Cabinet on 8 November 2018 and set out in the Combined Authority's Constitution identify a number of clear roles for the Audit and Standards Committee to discharge throughout the course of the year and ensure compliance with the functions established by the Cities and Local Government Devolution Act 2016. Some aspects of the Committee's business are time-bound in nature (e.g. relating to the Combined Authority's Accounts, or agreeing future plans of work), whilst other items can reasonably be considered at any point during the year allowing some flexibility in planning the work programme of the Committee.

Programme of Core Business

- 1.3 During March 2021, the Ministry of Housing, Communities and Local Government (the MHCLG) confirmed a revision to the Accounts and Audit Regulations in respect of the 2020/21 and 2021/22 accounts. The Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 2021 and amend the publication of audited accounts from 31 July to 30 September for the next two years. It was also confirmed that draft accounts are required to be published no later than 1 August. These requirements are incorporated into the 2021/22 work programme.
- 1.4 The following programme of core business for the Audit and Standards Committee during the 2021/22 Municipal Year is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the responsibilities as set out in the Constitution to be met.

Month	Item of Business
July 2021	<p><u>Internal Audit</u></p> <ul style="list-style-type: none">• Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control (2020/21)• Quarterly Update Report (Key Findings and Outturn) <p><u>Risk Management</u></p> <ul style="list-style-type: none">• Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none">• Draft Statement of Accounts• Draft Annual Governance Statement <p><u>External Audit</u></p> <ul style="list-style-type: none">• Progress Report <p><u>Standards</u></p> <ul style="list-style-type: none">• Standards and Complaints Update (as appropriate)

Month	Item of Business
September 2021	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Quarterly Update Report (Key Findings and Outturn) <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Quarterly Update • Final Statement of Accounts • Annual Governance Statement Final <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Completion Report <p><u>Standards</u></p> <ul style="list-style-type: none"> • Standards Update (as appropriate)
January 2022	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Preparation of Strategic Audit Plan 2022/23 • Quarterly Update Report (Key Findings and Outturn) • Audit and Standards Committee Self-Assessment of Effectiveness <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Annual Audit Letter <p><u>Standards</u></p> <ul style="list-style-type: none"> • Standards and Complaints Update (as appropriate)

Month	Item of Business
April 2022	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Internal Audit Quarterly Update • Internal Audit Strategic Audit Plan 2022/23 • Audit and Standards Committee Work Programme – 2022/23 Municipal Year <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2022/23 • Draft Annual Governance Statement <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Strategy Memorandum <p><u>Standards</u></p> <ul style="list-style-type: none"> • Standards Update (as appropriate)

1.5 In addition to these core business items, it may also be necessary to update the Audit and Standards Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Audit and Standards Committee will receive additional reports on emerging issues and trends as appropriate.

1.6 The proposed work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit and Standards Committee, and Democratic Services, of any changes to proposed reporting.

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

3.1 There are no key risks identified from the approach outlined. The report proposes a work programme for the Committee, optimising the proposed frequency and timing of reporting.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

- 5.1 The Cities and Local Government Devolution Act 2016 established the requirement for Combined Authorities to appoint an audit committee whose functions include; reviewing and scrutinising the authority's financial affairs; reviewing and assessing the authority's risk management, internal control and corporate governance arrangements; reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and making reports and recommendations to the combined authority in relation to reviews conducted in accordance with these functions.
- 5.2 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance; to have a sound system of internal control; to maintain appropriate accounting records and control systems; and to prepare and publish a statement of accounts in accordance with proper practices in relation to accounts.
- 5.3 The proposed work programme reflects the requirements of the Cities and Local Government Devolution Act 2016, the Accounts and Audit Regulations 2015 and the Accounts and Audit (Amendment) Regulations 2021 and will help the North of Tyne Combined Authority to adhere to relevant legal obligations.
- 5.4 With regard to standards, the Combined Authority is required by the Localism Act 2011 to promote high standards of conduct, adopt a Code of Conduct for its members and to have in place arrangements for dealing with alleged breaches of the Code. The Committee will have a key role in ensuring that the Combined Authority complies with these requirements.

6. Equalities and Implications

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

- 7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

- 8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

- 9.1 The proposed work programme of core business items has been proposed with reference to the Constitution and Terms of Reference for the Committee and following consultation with the regular contributors in relation to finance, risk management, external audit, and standards.

10. Appendices

None.

11. Background Papers

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019
- (c) The Accounts and Audit Regulations 2015, April 2015 [Accounts and Audit Regulations 2015](#)
- (d) The Accounts and Audit (Amendment) Regulations 2021, March 2021 [Accounts and Audit Regulations 2021](#)
- (e) The Cities and Local Government Devolution Act 2016 [Cities and Local Government Devolution Act 2016](#)
- (f) North of Tyne Combined Authority Constitution, November 2018 [NTCA Constitution](#)

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13. Glossary

None

Audit and Standards Committee

20 April 2021

Subject: Review of Audit and Standards Committee Arrangements

Report of: Kevin McDonald, Acting Chief Internal Auditor

Report Summary

The purpose of this report is to present an initial self-assessment of current Audit and Standards Committee arrangements, as a first step in undertaking a full review of the effectiveness of the Audit and Standards Committee during 2021/22, based on relevant legal requirements and the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guidance, for Audit and Standards Committee's consideration.

Recommendations

The Audit and Standards Committee is recommended to:

- (a) Note the proposal to undertake a review of the effectiveness of the Combined Authority's Audit and Standards Committee arrangements during 2021/22, based on relevant legal requirements and the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guidance.
- (b) Consider and endorse the initial self-assessment of Audit and Standards Committee arrangements attached as Annex A.
- (c) Agree that the review of the effectiveness of the Audit and Standards Committee will form the basis of an annual report from Audit & Standards Committee, which will be prepared for presentation to Cabinet, demonstrating how the Audit and Standards Committee meets its Terms of Reference and providing a summary of the work of the Committee during the year.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions and operation of Audit Committees in Local Government. The latest such guidance ('Audit Committees – Practical Guidance for Local Authorities and Police') was published in 2018.
- 1.2 It is also important to note the distinction between the North of Tyne Combined Authority, and a local authority. Whilst the guidance from CIPFA is good practice for all Audit Committees, as a Combined Authority, our Audit and Standards Committee is bound by the requirements of the Cities and Local Government Devolution Act 2016 and the subsequent Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.
- 1.3 Internal Audit reported to the January 2020 Audit and Standards Committee that we intended to work with the Independent Chair of the Audit and Standards Committee during 2020/21 to undertake the initial annual review of the effectiveness of the Combined

Authority's audit committee arrangements. An initial self-assessment of our Audit and Standards Committee arrangements, against the relevant legal requirements and the good practice recommended by CIPFA, is included at Annex A.

- 1.4 This self-assessment demonstrates that our Audit Committee arrangements already reflect the statutory provisions contained within legislation regarding Combined Authorities' Audit Committee arrangements and a number of the good practice areas recommended by CIPFA. Those areas identified as requiring some development will be explored further during 2021/22 in conjunction with the Chair of Audit and Standards Committee. One area of development noted from the self-assessment relates to the proposal to prepare an Annual Report from the Audit & Standards Committee to Cabinet. The purpose of such a report would be to demonstrate how the Audit & Standards Committee meets its Terms of Reference and provide a summary of the work of the committee during the year.

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

- 3.1 There are no key risks identified from the approach outlined. The report presents findings from an initial assessment of the effectiveness of the Audit & Standards Committee with the aim of identifying areas of improvement.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report.

5. Legal Implications

- 5.1 The Cities and Local Government Devolution Act 2016, and subsequent Combined Authorities (overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017, establishes that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. The review of Audit Committee arrangements will support the Combined Authority in ensuring compliance with statutory requirements and good practice as set out by CIPFA.

6. Equalities and Implications

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

- 7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

- 8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

- 9.1 The approach to the review of Audit and Standards Committee arrangements was agreed with the Independent Chair of the Audit and Standards Committee.
- 9.2 The analysis against CIPFA's good practice guidance, taken from the 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police", is included in this report for consultation with current members of Audit and Standards Committee.

10. Appendices

None.

11. Background Papers

- (a) The Cities and Local Government Devolution Act 2016 [Cities and Local Government Devolution Act 2016](#)
- (b) The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017
<https://www.legislation.gov.uk/uksi/2017/68/contents/made>
- (c) The Accounts and Audit Regulations 2015, April 2015 [Accounts and Audit Regulations 2015](#)
- (d) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2018 (P)
- (e) North of Tyne Combined Authority Constitution, November 2018 [NTCA Constitution](#)

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13. Glossary

None

Audit Committee Arrangements: Initial Self Assessment of Good Practice (April 2021)

(taken from CIPFA, *Audit Committees, Practical Guidance for Local Authorities and Police*, published 2018)

CIPFA states that this checklist provides a high level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and the wider *Practical Guidance* publication referred to above. CIPFA states:

"Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report."

Good practice questions	Yes	Partly	No	Comments
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Audit Committee purpose and governance

Page 37	1	Does the authority have a dedicated audit committee?	✓			This is a requirement of the Cities and Local Government Devolution Act 2016. The Combined Authority operates a combined Audit and Standards Committee with the Terms of Reference agreed by the Cabinet on 8 November 2018. These set out a number of clear roles for the Committee to discharge, with the Committee's work programme largely based around audit committee functions with standards reports presented as and when required.
		Does the audit committee report directly to full council? (Applicable to local government only.)	-	-	-	Not applicable for a Combined Authority.
	3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
	4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			This will be considered further during 2021/22, however, it is felt that Committee members, statutory officers, directors and other senior officers understand the role and purpose of the Audit & Standards Committee.
	5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			The level of debate within Committee meetings is continuing to develop, this includes in relation to governance matters such as the Annual Governance Statement, the Annual Accounts and the external audit of these, Internal Audit's Annual Opinion on the Framework of Governance, Risk Management and Control, Annual Opinion and regular reports in relation to internal and external audit, risk management and finance updates.

6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			✓	There are currently no formal arrangements in place to review the Committee's performance. This could be addressed through the introduction of an annual report from the Audit and Standards Committee to Cabinet, demonstrating how the Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.
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Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				<p>The Audit and Standards Committee's Terms of Reference fully address all core areas identified within CIPFA's Position Statement. The Terms of Reference also explicitly address the requirements of the Cities and Local Government Devolution Act 2016 which state that the functions of Audit Committees must include:</p> <p>(a) Reviewing and scrutinising the authority's financial affairs, (b) Reviewing and assessing the authority's risk management, internal control and corporate governance arrangements, (c) Reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions, and (d) Making reports and recommendations to the Combined Authority in relation to reviews conducted under paragraphs (a), (b) and (c).</p>
	<ul style="list-style-type: none"> ▪ good governance 	✓			
	<ul style="list-style-type: none"> ▪ assurance framework, including partnerships and collaboration arrangements 	✓			
	<ul style="list-style-type: none"> ▪ internal audit 	✓			
Page 38	<ul style="list-style-type: none"> ▪ external audit 	✓			
	<ul style="list-style-type: none"> ▪ financial reporting 	✓			
	<ul style="list-style-type: none"> ▪ risk management 	✓			
	<ul style="list-style-type: none"> ▪ value for money or best value 	✓			
	<ul style="list-style-type: none"> ▪ counter-fraud and corruption. 	✓			
	<ul style="list-style-type: none"> ▪ supporting the ethical framework 	✓			
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?			✓	A matter for consideration by the Committee will be the whether the Combined Authority would benefit from an Annual Report from Audit and Standards Committee to Cabinet. Such a report would summarise the work of the Committee undertaken during the year and demonstrate how the Committee discharges its responsibilities set out in its terms of reference.
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?			✓	It is recommended that the wider areas contained in CIPFA's Position Statement are considered during 2021/22 in conjunction with Audit and Standards Committee.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	-	-	-	Coverage of core areas found to be satisfactory.

11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			
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Membership and support

12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			The specific requirements for Combined Authorities, regarding reflecting the balance of political parties, have also been met.
	▪ Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	✓			For a Combined Authority, this is a mandatory requirement.
Page 39	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or as appropriate for the organisation?	✓			Yes. The position has a role definition, person specification, and qualifying criteria. The role was advertised in local publications and on the internet. Appointment to the role were made by means of competitive interview and all requirements of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 met.
14	Does the chair of the committee have appropriate knowledge and skills?	✓			The Independent Chair of Audit and Standards Committee has extensive relevant experience.
15	Are arrangements in place to support the committee with briefings and training?		✓		At its meeting in February 2019 a joint presentation was made by the Chief Internal Auditor and Monitoring Officer into the role of the Audit and Standards Committee. In addition briefing sessions for Combined Authority members have been provided in relation to Treasury Management and Governance. Regular briefings take place with the Independent Chair, however, there are no similar arrangements in place with the remainder of the Committee. It may be beneficial to develop a suitable programme of training for Audit and Standards Committee and to consider how this would best be delivered, and by whom.

16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	The latest CIPFA guidance on Audit Committees in Local Authorities (2018) includes a 'core knowledge and skills' framework' for Audit Committee members. No issues identified regarding membership of the committee.
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18	Is adequate secretariat and administrative support to the committee provided?	✓			

Effectiveness of the committee

19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✓	This feedback will be obtained during the initial review of the Committee's effectiveness to be undertaken during 2021/22. Additionally the introduction of an annual report to Cabinet would provide a formal setting for Cabinet to provide feedback on the Committee's performance
20	Are meetings effective with a good level of discussion and engagement from all the members?		✓		The level of discussion at meetings is increasing as the Committee becomes more established. This may have been impacted by the Covid-19 pandemic and required change to online meetings.
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?		✓		<p>Audit and Standards Committee is not routinely attended by a wide range of leaders and managers other than those who report into the Committee. Possible methods of engagement, and the Committee's role regarding assurance on audit findings, risks and action plans, may be an area for Audit and Standards Committee to consider.</p> <p>As Audit and Standards Committee receive reports on matters of governance, risk management and control throughout the course of the year, the Committee can then determine whether it would be beneficial to invite appropriate managers to attend a meeting of the Committee.</p>

22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			
23	Has the committee evaluated whether and how it is adding value to the organisation?			✓	See question 8 above. A matter for consideration by the Committee will be the whether the Combined Authority would benefit from an Annual Report from Audit and Standards Committee to Cabinet. Such a report would summarise the work of the Committee undertaken during the year and demonstrate how the Committee discharges its responsibilities set out in its terms of reference.
24	Does the committee have an action plan to improve any areas of weakness?			✓	An action plan will be prepared to reflect developments identified as required.
25	Does the committee publish an annual report to account for its performance and explain its work?			✓	See question 8 and 23 above. The introduction of an Annual Report from Audit and Standards Committee to Cabinet should be considered.

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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 mitigate them.

NTCA published its 2020 Annual Report in March this year, and its Corporate Plan will be presented at the NTCA Annual General Meeting in June 2021. This process of reflection has instigated a further review of the Authority's strategic risks and opportunities.

The review identified a new external risk which recognises the impact of the lockdowns imposed as a result of Covid-19 and the implementation of the new EU/UK trade deal procedures and the effect these may have upon delivery of the Authority's economic growth and employment opportunity schemes. A detailed risk assessment can be found at Appendix B of this report.

Recommendations

The Audit and Standards Committee is recommended to:

1. Acknowledge the new risk which will monitor the impact of Covid-19 and the new EU/UK trade deal procedures on the Authority's delivery plans
2. Review and where necessary challenge the outcomes of the strategic risk review
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.
- 1.2 NTCA published its 2020 Annual Report in March this year and its Corporate Plan will be presented at the Annual General Meeting in June 2021, which will set out how the NTCA will deliver for the coming years.

This process of reflection has instigated a further review of the Authority's strategic risks and opportunities resulting in a new external risk being added to the strategic risk register, as detailed below.

1.3 **New External Risk - Covid-19 and the EU/UK Trade Deal**

The new risk recognises the impact of the lockdowns imposed as a result of Covid-19 and the implementation of the new EU/UK trade deal procedures and the effect these may have upon delivery of the Authority's economic growth and employment opportunity schemes. A detailed risk assessment can be found at Appendix B of this report.

- 1.4 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.

The strategic risks identified by the North East LEP are also included at Appendix C. This provides NTCA visibility of the LEP strategic risk areas to consider if the risks identified by the LEP have any impact upon the delivery of NTCA's plans and priorities.

- 1.5 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 achievement of the strategic objectives of the North East JTC and its organisational risks, was updated by NECA's risk management service, and presented to the JTC Audit Committee at its meeting on 9 December 2020.

The next meeting of the JTC will be held on 14 April 2021, therefore an updated risk register was unavailable for today's meeting and will therefore be reported to the Committee in July 2021.

A summary of the North East JTC strategic risks as reported in December 2020 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 [9 December 2020](#).

9. Contact Officers

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

E-mail: Philip.slater@newcastle.gov.uk

Telephone – 0191 2116511

10. Glossary

10.1 None

	Risk Priority	Direction of Travel
Strategic Risks & Opportunities		
Risks		
External Risk	Red 12	New Risk
1. COVID-19 and EU/UK Trade Deal The inability to fully deliver the Authority's schemes and achieve the required outcomes in relation to economic growth and employment opportunities has been significantly impacted as a result of: a) The lockdown imposed as a result of the Covid-19 in March 2020 and onwards b) Planning and implementation of the new EU/UK trade deal procedures and relationship between the UK and the European Union		
2. Delivery of Devolution Unable to deliver components of the Devolution Deal or negotiate further powers and resources.	Red 12	Static
3. Operational Capacity and Resources 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.	Amber 8	Static
Opportunities		
4. Partnerships 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.	Amber 8	Static
5. North East LEP 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.	Amber 8	Improving

<p style="text-align: center;">External risk</p> <p>1. COVID-19 and EU/UK Trade Deal The inability to fully deliver the Authority's schemes and achieve the required outcomes in relation to economic growth and employment opportunities has been significantly impacted as a result of:</p> <p>a) The lockdown imposed as a result of the Covid-19 in March 2020 and onwards</p> <p>b) Planning and implementation of the new EU/UK trade deal procedures and relationship between the UK and the European Union</p>	<p style="text-align: center;"><u>Risk Owner</u> Director of Economic Growth</p>
	<p style="text-align: center;"><u>Risk Score</u></p>
	<p style="text-align: center;">Current controlled score – Red 12</p>
	<p style="text-align: center;">Target Score – Green 4</p>
<p><u>Covid-19</u> The global 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. The lockdown measures essential to control the virus has forced our providers to close or operate in different ways and often to reduced capacity during the lock down period, having a dramatic negative impact on their ability to deliver agreed projects/outcomes.</p> <p><u>EU/UK Trade Deal</u> Despite the end of the Transition Period on 31 December 2020, many businesses have yet to fully prepare for the changes which will be required. This has reflected the immediate pressures they are under from Covid-19 and the lack of clarity about the long-term future trading arrangements with the EU.</p>	
<p>Impact: <u>Investment Fund</u></p> <ul style="list-style-type: none"> As Government coronavirus restrictions are in place there will be a delay of delivery/underachievement in project outputs due to public closures/lockdowns Possible reallocation of the Investment Fund Programme to support recovery in the NTCA area Economic shock post pandemic will impact businesses/organisations in the NTCA region 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. <p><u>Adult Education Budget</u></p> <ul style="list-style-type: none"> 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 Continuity of funded provision for NTCA residents is at risk if providers become financially unstable <p><u>UK/EU Trade Deal</u> Government modelling predicts that the NE is likely to be the region of the country which is hardest hit by changes in the trading relationship with Europe. Nevertheless, the current key risk associated with the trade deal is the lack of capacity of businesses and stakeholders to engage with planning and the implementation of new procedures, due to the ongoing Covid-19 pandemic.</p>	
<p>Existing Controls:</p> <ul style="list-style-type: none"> 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. Covid-19 response paper agreed in March 2020 	

- Covid-19 Capacity Fund grants of £1.5m offered to Constituent Authorities in the North of Tyne region to meet local needs
- NTCA £10m Recovery Innovation Deal
- A small number of projects have been reprofiled, to enable them to move from in-person to on-line delivery
- Ongoing dialogue with NTCA adult education providers and employers to ensure delivery continues to meet area skills needs
- NTCA Strategic Skills Plan has been updated in 2021 reflecting the area's skills needs for an inclusive economic recovery
- Detailed guidance for businesses has been developed through the Growth Hub's 'UK Transition Toolkit', while training, guidance and advice has been promoted. Sectoral discussions have highlighted issues associated with the multi-country origin of automotive components, the need for the pharmaceuticals sector to have clarity about regulatory requirements associated with product certification and labelling; and the sensitivity of the NE farming sector to post-Brexit agricultural policy, subsidies and export tariffs. The NE's response to consultations on migration have highlighted that any new points-based immigration system should take into account lower average wage levels outside London and the SE, due to lower costs of living.
- The NTCA inward investment fund has been increased to £10million. This fund is intended to help make it easier for firms to make a first investment in the area, by helping reduce some of their upfront costs.
- The EU Implementation Group is updating its previous priorities to reflect the new EU-UK trade deal. Actions will include:
 - To highlight current issues facing businesses as they navigate the new EU-UK trade deal to Government
 - To respond to the UK Shared Prosperity Fund (UKSPF) consultation with evidence of strategic priorities for the North East.
 - To keep abreast of the EU settlement scheme and its take-up in the region

Next Steps	Deadline	Lead Officer(s)
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.	Ongoing	Director of Economic Growth
Recovery and Renewal Deal recently agreed by Cabinet include proposals to improve access to finance to businesses, as part of the ambition to develop the infrastructure needed for business to flourish.	Ongoing Review July 2021	Director of Economic Growth
<u>Investment Fund</u> We are continuing to assess the impact of the Covid-19 crisis across our programmes as required, working with project sponsors to provide additional support and enable the development of alternative delivery methods to realise outcomes.	Ongoing Review July 2021 -	Director of Economic Growth
<u>Adult Education Budget</u> Additional funding allocated to NTCA under the AEB for AY 2020/21 to support a Covid-19 response. NTCA have worked with existing Grant providers and those on the NTCA AEB Procurement Framework to operationalise this additional funding, at pace, to reflect the Authority's vision and Government guidelines.	Review August 2021	Director of Economic Growth
<u>Adult Education Budget</u> Continued engagement with NTCA AEB providers, via provider roundtables and quarterly one to one performance monitoring meetings identify the impacts of Covid-19 and inform the direction, priorities and	Ongoing review August 2021	Director of Economic Growth

allocations for the NTCA AEB providers. Informing the plan for the immediate impact of Covid-19 and medium/long term mitigation planning.		
<u>Adult Education Budget</u> The launch of the online 2021-2023 Strategic Skills Plan will ensure updates can be implemented quickly to ensure its ongoing relevance during the pandemic and into recovery.	Plan launched 1 April 2021	Director of Economic Growth
<u>EU/UK Trade Deal</u> Future trade deals and international agreements, domestic policy and regional activity need to deliver a strong framework for North East prosperity. NTCA through the Mayor and Cabinet will continue to work closely with businesses, to understand and monitor any potential negative impacts of the new EU/UK trade deal, alongside any opportunities with government.	Ongoing review July 2021	Director of Economic Growth
NTCA will continue to highlight relevant issues with Government and make the case for a significant Covid-19/Brexit economic stimulus package, comprising both one-off resources and longer-term replacement for EU funding.	Ongoing review July 2021	Director of Economic Growth

2. Risk - Delivery of Devolution Unable to deliver components of the Devolution Deal or negotiate further powers and resources.	<u>Risk Owner</u> Director of Economic Growth	
	<u>Risk Score</u>	
	Current controlled score – Red 12	
	Target Score – Green 4	
Cause: <ul style="list-style-type: none"> • Macroeconomic shocks and national political instability impact on NTCA’s delivery of the devolution deal and ability to negotiate/secure further powers and resources • Government do not fulfil their existing commitments under the devolution deal 		
Impact: Projects and schemes are not delivered within agreed timeframes and do not satisfy key criteria or achieve required outcomes across our key areas of work:		
Existing Controls: <ul style="list-style-type: none"> • M9 Group of Metro Mayors working together to influence government on agreed priorities which will strengthen devolved powers • 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 • Establishment of the Investment Fund through which NTCA is administering the North of Tyne Single Pot allocation of Government funding • Ongoing delivery of Investment Fund – with projects continuing to be developed, appraised and delivered during the pandemic period. Investment panel monitors performance on a monthly basis, with job and activity levels above profile • Assurance Framework agreed with Government which operates effectively • AEB Provider Performance and Management Framework in place and used from 1 August 2020 • Existing intelligence sharing process with regional ESFA, sharing notices of concern regarding the NTCA provider base 		
Next Steps	Deadline	Lead Officer(s)
<u>Investment Fund</u> 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, as the Authority continues to work closely with project sponsors to provide additional support and enable the development of delivery methods where appropriate and realise outcomes.	Review July 2021	Director of Economic Growth
<u>Investment Fund</u> An evaluation framework to capture our achievements and learning is in development supported by the introduction of a programme management system which will improve programme management and monitoring, streamlining the interface with delivery organisations for claims and output reporting.	Review July 2021	Director of Economic Growth

<p><u>Adult Education Budget</u> Opportunity For All – The updated Strategic Skills Plan 2021-2023, sets out our ambitious programme for skills development in the region, reflecting the area’s skills needs for an inclusive economic recovery.</p>	<p>Plan launched 1 April 2021</p>	<p>Director of Economic Growth</p>
<p><u>Adult Education Budget</u> Additional funding delegated to NTCA via AEB for the Level 3 Offer of the Government’s Lifetime Skills Guarantee from April 2021 onwards. The Delegation has additional criteria to the devolved funds. NTCA AEB processes and documentation is being updated to ensure these additional requirements are met.</p>	<p>Review August 2021</p>	<p>Director of Economic Growth</p>
<p>A Joint School Improvement Strategy was approved by NTCA Cabinet in July 2020, establishing an Education Strategy Group consisting of education leads from each constituent authority and the lead officer for education at NTCA. Officers at NTCA and the Department for Education are finalising a shared work programme to make sure our school improvement strategy capitalises on funded DfE projects. Work continues with Government to negotiate the overall funding package to improve education in our schools through an Education Challenge.</p>	<p>Review July 2021</p>	<p>Director of Economic Growth</p>

<p>3. Risk - Operational Capacity and Resources</p> <p>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 style="text-align: center;"><u>Risk Owner</u> Director of Policy and Performance</p>	
	<p style="text-align: center;"><u>Risk Score</u></p> <p style="text-align: center;">Current controlled score – Amber 8</p>	
	<p style="text-align: center;">Target Score – Green 4</p>	
<p>Cause:</p> <ul style="list-style-type: none"> • Coronavirus pandemic is leading to significant increases in workload, reducing constituent council's capacity which can be allocated to NTCA operations. • Insufficient capacity to delivery new funds announced by Government 		
<p>Impact:</p> <ul style="list-style-type: none"> • 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 		
<p>Existing Controls:</p> <ul style="list-style-type: none"> • 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, Chief Economist • Constituent Authorities provide support services to the Authority through Service Level Agreements • Recruitment plan in place, which is regularly reviewed as we grow. • 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 was paid by DfE, to ensure appropriate capacity and resources were put in place for the introduction of the devolved Adult Education Budget. Since go-live in August 2020, capacity and resource is paid from the fund itself, as an administration allocation. 		
<p style="text-align: center;">Next Steps</p>	<p style="text-align: center;">Deadline</p>	<p style="text-align: center;">Lead Officer(s)</p>
<p>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. Paused as staff are working from home and focus of BCP will need to reflect the new office location, move expected summer 2021.</p>	<p>Review Summer 2021</p>	<p>Director of Policy and Performance</p>
<p>Values and Behaviours sessions continued in January and February 2021 and 'learning lunches' introduced. Also, various social groups and activities have been established online over lockdown to improve team wellbeing.</p>	<p>Review July 2021</p>	<p>Director of Policy and Performance</p>
<p>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</p>	<p>Review July 2021</p>	<p>Director of Policy and Performance</p>

increase numbers. Process implement to ensure number in office at any one time is 6 or below.		
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<p>4. Opportunity – Partnerships</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><u>Risk Owner</u> Director of Policy and Performance</p>	
	<p><u>Opportunity Score</u></p>	
	<p>Current controlled Score – Amber 8</p>	
	<p>Target Score – Green 6</p>	
<p>Benefits:</p> <ul style="list-style-type: none"> • Strengthening the synergy between Cabinet, the North East Local Enterprise Partnership and Local Authorities • Influencing regional approaches to growth • Developing our relationships and how we work with Government, business, investors and partners • Learning from best practice Local Authorities, other Combined Authority's and Government 		
<p>Barriers:</p> <ul style="list-style-type: none"> • 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 • It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact 		
<p>Existing Controls:</p> <ul style="list-style-type: none"> • Mayor's Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) appointed and Accord agreed • Regular meetings with the Business Community i.e. CBI, Federation for Small Businesses, Entrepreneurs' Forum • Community and Voluntary Sector engagement meetings • The North East LEP is leading the regional development of the Local Industrial Strategy • NTCA representation on: <ul style="list-style-type: none"> ▪ The North East LEP Boards (Investment, Skills Advisory Panel, Innovation and Business Growth) ▪ The Board of Transport for the North ▪ The North East Joint Transport Committee (and sub-committees), responsible for preparing a single transport plan for the area of both Combined Authorities • NTCA and DWP Framework Agreement in place to coordinate employment, skills and health services across the North of Tyne area • NTCA Inclusive Economy Board with member representation from the public, private and voluntary sector, including constituent LA's and North East LEP 		
Next Steps	Deadline	Lead Officer(s)
VCSE Ambassador reappointed for another year. No Mayoral Ambassador for the business sector to be recruited – good engagement with regular meetings and consultation with the business community has developed throughout the pandemic and this model will remain in place throughout 2021/22.	June 2022	Director of Policy and Performance
VCSE Accord - 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. First year of operation completed and feedback is that it is working well.	Spring 2021	Director of Policy and Performance

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 was launched publicly in November 2020.	Review August 2021	Director of Policy and Performance

<p>5. Opportunity – North East LEP Partnership</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><u>Risk Owner</u> Chief Finance Officer</p>	
	<p><u>Opportunity Score</u></p>	
	<p>Current controlled Score – Amber 8</p>	
	<p>Target Score – Green 6</p>	
<p>Benefits: 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>Barriers: The governance, roles and responsibilities need to be clear and understood to ensure effective partnership working.</p>		
<p>Existing Controls:</p> <ul style="list-style-type: none"> • 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 with further updates on LEP project funding decisions to be brought to Cabinet at regular intervals going forward. • North East LEP Chair is a non-voting member of NTCA Cabinet • The new Accountable Body Agreement was signed at the end of March 2020 • The alignment of both NTCA and the North East LEP Service Level Agreements support delivery of the North East LEP operations • 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. • North East LEP staff are NTCA employees and NTCA is the legal entity responsible for administering its budget • The North East LEP strategic risk register is reported regularly to NTCA Audit and Standards Committee alongside NTCA strategic risks 		
Next Steps	Deadline	Lead Officer(s)
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 and the Overview and Scrutiny Committee.	Ongoing Quarterly	Chief Finance Officer

North East Local Enterprise Partnership – Strategic Risks

<p><u>Operational capacity and resourcing</u></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><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: 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>Impact/Consequence: 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>Existing Controls:</p> <ul style="list-style-type: none"> • The 2020/21 LEP operational budget was agreed by the LEP Board and its accountable body • Budget for 2021/2022 along with a three-year estimate budget will be reported to the LEP Board in May 2021 • Some financial reserves are held by the LEP from previous financial years • Potential to call on financial resources relating to Enterprise Zone income if required • On-going monitoring of external funding landscape and actions to secure alternative sources • 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 	
Next Steps	Lead Officer(s)
Budget management and forecasting on-going Budget for 2021/22, will be reported to the North East LEP Board in May along with a three-year estimate.	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><u>Increase in the role and scope of LEPs by government with no new resource to support the additional responsibility(ies)</u></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><u>Risk Owner</u> Chief Executive</p>	
	<p><u>Risk Score</u></p>	
	<p>Red 12</p>	
	<p>Likelihood – Medium Impact – Critical</p>	
<p>Cause: 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>Impact/Consequence: 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>Existing Controls:</p> <ul style="list-style-type: none"> • The LEP continues to work closely with government to try to influence policy and its practical delivery implications • The LEP Network (national body) plays a key lobbying role with government 		
Next Steps	Lead Officer(s)	
Continue to lobby and influence Government	Helen Golightly (Chief Executive)	
Consider and respond to any changes as they emerge	Helen Golightly (Chief Executive)	

<p><u>Government Capital Funding</u></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, and Covid-19 response plan.</p>	<p><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause:</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. Government’s recent March 2021 budget announcement however highlighted a pilot phase of the UKSPF that would be mobilised through local government. It is expected that Government will announce the future phases of the UKSPF in autumn 2021. Other funding potentially available for the North East was outlined in the £4.8 billion Levelling Up Fund, published alongside the Budget announcement. This will be a bidding process through Local Authorities. There is no clarity on the level of funding available for the North East beyond March 2022. The North East was awarded funding from the Getting Building Fund for 2 years over 2020-2022. No further progress has been made in relation to ESIF successor fund beyond June 2023. There is therefore a significant risk that funding for capital pipeline projects is insufficient.</p>	
<p>Impact/Consequence:</p> <p>Without a clear understanding of future potential funding, the development and delivery of strategic projects related to the SEP, and Covid 19 response planning are at risk.</p>	
<p>Existing Controls:</p> <ul style="list-style-type: none"> • The 2019 refreshed SEP is strongly aligned to key government policies which should attract investment if it becomes available. • The LEP is working with government to influence policy and funding thinking • . • The LEP is working with regional partners to develop a pipeline of strategic projects in preparation including innovation projects. • The LEP is working with regional partners on a Covid 19 economic response plan. 	
Next Steps	Lead Officer(s)
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><u>North East regional governance</u></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><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – Medium Impact – Critical</p>
<p>Cause: 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 acts as the accountable body for the LEP. It was agreed that NTCA is the North East LEP accountable body from 1 April 2020.</p>	
<p>Impact/Consequence: 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 is not be detrimental to the current effective operations or financial position of the LEP.</p>	
<p>Existing Controls:</p> <ul style="list-style-type: none"> • 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. • The Accountable Body Agreement was signed at the end of March 2020 and Service Level Agreements (SLA) are in place and have been reviewed for the 2021 period to support the delivery of LEP operations. • In both the 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. 	
Next Steps	Lead Officer(s)
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 (reviewing where needed) which enables the North East LEP to carry out its functions in an effective and compliant way.	Helen Golightly (Chief Executive)

<p><u>Covid-19 or any other epidemic / pandemic</u></p> <p>The Covid-19 pandemic since 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><u>Risk Owner</u> Chief Executive</p>
	<p><u>Risk Score</u></p>
	<p>Red 12</p>
	<p>Likelihood – High Impact – Critical</p>
<p>Cause:</p> <p>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.</p> <p>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>Impact/Consequence:</p> <p>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. The LEP through this time has continued to focus on translating ambitions through a response plan and working with partners.</p>	
<p>Existing Controls:</p> <ul style="list-style-type: none"> • 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. • The Group meets on a regular basis • Work is on-going to put in place a recovery plan with short-term, medium-term and long-term interventions • On-going liaison with the LEP Network and NP11 on Covid-19 issues 	
Next Steps	Lead Officer(s)
Continue to support and facilitate the Covid-19 Economic Response Group and produce an economic recovery plan.	Helen Golightly (Chief Executive)
Ensure continued alignment and co-ordination of key messaging and interventions	Helen Golightly (Chief Executive)
Actively lobby government including through the LEP Network and NP11	Helen Golightly (Chief Executive)

North East Joint Transport Committee Strategic Risks (December 2020)

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

<p>Use of Funding and Resources 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>Amber 8</p>	<p>Static</p>
<p>Governance Arrangements The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives.</p>	<p>Green 4</p>	<p>Static</p>
<p>Operational Capacity and Resourcing The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.</p>	<p>Amber 8</p>	<p>Static</p>
<p>Delivery of Transport Improvement Projects/Programmes 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>Amber 8</p>	<p>Static</p>
<p>Transport Infrastructure Assets Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.</p>	<p>Green 6</p>	<p>Static</p>
<p>Service Delivery 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>Green 6</p>	<p>Static</p>
<p>'Catastrophic Event' 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>Amber 8</p>	<p>Static</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 99.99%	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of objectives Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant 99.9%	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of objectives Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignificant	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation <p>(Financial limits are under review)</p>	



Subject: Accounting Policies to be used in the compilation of the 2020/21 Statement of Accounts

Report of: Interim Chief Finance Officer

Portfolio: All

Report Summary

The purpose of this report is to update the Audit and Standards Committee on North of Tyne Combined Authority (NTCA) accounting policies to be applied in the preparation of the 2020/21 Statement of Accounts and to seek confirmation from the Audit Committee that appropriate policies are being applied.

The preparation of the accounts should be in accordance with the accounting concepts and policies as per the 'Code of Practice on Local Authority Accounting in the UK 2020/21' (The Code). The accounting policies applied in the preparation of the 2019/20 Statement of Accounts remain appropriate for the preparation of the 2020/21 Statement of Accounts. The CIPFA Code changes for 2020/21 are minor, and there are no accounting policies which require amendment.

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

Recommendations

The Audit and Standards Committee is recommended to:

- i) Note the Accounting Policies to be adopted by the Combined Authority and used to compile the Accounts for the financial year ended 31 March 2021.
- ii) Authorise the Chief Finance Officer to review the accounting policies as necessary, and report changes to the Audit and Standards Committee.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- 1.2 Accounting policies are defined in the CIPFA Code as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".
- 1.3 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

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

- 1.4 As at 1 April 2020 NTCA became the accountable body for the North East Local Enterprise Partnership (North East LEP) and Invest North East England (INEE), therefore the 2020/21 NTCA Accounts will include the accounting transactions for the afore mentioned bodies.
- 1.5 The proposed accounting policies for 2020/21 are attached as Appendix A These have been prepared in consultation with the Finance Manager for the North East Combined Authority (NECA) to ensure that the inclusion of the Joint Transport Committee (JTC) figures and those of the North East LEP and INEE are properly accounted for within the NTCA Accounts.
- 1.6 The report is presented for information, with no decision required.
- 1.7 NTCA finance officers are engaging with the external auditors in relation to planning for the 2020/21 accounts closedown.

2. Potential Impact on Objectives

- 2.1 There are no impacts on objectives arising from this report.

3. Key Risks

- 3.1 There are no risk management implications arising from this report.

4. Financial and Other Resources Implications

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

5. Legal Implications

- 5.1 The Accounts and Audit Regulations 2020/21, which take effect from 31 March 2021, extend the requirement for the audited accounts to be published from 31 July to 30 September, with the exercise of public rights, common inspection date being removed and the draft accounts published no later than 1 August. This revised regulation will apply also to the 2021/22 accounts.

- 5.2 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. Equalities Implications

- 6.1 There are no equality and diversity implications arising from this report

7. Inclusive Economy Implications

- 7.1 There are no inclusive economy implications arising from this report.

8. Climate Change Implications

- 8.1 There are no climate change implications arising from this report.

9. Consultation and Engagement

9.1 The Code of Practice on Local Authority Accounting 2020/21 was subject to a period of consultation.

10. Appendices

10.1 Appendix 1 – Accounting Policies 2020/21

11. Background Papers

11.1 None

12. Contact Officers

12.1 Janice Gillespie, Chief Finance Officer

Janice.gillespie@northtyneside.gov.uk Tel: 0191 6435701

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Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 2020/21 financial year and its position at the year-end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliability the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The

Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

No such amounts are payable in 2020/21.

8. Post-Employment Benefits

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

The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside

Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the NTCA and NECA Corporate line.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the NTCA and NECA Corporate line.
- Net interest on the net defined liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements comprising:

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

10. Fair Value Measurement

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

- a) In the principal market for the asset or liability; or

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

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

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

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

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

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

11. Financial Instruments

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively

deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

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

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

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

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

Amortised Cost

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

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

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

Expected Credit Loss Model

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

Fair Value Through Other Comprehensive Income (FVOCI)

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

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

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

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

Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as

they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

12. Government Grants & Contributions

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

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

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

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

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

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

Assets are then carried in the Balance Sheet using the following measurement:

- Infrastructure assets – depreciated historical cost.
- Assets Under Construction – cost.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

The following useful economic lives are used for NECA's PPE assets: Tyne Tunnels 120 years, Tunnels Vehicles, Plant and Equipment 30 years.

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value of 31 March 2020, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels it was assessed that, although Mechanical and Electrical Services and the Toll Plazas have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time

of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

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

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

15. Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probably that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2020/21.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

19. Value Added Tax (VAT)

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

20. Overheads and Support Services

The costs of overheads and support services e.g. Finance and Legal Services are shown within the Corporate Costs line on the Comprehensive Income and Expenditure Statement on the basis of Service Level Agreements in accordance with the Combined Authority's arrangements for accountability and financial performance and in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA), this is also the case for NECA. A percentage is allocated to the different areas of NECA activity (e.g.

Corporate, Transport Strategy, Tyne Tunnels) in accordance with estimated work done on each area.

21. Tyne Tunnels Income

The majority of the income from tolls is received on a cash basis. Accruals are made to apportion income credited to the bank account to the correct financial year. Prepayments on permit accounts are also received, and the balance on these accounts are accrued as income received in advance at the year end.

22. Group Accounts

NECA and NTCA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 to produce Group Accounts to include services provided to council taxpayers by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2020/21 accounts, NTCA and NECA have fully complied with the requirements of the Code providing Group figures for 2020/21 and comparators for 2019/20. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

23. Joint Transport Committee

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

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

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

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

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

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

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

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

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Subject: 2020/21 Annual Governance Statement

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

Report Summary

This report presents the NTCA draft 2020/21 Annual Governance Statement (AGS).

The AGS highlights the provisional outcome of the annual review of the Authority's governance and internal control arrangements.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has introduced a new Financial Management Code which the Authority must comply with by 2021/22. The Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of the Authority.

In preparation for the first full year of compliance NTCA will /has started/began??undertake a self-assessment of the Code. The outcome of the self-assessment and associated action plans will be included in Section 14 of the AGS (area requiring improvement) once the outcome of the self-assessment is established.

The draft 2020/21 AGS has been prepared as the Authority begins to recover from the impact of Covid-19 and will be kept under review over the coming months and updated as necessary should any weaknesses come to light or additional evidence is identified, before it is considered as part of the audit of NTCA's financial statements.

The Audit and Standards Committee will receive a further draft of the AGS together with the Statement of Accounts at its July meeting.

A copy of the draft 2020/21 Annual Governance Statement is provided at Appendix A.

Recommendations

The Audit and Standards Committee is recommended to:

1. Consider the attached first draft of the NTCA 2020/21 Annual Governance Statement (Appendix A) and comment on its content, acknowledging the activity underway to

prepare for the introduction of the new Financial Management Code, which is highlighted in Section 14 of the Statement.

2. Acknowledge that the Statement will be kept under review and amended as necessary should any weaknesses come to light before the Committee receive a further draft at its July meeting and up to the date of final approve of NTCA financial statements.

1. Background Information, Proposals and Timetable for Implementation

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

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

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication “Delivering Good Governance in Local Government” (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against:

- Ensuring openness and comprehensive stakeholder engagement
- Developing the entity’s capacity, including the capability of its leadership and the individuals within it
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Managing risks and performance through robust internal control and strong public financial management
- Defining outcomes in terms of sustainable economic social and environmental benefits
- Implementing good practices to transparency, reporting and audit to deliver effective accountability

2. Annual Governance Statement Assurance Framework– 2020/21

2.1 The approach to produce the 2020/21 Statement is based on a framework of assurance and in preparing it, it has been necessary to review evidence from the following sources. This approach complies with the CIPFA recommended practice:

- Governance Arrangements e.g. the Authority’s Constitution
- Assurance from the Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements

- Members - Views of Audit and Standards Committee
- Internal Audit Activity – including the Chief Internal Auditor’s annual opinion
- Risk Management – Strategic risk reviews
- Performance Management – outcomes reported during 2020/21
- Views of the external auditor and other external inspectorates
- Key partnerships, including the North East Joint Transport Committee
- Nexus, through an assurance statement signed by Nexus’ Director of Finance and Resources
- North East Local Enterprise Partnership, through a partnership assurance statement, signed by the Chief Executive

3. Outcomes of the Review of Assurances

The NTCA 2020/21 Annual Governance Statement fully complies with the CIPFA Framework and provides detailed evidence against each of the above principles highlighted in paragraph 1.2, to show how the Authority has adhered to its governance commitments as set out in the Constitution. The Statement includes hyperlinks to sources of further information detailed on the North of Tyne website, (for example the Authority’s vision and its six pillars of ambition, our Freedom of Information Scheme and Annual Report), demonstrating how the Authority has implemented its commitments and complies with the governance standards and principles.

4. Area identified as requiring improvement – 2021/22

The Combined Authority must comply with the new CIPFA Financial Management Code by 2021/22. The Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of the Authority, manage financial resilience to meet unforeseen demands on services and manage unexpected changes in financial circumstances.

In preparation for the first full year of compliance with the Code (2021/22), the Authority will undertake a self-assessment of the Code. The outcome of the self-assessment and associated action plans will be included in Section 14 of the AGS (improvements needed to governance and internal control), and will be monitored as part of the AGS review process.

The Committee will receive a further draft of the AGS at its July meeting which will include the outcome of the Financial Management Code self-assessment.

5. Next Steps

- 5.1 The AGS will be updated to reflect comments from Audit and Standards Committee members today and will be kept under review and amended as necessary should any weaknesses come to light before is it presented to the Committee at its July meeting and prior to sign-off of the Authority’s financial statements.

6. Potential Impact on Objectives

- 6.1 No direct impact on objectives.

7. Key Risks

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

8. Financial and Other Resources Implications

- 8.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA.

9. Legal Implications

- 9.1 There are no direct legal implications arising from this report.

10. Consultation/Engagement

- 10.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer and NTCA Senior Management Team have been consulted on the draft Statement.

11. Appendices

- 11.1 Appendix A – Draft 2020/21 Annual Governance Statement

12. Background Papers

- 12.1 None

13. Contact Officers

- 13.1 Philip Slater, Chief Internal Auditor Newcastle City Council (acting as Risk Advisor to NTCA)

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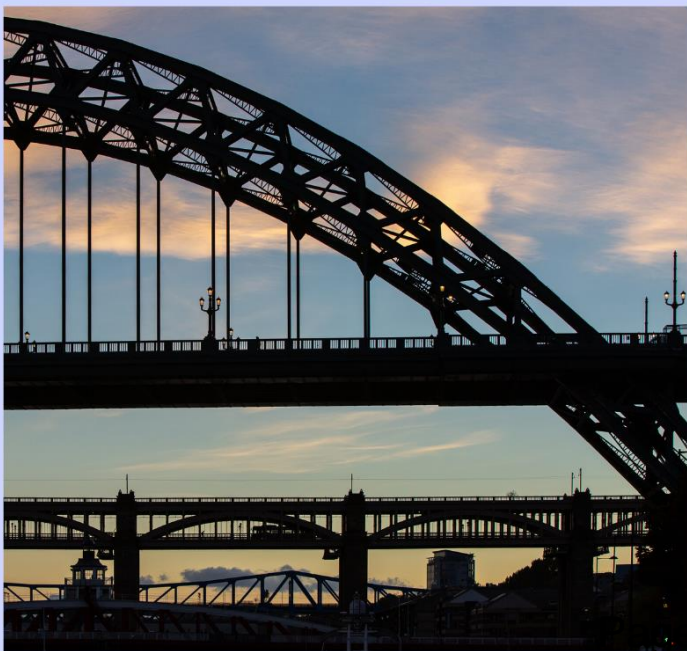
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14. Glossary

- 14.1 None



ANNUAL GOVERNANCE STATEMENT 2020/21



**NORTH
OF TYNE**



**COMBINED
AUTHORITY**

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North of Tyne Mayoral Combined Authority's governance and internal control arrangements operated during 2020/21, including how they are reviewed annually to ensure they remain effective, as the North East responds to the impact of Covid-19.

Section 2: Scope Of Responsibility

NTCA was established on 2 November 2018 to give effect to a "minded to" devolution deal which was agreed between Newcastle, North Tyneside and Northumberland Councils, the North East Local Enterprise Partnership and Central Government. The devolution deal represents a significant shift of powers, funding and responsibility from central government to the local level. The deal enables the three councils to pursue through NTCA a shared ambition for an inclusive economy. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers.

Our vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensure that all residents have a stake in our region's future.

We will work with the North East Combined Authority (NECA) on a number of areas to support the region, including transport. To oversee strategic transport functions a North East Joint Transport Committee has been established with members from both Combined Authorities.

All seven Local Authorities are members of the North East Local Enterprise Partnership (North East LEP) to support delivery of the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

On 1 April 2020 accountable body functions for the North East LEP were transferred to NTCA from NECA. As the accountable body or 'Host Authority' NTCA will support the North East LEP manage its resources with all funding decisions being held to account through the NTCA.

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

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

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

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

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

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

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

Section 3: Purpose Of The Governance Framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against to consider the extent to which the Authority complies with the principles of good governance as set out in the Framework. This is reported through the Annual Governance Statement. It also enables us to monitor the achievement of the Authority's priorities and to consider whether those priorities have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2021 and up to the date of approval of the Authority's Annual Report and Accounts.

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

Section 4: The Governance Framework

The core principles and outcomes of our Governance Framework are set out overleaf. This includes examples of how the Authority has adhered to its governance commitments set out in the Constitution and includes hyperlinks to sources of further information which include more detail about how NTCA has implemented its commitments.

Principles of Good Governance

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| A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law | E. Developing the entity's capacity, including the capability of its leadership and the individuals within it |
| B. Ensuring openness and comprehensive stakeholder engagement | F. Managing risks and performance through robust internal control and strong public financial management |
| C. Defining outcomes in terms of sustainable economic, social, and environmental benefits | G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability |
| D. Determining the interventions necessary to optimise the achievement of the intended outcomes | |

Section 5 – The Governance Framework

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

<i>The Authority's Commitment of Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
<p>Behaving with Integrity</p>	<p>The 2021 budget and our medium-term financial plan 2022-23/2024-25 has been developed within the context of the Authority's strategic priorities and policy decisions made by the Mayor and Cabinet. This ensures that the Combined Authority's strategic plans can be delivered within the financial resources available.</p> <p>A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area which outlines a framework for collaborative working across the region.</p> <p>A register of Members' interests (including gifts and hospitality) is also maintained. The register is reviewed on an annual basis.</p> <p>The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical.</p> <p>Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.</p>	<p>2021-2025 Budget Proposals (Agenda item 7a)</p> <p>Gifts and Hospitality Policy</p>
<p>Demonstrating Strong Commitment to Ethical Values</p>	<p>Our Constitution defines our standing orders, standing financial instructions, and scheme of delegation. These clearly define how decisions are taken and the processes and</p>	<p>The Constitution is available on the NTCA website.</p>

	<p>controls required to manage risks. We will ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.</p> <p>The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical.</p> <p>Codes of conduct are set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee will deal with issues of conduct and generally promote high standards among officers and members.</p> <p>Our Freedom of Information Scheme is published on our website</p> <p>We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public. Administration of the Authority’s policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 5.5 of our Constitution</p> <p>The Authority appoints Statutory Officers who have the skills, resources and support necessary to ensure statutory and regulatory requirements are complied with.</p> <p>On 2 June 2020 Cabinet agreed policies relating to: Data Protection and Confidentiality; Environmental; Equalities and Diversity; Modern Slavery; and Social Value.</p>	<p>Cabinet Rules of Procedure (“Standing Orders”) can be found at part 3.1 of the Constitution</p> <p>Codes of Conduct can be found at Part 5.2 of the Constitution</p> <p>Freedom of Information Scheme</p> <p>Whistleblowing Policy</p> <p>Cabinet report – agenda item 9</p>
<p>Respecting the Rule of Law</p>	<p>NTCA has measures to address breaches of its legal and regulatory powers. The Authority’s Monitoring Officer has</p>	

	<p>statutory reporting duties in respect of lawful decision and maladministration.</p> <p>We review and update our standing orders, standing financial instructions, scheme of delegation and support procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks.</p> <p>A revised scheme of officer delegations was approved by Cabinet on 29 September 2020. The proposed scheme identifies a number of officers as “designated officers” who can exercise the delegated functions allocated to them in the scheme. These designated officers are the Head of Paid Service, Chief Finance Officer, and Monitoring Officer, Director of Economic Growth and Director of Policy and Performance, as well as the Chief Executive of the North East LEP (whose delegation relates to North East LEP matters only).</p> <p>Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer.</p> <p>The Monitoring Officer is advised on compliance with our policy framework, ensuring that decision making is lawful and fair and ethical.</p>	<p>revised scheme of officer delegations</p>
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B. Ensuring openness and comprehensive stakeholder engagement		
<i>The Authority's Commitment to Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
Ensuring Openness Engaging Comprehensively with Institutional Stakeholders	We are clear on delivering the objectives of the Combined Authority and intended outcomes of our vision. Our six key pillars of ambition represent the most important groups,	North of Tyne Economic Vision: Pillars of ambition

issues and goals that we will invest in to achieve a more prosperous and inclusive future.

Our Corporate Plan sets out what we are going to do next. And tells our story from our 6 key pillars of ambition to our recovery themes and reiterates the vision of Cabinet

Our Annual Report 'Working Together For You' sets out the Authority's achievements and the work of the Mayor and Cabinet over the last year.

The Elected Mayor chairs the Cabinet and Cabinet decisions will be subject to scrutiny by the Overview and Scrutiny Committee. The Elected Mayor has a number of specific powers and financial resources which Cabinet can make representations on and which can also be subject to scrutiny by the Overview and Scrutiny Committee.

Transport is of strategic importance to the North East and together with the North East Combined Authority a North East Joint Transport Committee has been established bringing together members from across the seven local authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

The NTCA updated Adult Education Strategic Skills Plan sets out our ambitious programme for skills development. It highlights strengths, opportunities and challenges across our region and sets out the NTCA key priorities to ensure our residents have the skills to get a good job, progress in work and that employers have people with the right skills.

Add link to corporate plan following launch AT
AGM 8 June 2021

[Working Together For You – Annual Report](#)

[Cabinet Scrutiny Protocol](#) (Agenda item 6)

[North East Joint Transport Committee](#)

Opportunity for All – Strategic Skills Plan
2021-2023 –add external link after launch

Engaging stakeholders effectively, including individual citizens and service users

Meetings, agendas and minutes are accessible via the website. All meetings are held in public (other than where consideration of confidential or exempt information). However, during the ongoing situation regarding Covid-19, Cabinet meetings and all other Committees were held virtually, in accordance with their usual timescales, and live streamed for the public to view.

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

Our Freedom of Information Scheme is published on our website.

The appointment of a Mayoral Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) and supporting Accord, which sets out a framework for a new relationship between NTCA and the VCSE to deliver our shared vision of an inclusive economy.

We have set up a dedicated Coronavirus webpage which provides support for our businesses and communities, providing the latest government advice and available support. The website also signposts businesses to specialist sources of Brexit preparedness advice and support.

We continue to use Facebook and Twitter as primary social media platforms to provide information on news and events for residents, businesses and visitors.

NTCA [website](#)

[Forward Plan](#)

[Freedom of Information Scheme](#)

VCSE [Accord Agenda item 4](#)

[Coronavirus webpage](#)

[Brexit Support webpage](#)

	<p>Our website includes a transparency page where you will find the non-financial information the North of Tyne Combined Authority is required to publish under the Local Government Transparency Code 2015.</p> <p>We have worked closely with our adult education providers providing stability and flexibility to ensure delivery is maintained throughout and beyond the Covid-19 pandemic. We have already received much feedback on how this funding is making a positive impact to people's lives and we have case studies from a number of residents providing us with 'their story' on how the courses they are taking are building their confidence and skills, and supporting them on their next steps.</p>	<p>Transparency Information</p> <p>The Cedarwood Trust AEB case study (Appendix 2 page 18)</p>
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C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

<i>The Authority's Commitment to Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
Defining Outcomes	<p>Corporate Plan information – Add details following Annual Meeting when it will be launched</p> <p>The North East LEP works with its partners, which includes NTCA and NECA, to deliver the regions Strategic Economic Plan (SEP). The Plan reflects on recent changes to the global and national economy as well as the UK's departure from the European Union. It also looks at how the North East can maximise opportunities around the UK's Industrial Strategy.</p>	<p>Strategic Economic Plan</p> <p>UK's Industrial Strategy.</p>

	<p>The Authority’s vision and its six key pillars of ambition (priorities) represent the most important groups, issues and goals we will invest in, in order to achieve a more prosperous and inclusive future.</p> <p>We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.</p>	<p>The Authority’s vision and its six key pillars of ambition</p> <p>Significant Partnership Register</p>
<p>Sustainable, Economic, Social and Environmental Benefits</p> <p>Page 104</p>	<p>To build on the engagement that is already happening across the North of Tyne region regarding climate change, Cabinet has approved the creation of a Citizens’ Assembly to look at a specific set of issues relating to climate change.</p> <p>Our Social Value Policy sets out how the Authority will deliver social value through their commissioning and procurement activities and to set the Authority’s priorities in relation to social value.</p> <p>NTCA has developed a programme to understand what ‘Good Work’ should look like in the North of Tyne and how NTCA can promote and reward employers that are offering the elements of ‘Good Work’. This has included the development of a Good Work Pledge, which will enable employers to understand the key elements of ‘Good Work ‘ what they can do to achieve this for their employees and what support is available to help them get there.</p> <p>Adult Education Budget provision will support key elements of the North East Strategic Economic Plan, and the emerging Local Industrial Strategy and play a key role in NTCA’s economic growth and reform agenda.</p>	<p>North of Tyne Citizens’ Assembly on Climate Change</p> <p>Social Value Policy</p> <p>Good Work Pledge</p>

We will continue to engage with adult education providers working to respond to the Coronavirus pandemic looking for provision, which is responsive to the challenges the crisis brings, helping residents get on in work and life around the terms of Covid-19 recovery.

To support businesses during the Coronavirus pandemic we have made funding of £5m available with additional grant funding of around £1.5m to support businesses during the Coronavirus crisis.

We have established a digital equipment loan scheme to support residents across the region giving them access to digital services and opportunities. Encouraging digital inclusion for everyone will help our residents' access new opportunities and in turn support our inclusive economy.

Inclusive Economy Board was launched in March 2020 and advises the NTCA Cabinet on inclusive economy interventions across the North of Tyne area, championing the NTCA Vision and supporting the area to become a national exemplar in inclusive growth

The Housing and Land Board provides robust governance around an integrated strategic approach to improving the quality and quantity of homes in the North of Tyne area.

A North of Tyne Poverty Truth Commission will bring together community, civic and business representatives with people with experience of living in poverty. It will aim to better understand the specific effects of the Covid -19 pandemic for people living in Newcastle, North Tyneside, and Northumberland and come up with practical solutions.

[Covid-19 Capacity Fund](#)

[Digital Inclusion Scheme](#)

[Poverty Truth Commission](#)

	<p>Crown Fund North of Tyne will fund projects to help communities recover from the Coronavirus pandemic - its aim is to bring people together, create or improve green spaces, improve mental health, inspire creativity and opportunity for all, or support social enterprise and co-operative development.</p>	<p>Crown Fund North of Tyne</p>
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D. Determining the interventions necessary to optimise the achievement of the intended outcomes

<i>The Authority's Commitment to Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
<p>Determining Interventions</p> <p>Page 106</p>	<p>Cabinet approved its draft budget for 2021/22, and the medium-term financial plan for the period 2022/23 to 2024/25 at its January 2021 meeting.</p> <p>Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our Constitution and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.</p> <p>A Cabinet Scrutiny Protocol has been agreed which defines the relationship between Cabinet and Overview and Scrutiny Committee, providing a framework for disagreement and debate and a way to manage it when it happens.</p> <p>A Scrutiny Annual Report was presented to Cabinet at its Annual Meeting in June 2020. (update if recently reported before AGS final)</p>	<p>Cabinet Report (Agenda item 7)</p> <p>Constitution (Part 1.2)</p> <p>Cabinet Scrutiny Protocol (Agenda item 6)</p> <p>Scrutiny Annual Report (Agenda item 7)</p>

<p>Optimising Achievement of Intended Outcomes</p>	<p>The strategic, crosscutting nature of much of the Authority's work means that delivery is often achieved through collaboration with NTCA partners and North of Tyne Council's. An example of this collaboration is in our Recover, redesign, reimagine plan which has been put forward to Government demonstrating our commitment to post-covid recovery and renewal.</p>	<p>Recover, Redesign, Reimagine</p>
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E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

<p><i>The Authority's Commitment to Good Governance</i></p>	<p><i>How the Authority meets these principles</i></p>	<p><i>Where you can see Governance in action</i></p>
<p>Developing the Organisation's Capacity</p>	<p>We have defined and documented in our Constitution the roles and responsibilities of Cabinet, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Cabinet, Members and Officers have been agreed by the Combined Authority.</p>	
<p>Developing the Capability of the Organisation's Leadership and Other Individuals</p>	<p>We identify and aim to address the development needs of members and senior officers through the annual appraisal process, in relation to their strategic roles, and support these with appropriate training.</p> <p>Values and behavior's workshops have been delivered to all staff, with staff appraisals undertaken with agreed targets and objectives linked to NTCA's work programme.</p>	

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	<p>During the Coronavirus pandemic national updates and latest Government guidance has been regularly communicated to all our staff working remotely.</p> <p>Staff are also reminded of our information governance/data security requirements whilst working remotely, to ensure they continue to work safely and securely. Additional health and safety modules have been made available on our Learning Management System alongside advice from the Health & Safety Executive to ensure all our staff work safely at home.</p>	
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Page 108 F. Managing risks and performance through robust internal control and strong public financial management

<i>The Authority's Commitment to Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
Managing Risk	Our Risk and Opportunity Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.	
Managing Performance	Cabinet and Overview and Scrutiny Committees receive quarterly finance reports, monitoring the Authority's financial position and treasury management activity.	

	Cabinet and Overview and Scrutiny Committees receive six monthly reports monitoring the financial position of the North East LEP and Invest North East England.	
Effective Overview and Scrutiny	Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 1.2) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.	
Robust Internal Control	<p>An Officer holds the position of Data Protection Officer and is responsible for overseeing the Authority's Data Protection and Confidentiality Strategy and its implementation to ensure compliance with the General Data Protection Regulations.</p> <p>The Authority regularly reviews policies relating to records management, data quality, data protection and information security.</p> <p>The Audit and Standards Committee acts as principle advisory committee to NTCA, providing independent assurance on the adequacy of the risk management framework and internal control environment.</p> <p>An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2020/21 to support this Annual Governance Statement.</p>	Data Protection and Confidentiality Strategy

	<p>A 2020/21 Strategic Audit Plan which was approved by Audit and Standards Committee on 28 July 2020, has been prepared to ensure Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. Progress against the 2020/21 Audit Plan was reported to Audit and Standards Committee at its January 2021 meeting.</p> <p>Audit and Standards Committee endorsed the Authority's Strategic Audit Plan for 2021/22 at its January 2021 meeting.</p>	<p>Internal Audit report January 2021 – Agenda item 4a & 4b)</p>
<p>Managing Data Page 110</p>	<p>All staff must undertake data protection e-learning training annually. The programme of training and awareness for all staff and members continues during 2021/22.</p> <p>The Authority makes information available to the public via the information access regimes provided for by the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.</p>	<p>Freedom of Information Scheme</p>
<p>Strong Public Financial Management</p>	<p>The control and financial management arrangements are reviewed by internal and external audit throughout the year. The outcomes for 2020/21 are noted in Section 5 of this Annual Governance Statement – Annual Review of Effectiveness of Governance Framework.</p>	

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

<i>The Authority's Commitment to Good Governance</i>	<i>How the Authority meets these principles</i>	<i>Where you can see Governance in action</i>
Implementing Good Practice in Transparency	We publish details of delegated decisions on our website.	delegated decisions on our website.
Implementing Good Practices in Reporting	<p>We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities and Police 2018.</p> <p>Internal Audit compliance with Public Sector Internal Audit Standards</p> <p>Production of the Authority's Annual Report and Accounts</p>	
Assurance and Effective Accountability	<p>The Assurance Framework explains the arrangements for NTCA to:</p> <ul style="list-style-type: none"> • Demonstrate that arrangements are in place to ensure accountable and transparent decision-making • Appraise projects and allocate funding; and • Monitor and evaluate projects to ensure that they achieve value for money and projected outcomes <p>The Assurance Framework has been designed to meet the National Guidance for Single Pot Assurance Frameworks, issued by MHCLG for localities in receipt of a Single Pot as part of their Devolution Deals.</p>	

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

The Authority monitors the implementation of internal and external audit recommendations. Audit and Standards Committee receive regular reports summarising performance regarding implementation of recommendations.

Information on expenditure, performance and decision making is sited together on the Transparency page of the Authority's website and can be accessed quickly and easily.

Section 6: Annual Review Of Effectiveness Of Governance Framework

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

- (a) An assessment of the Authority's Constitution, including its committee structure.
- (b) The views of Internal Audit. The Acting Chief Internal Auditor's report to the XXX Audit and Standards Committee gives the following opinion on the adequacy and effectiveness of the framework of governance, risk management and control in place for the North of Tyne Combined Authority for 2020/21: (DN: add opinion once given)
- (c) Assurance from Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written signed statements.
- (d) The views of External Auditors. The external auditors Annual Audit Letter and Audit Completion Report provides (DN: add opinion once given)
- (e) The results of the Authority's self-assessment of compliance with the new CIPFA Financial Management Code
- (f) Activity of the Audit and Standards Committee, including ethical governance
- (g) Partnerships, including the North East Joint Transport Committee
- (h) The Risk Management process, particularly the Strategic Risk Register
- (i) Performance information which is reported to Cabinet and other meetings on a regular basis.

Section 7: North East Joint Transport Committee and North East Combined Authority

Regional transport is operated and governed by the North East Joint Transport Committee, bringing together the two Combined Authorities, which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered. The Committee receive regular updates on North East and Regional Transport Plans. The Committee also receive regular updates from the Managing Director, Transport North East, in respect of transport partnerships, including East Coast Mainline, HS2 and Northern Powerhouse Rail.

The Joint Transport Committee, Audit Committee is also a key component of the corporate governance arrangements and is an important source of assurance about the Joint Transport Committee's arrangements for managing risk, maintaining an effective control environment; and reporting on financial and performance matters.

The Joint Transport Committee also has an Overview and Scrutiny Committee to enable local councillors, on behalf of their communities, to scrutinise and challenge the Joint Transport Committee, its committees and Nexus, and to investigate matters of strategic importance to residents with a view to influencing and adding value to the decisions.

Section 8: Investment Fund Programme & Brownfield Housing

Investment Fund Programme

Delivery of the Investment Fund Programme is well underway; £59.13m is committed against a wide range of projects and programmes, with project delivery well underway. Forecast expenditure for 2020/21 currently stands at c£10m. In addition, a healthy pipeline of high-quality projects is in place with several significant investments planned in the coming months. This includes investment in our digital and offshore sectors, enabling innovation in businesses, as well as broader programmes of support to our residents and communities. The Covid-19 pandemic has had an impact on North of Tyne residents and our economy. The Combined Authority has worked closely with project sponsors throughout the last year to provide additional support and enable the development of alternative delivery methods where appropriate to realise outcomes. The impact of Covid-19 continues to be monitored.

An evaluation framework to capture our achievements and learning is in development and aiming for consideration by Cabinet in June 2021. The approach taken has been a process of co-design, including representation across all work programmes. Performance is reported monthly, outcomes are slightly ahead of forecasts in terms of the creation of new jobs and attracting private sector leverage. A bespoke programme management system, shared with the North East LEP, was launched in April 2021 across all NTCA programmes. As a cloud-based system, this will improve the efficiency of managing and monitoring programmes across the Combined Authority and will streamline the interface with delivery organisations for claims and output reporting.

Brownfield Housing

In July 2020, the Combined Authority secured £23.850m from Government's £400.000m national Brownfield Housing Fund. The funding will be delivered over five years up to 31 March 2025, to support the development of at least 1,500 new homes, by remediating and revitalising brownfield sites across the North of Tyne area. The Brownfield fund is part of a broader housing programme and pipeline of sites, shaping a strategic delivery approach to supporting housing and economic recovery.

The Combined Authority has operationalised the programme at pace, working closely with Local Authorities to establish a pipeline of projects totalling £21.5m by October and legally committing £10m by March 2021.

Section 9: Adult Education Budget

In August 2020 the Combined Authority took control of a £23.145million Adult Education Budget (AEB), secured as part of the devolution deal. An additional allocation of £959,064 for one year only was received in September 2020 to invest in High Value Courses and sector-based work academy programmes as part of the Chancellor's announcement on the 'Plan for Jobs' to support young people during the COVID-19 crisis. For the period April-July 2021 NTCA have also received an additional £409,894 of 'delegated' funding for the delivery of the Level 3 Adult Offer of the Government's Lifetime Skills Guarantee.

With Cabinet approval, the devolved AEB has been allocated to 29 education providers across 10 Grant Agreements and 19 Contract for Services (via the establishment of a procurement framework).

NTCA have made use of the flexibilities afforded by devolution of AEB in relation to its funding rules, rates and eligibility criteria to ensure the funding can be targeted where it is needed

most. We have successfully secured provision which is based in the heart of our communities for innovative programmes that would not have been funded through non-devolved AEB.

The impact of Covid-19 is being closely monitored, both in terms of learner engagement during the pandemic and providers performance against delivery plans and payment profiles that were set out at the beginning of the academic year. Performance against delivery is reviewed at quarterly monitoring points.

Providers have implemented innovative plans to ensure delivery continues. This has included transferring provision on-line, supporting vulnerable learners through one to one video calls and where classrooms have been able to open delivering to groups of learners with effective safety measures in place.

NTCA implemented new funding flexibilities in January 2021 following consultation with providers on the impact of the crisis. These flexibilities included a fully funded non-accredited learning aim which can be utilised to provide informal activity to support learner engagement. A further flexibility removed the requirement for employed residents to contribute 50% towards the cost of their learning and enable fully funded accredited learning at Level 2 and Level 3 and non-accredited work-related training.

The AEB team are exploring a number of options for consideration in relation to the management of funding allocations for the remainder of this Academic Year (AY) 2020-21 and for AY 2021-22 to enable providers to respond quickly and flexibly when lockdown restrictions end.

Section 10: Significant Weaknesses In Governance and Internal Control

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

The review highlighted no significant weaknesses in governance or internal control during 2020/21.

Section 11: Covid-19 Response and Recovery

The region, via its Local Resilience Forum and a range of additional partners, continues to collaborate strongly in response (overseen by a Strategic Coordination Group) and recovery functions (through a Recovery Coordination Group) to Covid-19. The LA7 Local Authorities from Durham to Northumberland are actively collaborating at a political and officer level, and the NTCA has played an ongoing role supporting these efforts and leading elements of recovery planning.

The Combined Authority has taken a proactive approach to support for particular sectors impacted by the pandemic, including the continuation of support to enhance short-term skills, jobs and inclusive economy interventions such as Kickstart, Youth Hubs, Good Work Pledge, Culture and Tourism Recovery, Climate innovation and Growth of the Digital Sector.

North of Tyne's Digital Inclusion programme was piloted in June 2020, as part of the COVID-19 response. It sought to provide 2675 residents with technology to allow them to become more digitally included. Primarily, this focussed upon providing equipment to school children,

adults enrolled in education and employability programmes and those in care homes across the region. Through an investment of £686,000, the three constituent local authorities were able to provide resources and support to those that it targeted.

As a member of the North East Covid-19 Economic Response Group, NTCA has worked with regional colleagues to support the submission to government for recovery support and finance for the North East. The Group has published its North East Recovery and Renewal Deal, which asks government for investment to prioritise jobs and skills which will strengthen the economic recovery, as we invest in our people, alongside infrastructure and innovation.

The programme of activity is built around five themes:

1. **Job recovery:** Rapid and sustained interventions to help people into jobs and training, including a jobs recovery programme that will provide jobs and training for 20,000
2. **Building the economy of the future:** Maximising the potential of our existing assets and exploring opportunities to enter new markets and supply chains – powered by innovation
3. **Supporting businesses:** Rapid recovery of businesses and sectors
4. **Communities and place:** Creating resilient places and strong communities as they adapt to living with Covid-19, as well as other challenges and opportunities and supporting the cultural recovery
5. **Digital and connectivity infrastructure investment:** Building infrastructure to lead transformation and encourage future investment

In addition to this NTCA has allocated £10m of Investment funds to proceed with a North of Tyne Recovery Innovation Deal supporting businesses, social enterprises and Local Authorities to proactively innovate business models and sustain jobs in sectors that have been hit by the crisis. This funding could be used to help businesses adapt to digital ways of working, creating new Covid-19 secure spaces and supporting the development of stronger local supply chains.

Section 12: Improvements Needed to Governance and Internal Control

The review also identifies activities that may need improvement, but which do not constitute “significant weaknesses” in our governance and internal control arrangements. These are set out in Appendix A and will be monitored as part of the next review.

Section 13: Conclusion

We consider the governance and internal control environment operating during 2020/21, to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements for 2020/21 are in place and operating as planned.

We propose over the coming year to improve our governance and internal control arrangements and consider any lessons learnt during the period of the Coronavirus pandemic, as part of our next annual review.

**Mayor of the North of Tyne
Combined Authority**

Interim Head of Paid Service

Full Name: Jamie Driscoll

Full Name:

Signature:

Signature:

Date:

Date:

**Chair of Audit and Standards
Committee**

**Chief Finance Officer, North of Tyne
Combined Authority**

Full Name: Doug Ross

Full Name: Janice Gillespie

Signature:

Signature:

Date:

Date:

Section 14: Improvements needed to governance and internal control

Appendix A

CIPFA Financial Management Code (The Chartered Institute of Public Finance and Accountancy)

Background Risk

NTCA must comply with the new CIPFA Financial Management Code by 2021/22. The Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of the Authority, manage financial resilience to meet unforeseen demands on services and manage unexpected changes in financial circumstances. Non-compliance with the Code could lead to ill-informed decision making which could adversely impact on the Authority's financial sustainability.

In preparation for the first full year of compliance with the Code (2021/22) NTCA has undertaken a self-assessment in line with guidance issued by CIPFA. (add outcome of the assessment and actions to enhance effectiveness as necessary)

The results of the self- assessment identified XX areas for improvement, which once implemented will ensure NTCA fully complies with the Financial Management Code.

Accountable Officer: Chief Finance Officer

Action(s) required to enhance effectiveness

Implementation date

DN: actions will be added once self-assessment outcomes have been determined

Audit Strategy Memorandum

North of Tyne Combined Authority

Year ending 31 March 2021

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Agenda Item 11

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- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Value for Money
- 06 Fees for audit and other services
- 07 Our commitment to independence
- 08 Materiality and misstatements
- Appendix – Key communication points

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

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

24 March 2021

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for the North of Tyne Combined Authority (the Authority) and the Group (the Group) for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07896 684 771.

Gavin Barker

Gavin Barker
Mazars LLP

Mazars LLP – The Corner, Bank Chambers, 26 Mosley Street, Newcastle upon Tyne NE1 1DF

Tel: 0191 383 6300 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

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 under reference number C001139861. VAT number: 839 8356 73

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of the North of Tyne Combined Authority and the Group (the Group) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

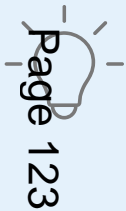
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Cabinet, as those charged with governance, of their responsibilities.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Going concern

The Authority and Group are required to prepare their financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether it is appropriate for the Authority and Group to prepare their accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for reaching a conclusion on the arrangements that the Authority have in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Reporting to the NAO

We report to the NAO on the consistency of the Group's financial statements with its Whole of Government Accounts (WGA) submission.



Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

02

Section 02:

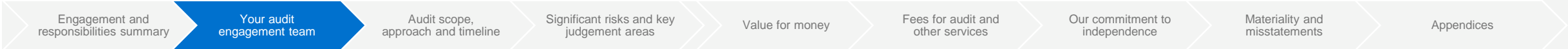
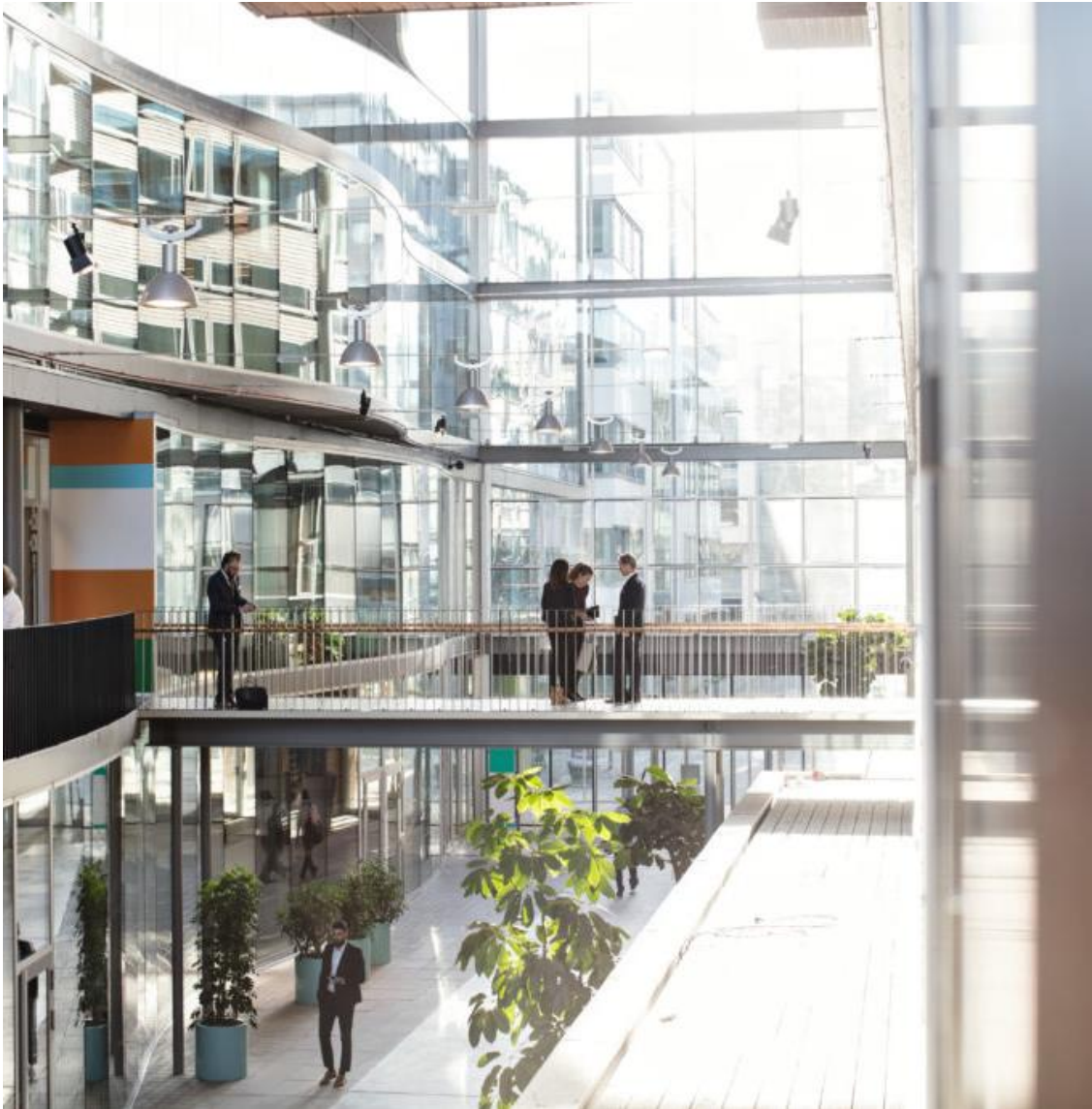
Your audit engagement team

2. Your audit engagement team

Your external audit service will be led by Gavin Barker.

Who	Role	Contact
Gavin Barker	Engagement lead	gavin.barkermazars.co.uk 07896 684 771
Jim Dafter	Engagement manager	jim.dafter@mazars.co.uk 0781 587 6042
Ian Rutter	Engagement team leader	ian.rutter@mazars.co.uk 0788 1283 347

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03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Audit scope

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

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

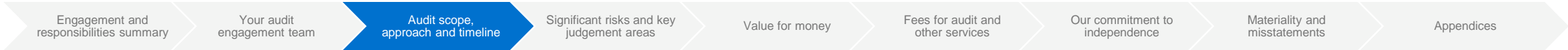
Audit approach

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

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

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

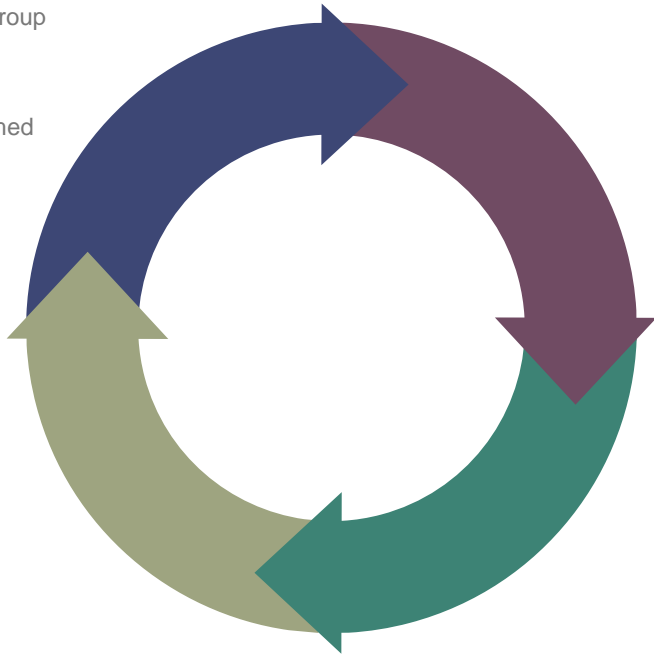
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Planning - January to March 2021

- Planning visit and developing our understanding of the Authority and Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion – September 2021

- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to the Cabinet
- Reviewing subsequent events
- Signing the auditor’s report

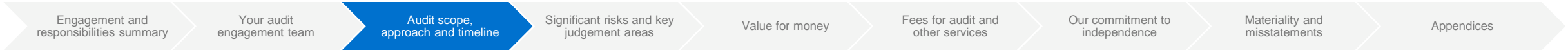


Interim - February to April 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork - July to September 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Reliance on internal audit

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

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

Management’s and our experts

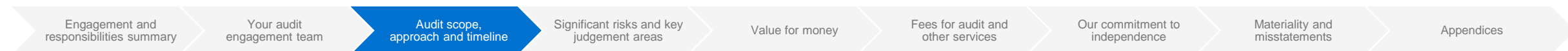
Management makes use of experts in specific areas when preparing the Authority and Group’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	NAO’s consulting actuary (PWC)
Fair values	Link Group	Not required

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority and Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

Items of account	Service organisation	Audit approach
All areas	North Tyneside Council	Review the Authority and Group’s controls over: <ul style="list-style-type: none"> • The information provided to the service organisation; and • The outputs provided by the service organisation to the Authority and Group.



04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

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

Significant risk

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

Enhanced risk

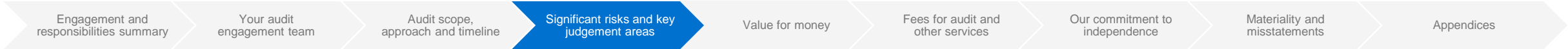
An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

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

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Standard risk

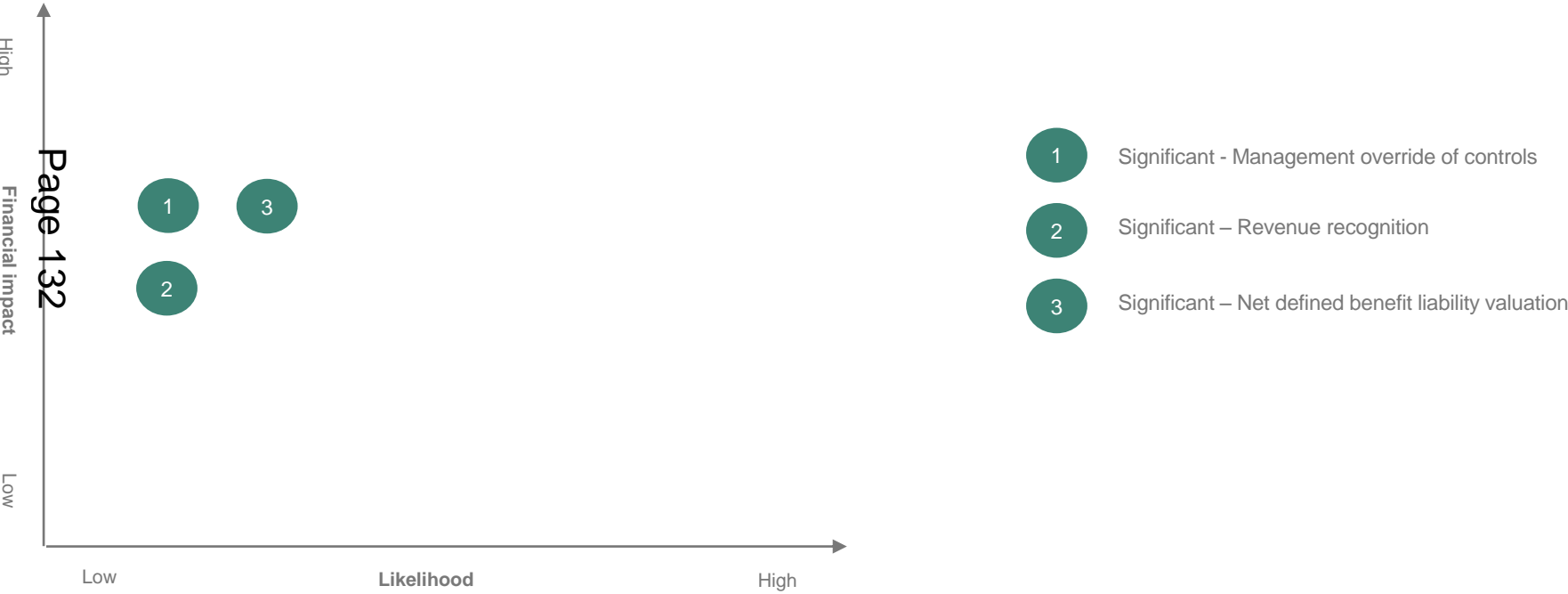
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the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



4. Significant risks and other key judgement areas

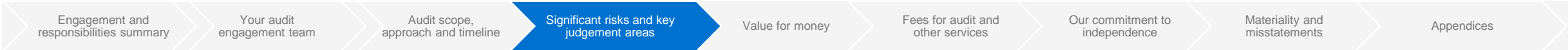
Summary risk assessment

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



- 1 Significant - Management override of controls
- 2 Significant - Revenue recognition
- 3 Significant - Net defined benefit liability valuation

Key: ● Significant risk ● Enhanced risk / significant management judgement



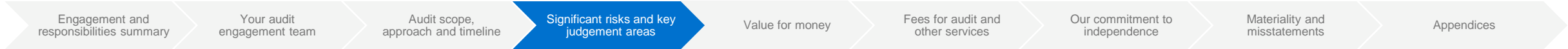
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Cabinet.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
Page 133	<p>1 Management override of controls (single entity and group accounts)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>

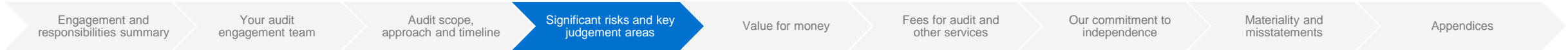


4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met. 	●	●	●	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.

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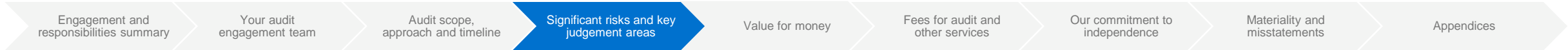


4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Defined benefit liability valuation (single entity and group accounts)</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We plan to address the defined benefit liability valuation risk through performing audit work over</p> <ul style="list-style-type: none"> • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</p>

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05

Section 05: **Value for Money**

Page 136

5. Value for Money

The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Authority has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Authority's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

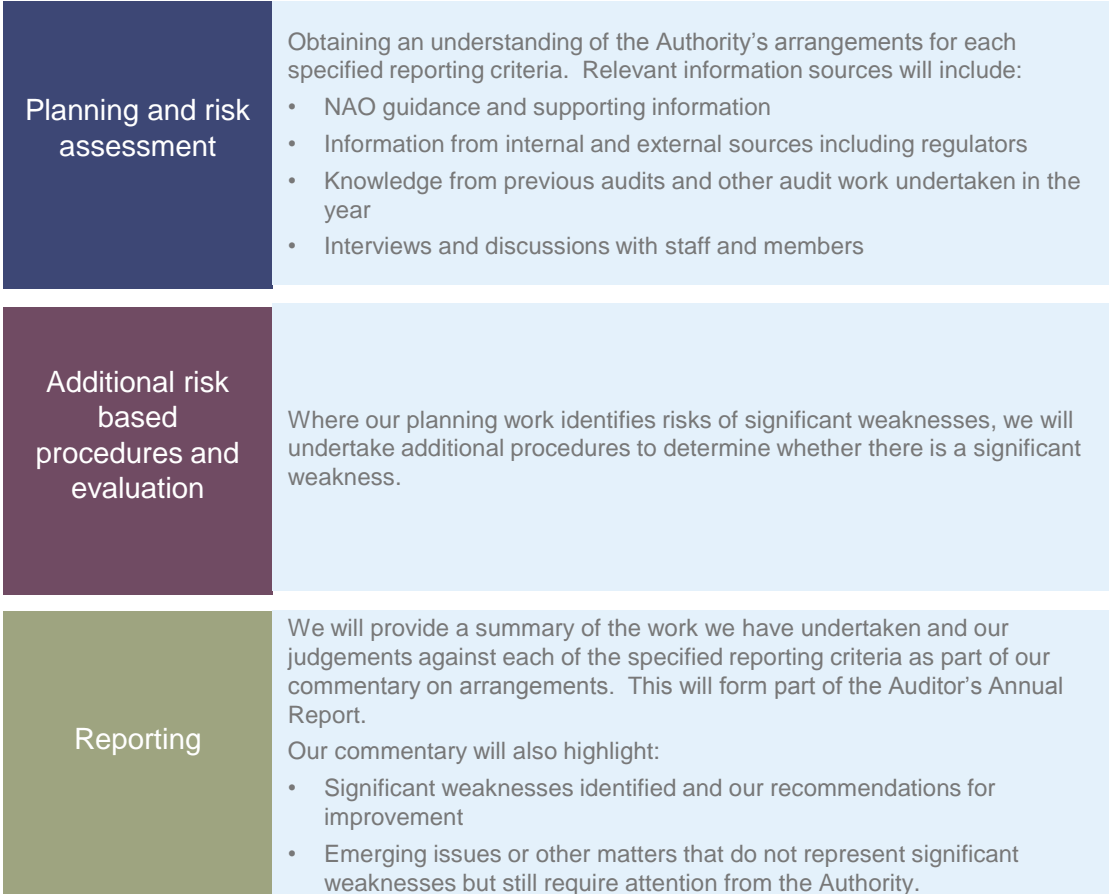
Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.



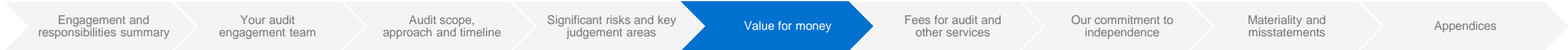
5. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Group's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. We will report the results of our planning and risk assessment work to the Cabinet at a later date.

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06

Section 06:

Fees for audit and other services

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6. Fees for audit and other services

Fees for work as the Group's appointed auditor

At this stage of the audit, we are planning the following adjustments to the scale fees set by PSAA, subject to PSAA approval.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work; PSAA scale fee	£27,500	£27,500
Fee increases agreed with Management.	TBC	£8,000
Total audit fees *	£27,500 *	£35,500

* The revised Code of Audit Practice is likely to lead to additional audit work to support the new value for money conclusion and the changes in reporting requirements. It is currently unclear exactly what impact this will have on the work required and fees. We have consequently not reflected any impact in the proposed fee. We will update The Cabinet as the position is clarified.

Also, there are additional regulatory pressures for auditors to undertake more work than originally reflected in PSAA scale fees. We will discuss this with management as the audit progresses.

All fees shown above are subject to VAT.

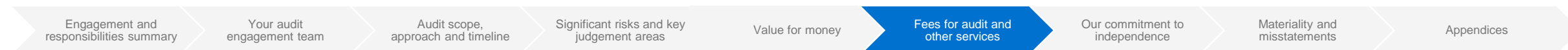
Fees for non-PSAA work

There is no 2020/21 non-audit fee work planned at this stage. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Group

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

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



07

Section 07:

Our commitment to independence

Page 141

7. Our commitment to independence

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

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

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

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

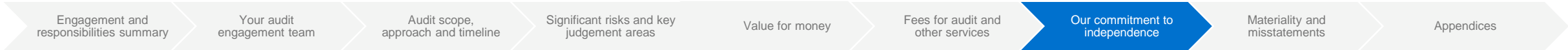
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss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

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

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

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08

Section 08:

Materiality and other misstatements

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8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold NTCA £'000s	Initial threshold Group £'000s
Overall materiality	£5,081	£9,787
Performance materiality	£3,810	£7,341
Specific materiality		
- Senior manager remuneration	£5	£5
Trivial threshold for errors to be reported to the Cabinet	£152	£294

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Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

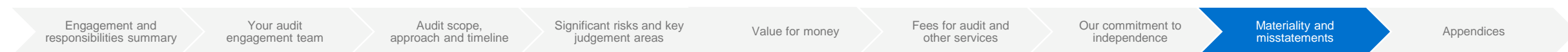
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and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

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

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

Our provisional materiality is set based on a benchmark of gross revenue expenditure at the surplus or deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Cabinet.

We consider that the gross revenue expenditure at the surplus or deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of total assets. Based on total assets we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £5.081m (NTCA) and £9.787m (Group).

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

Performance Materiality

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

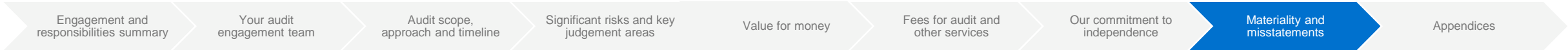
Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Cabinet that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £152,000 (NTCA) and £294,000 (Group) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

Reporting to the Cabinet

The following three types of audit differences will be presented to the Cabinet:

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





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

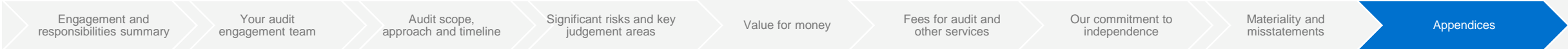
Materiality and misstatements

Appendices

Appendix: Key communication points

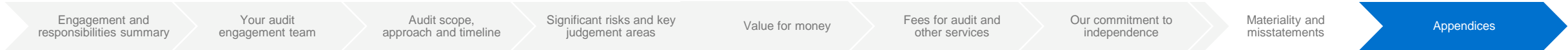
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the Cabinet to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at the Cabinet Audit Planning and Clearance meetings



Appendix: Key communication points

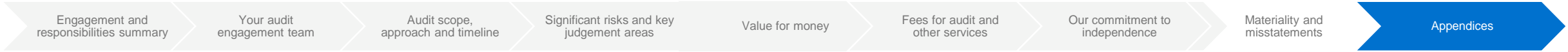
Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Cabinet in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Cabinet into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Cabinet may be aware of.	Audit Completion Report and Cabinet meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars’ integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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