



Audit and Standards Committee

Tuesday 27 September at 10.00am

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

www.northeastca.gov.uk

AGENDA

Page No

1. Apologies for Absence

2. Declarations of Interest

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

3. Minutes of the meeting held on 28 June 2022 **1-6**

For approval as a correct record

4. Audit Strategy Memorandum 2021-22 **7-45**

5. Date and Time of Next Meeting: 22 November 2022 at 10.00am.

Contact Officer: Toby Ord

Tel: 0191 4247541

Email: toby.ord@northeastca.gov.uk

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

28 June 2022

(10.02am – 10.45am)

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

Present:

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

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

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

1 APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Cllr Mullen and Gavin Armstrong

2 DECLARATIONS OF INTEREST

None.

3 MINUTES OF THE PREVIOUS MEETING HELD ON 5 APRIL 2022

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

4

EXTERNAL AUDIT PROGRESS REPORT

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

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

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

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

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

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

RESOLVED that: -

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

5

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

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

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

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

- Changes in Authority boundaries
- Transferral of services
- Devolution

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

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

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

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

RESOLVED that: -

- i. the report be noted.

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

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

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

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

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

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

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

RESOLVED that: -

- i. the report be noted.

7 DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22

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

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

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

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

RESOLVED that: -

- i. the report be noted.

8 DRAFT STATEMENT OF ACCOUNTS 2021/22

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

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

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

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

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

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

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

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

RESOLVED that: -

- i. the report be noted.

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

Audit and Standards Committee

Date: 27 September 2022
Subject: Audit Strategy Memorandum 2021-22
Report of: External Auditor

Executive Summary

This report presents the Audit Strategy Memorandum of the External Auditors to NECA (Mazars), which sets out the strategy for the audit of the financial statements for the year ending 31 March 2022

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

1. Background Information

- 1.1 This report presents the Audit Strategy Memorandum report of the External Auditor, Mazars, which is attached as Appendix 1.

2 Proposals

- 2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2022 and forms the basis for discussion at the Audit and Standards Committee.

3. Reasons for the Proposals

- 3.1 This report is presented to the Audit and Standards Committee as per point 4 of the Terms of Reference:

[The Committee will] receive the following plans on an annual basis: the External Auditor's Audit Service Plan, including details of any non-audit services provided.

4. Alternative Options Available

- 4.1 There are no alternative options arising from this report.

5. Next Steps and Timetable for Implementation

- 5.1 The main audit of the NECA accounts will take place during September to November 2022, after which the external auditor will report their findings to the Audit and Standards Committee.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

- 7.1 There are no new financial commitments arising from this report which is for information. The fees set out within the report for information are included within the approved budget for the year.

8. Legal Implications

- 8.1 There are no legal implications arising from this report.

9. Key Risks

- 9.1 There are no risk implications arising from this report.

10. Equality and Diversity

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

11. Crime and Disorder

11.1 There are no crime and disorder implications arising from this report.

12. Consultation/Engagement

12.1 Consultation has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Audit Strategy Memorandum

15. Background Papers

15.1 None

16. Contact Officers

16.1 Jim Dafter, Senior Manager – Mazars, jim.dafter@mazars.co.uk

17. Sign off

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

Audit Strategy Memorandum

North East Combined Authority

Year ending 31 March 2022



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- 01** Engagement and responsibilities summary
- 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

This document is to be regarded as confidential to North East Combined Authority. It has been prepared for the sole use of the Leadership Board 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 Audit and Standards Committee and the Leadership Board
North East Combined Authority
c/o South Tyneside Council
Town Hall & Civic Officers
Westoe Road
South Shields
NE33 2RL

1 September 2022

Dear Members

Audit Strategy Memorandum – year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for North East Combined Authority (NECA) for the year ending 31 March 2022. 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. If we identify any risks or changes to our planned strategy following completion of our planning, we will ensure we communicate these to the Audit & Standards Committee.

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.

Yours faithfully

Gavin Barker

Gavin Barker
Mazars LLP

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

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Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of NECA for the year to 31 March 2022. 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.

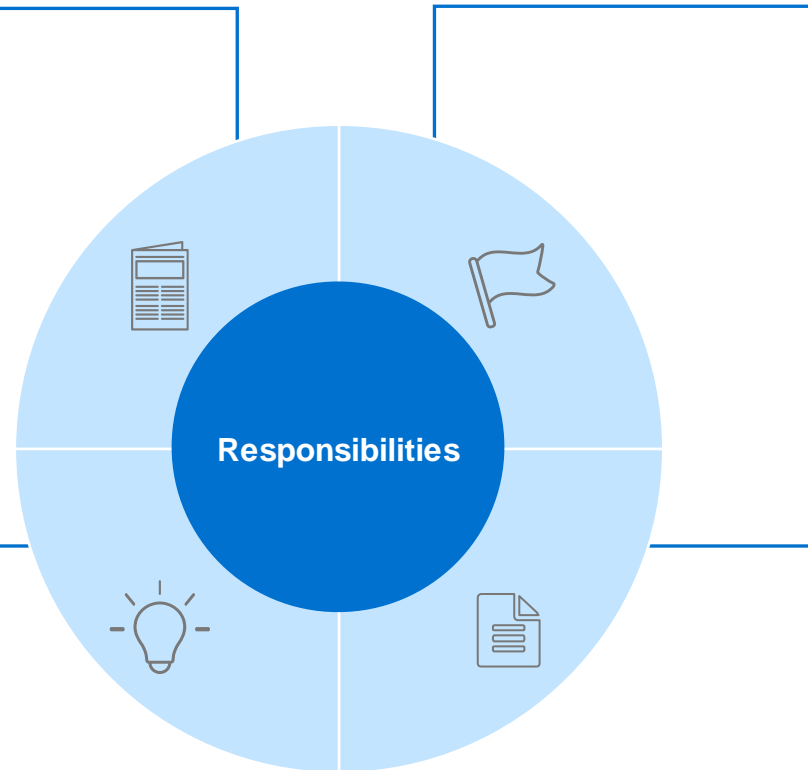
Audit opinion

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

The Chief Finance Officer is responsible for the assessment of whether it is appropriate for NECA to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary on the arrangements that NECA has 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.



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.

Wider reporting and electors' rights

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

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 NECA 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
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02

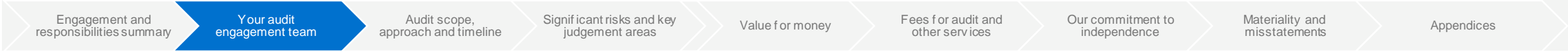
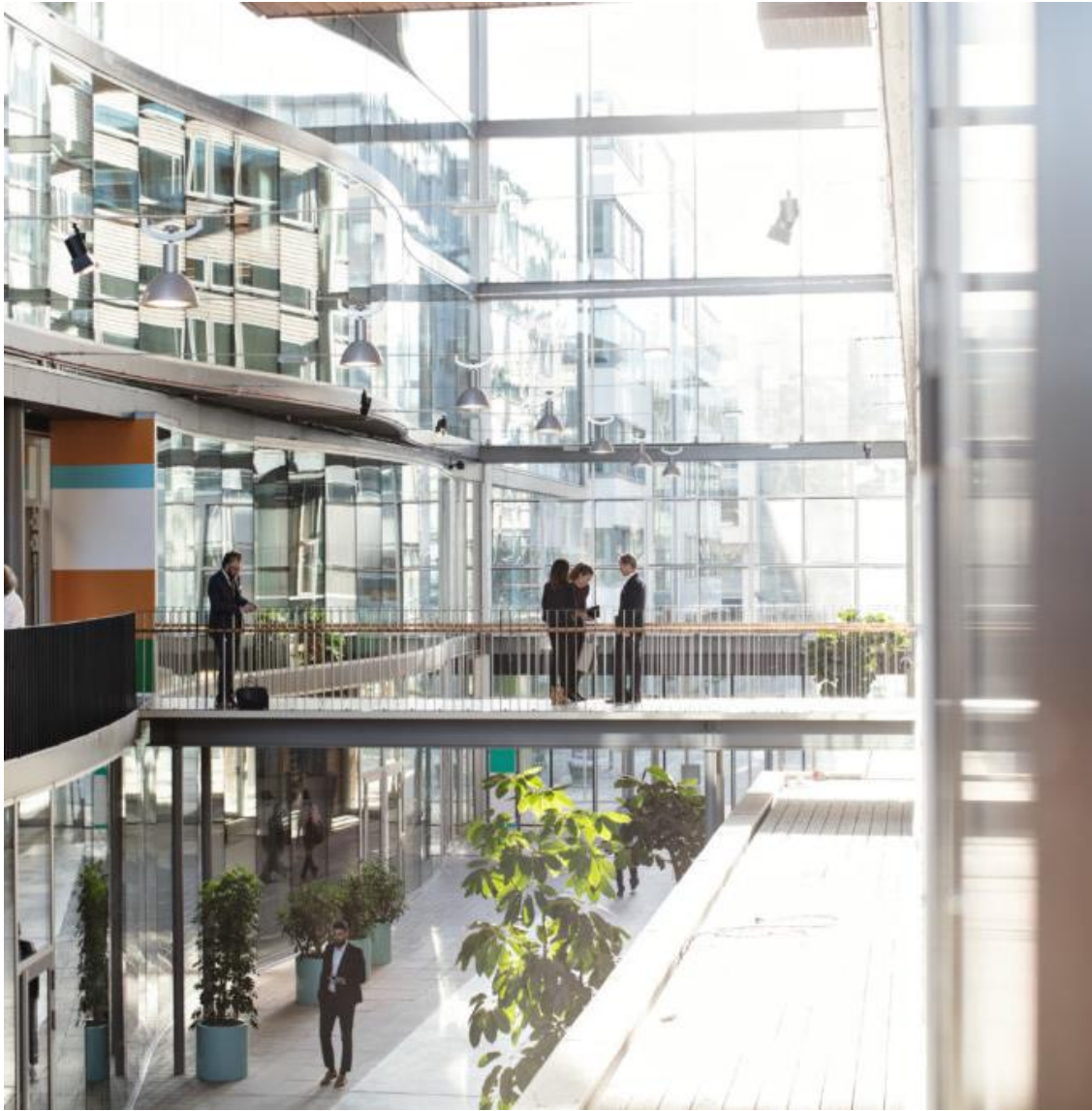
Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service will continue to be led by Gavin Barker.

Who	Role	Contact
Gavin Barker	Engagement Lead	gavin.barker@mazars.co.uk 07896 684 771.
Jim Dafter	Engagement Manager	jim.dafter@mazars.co.uk 07815 876 042
Naser Alkobir	Engagement Team Leader	naser.alkobir@mazars.co.uk 07977 261 903



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Section 03:

Audit scope, approach and timeline

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 activities 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.

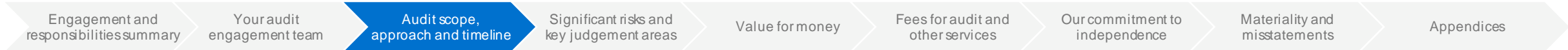
Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. 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

Under the Accounts and Audit Regulations, NECA is required to publish its draft statement of accounts for 2021/2022 by the end of July and publish audited statements by the end of September. However, the Department of Levelling Up, Housing and Communities have proposed that the target date for publishing audited statements be moved to the end of November 2022. We have agreed with officers a timetable for the audit that enables NECA to meet the target date. The timetable is subject to a number of assumptions and we will update the Committee on any significant changes that we agree with NECA.

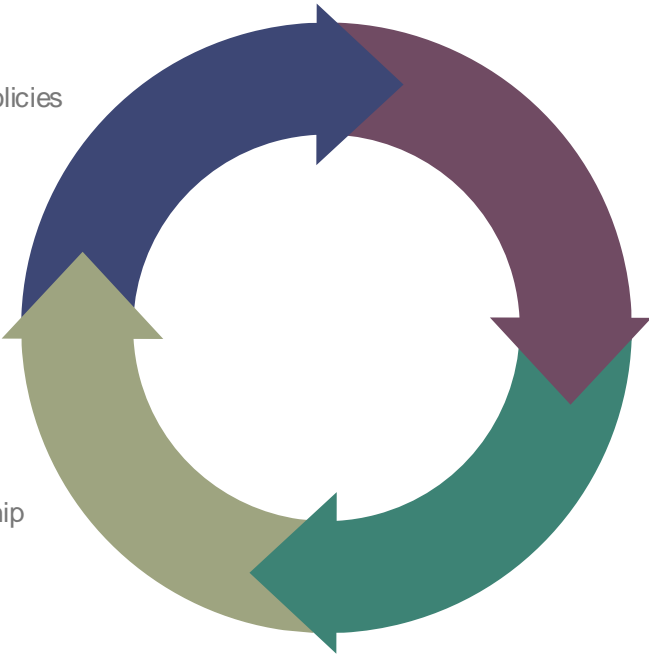
Planning August-September

- Planning visit and developing our understanding of NECA
- 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 November*

- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to the Audit & Standards Committee and the Leadership Board
- Reviewing subsequent events
- Signing the auditor’s report

* depending on timing of receipt of the Pension Fund auditor assurance



Interim September

- 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 September-October

- 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

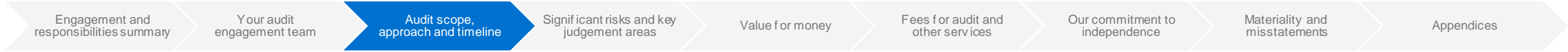
Management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	AON Hewitt Limited for Local Government Scheme	National Audit Office, prepared by Pw C.
Fair Values	Link Asset Service	We do not typically engage an audit expert to assess the reasonableness for your expert’s financial instrument valuation estimates. Where this is required we will engage our own internal experts.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to NECA 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	Durham County Council	Review NECA’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 NECA.



3. Audit scope, approach and timeline

Group audit approach

We are responsible for the audit of the group consolidation. For the year ended 31 March 2022, the Group will be made up of the following components:

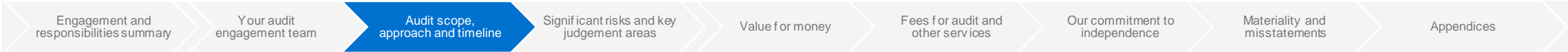
- North East Combined Authority (NECA);
- Nexus; and
- Tyneside Transport Services (TTS) Limited.

Gavin Barker will be responsible for ensuring appropriate audit procedures are performed to obtain assurance for the group and NECA.

An analysis of the group is shown below setting out :

- an overview of the type of work to be performed on the financial information of the components; and
- the percentage of the components of the Group audited directly by Gavin Barker (Key Audit Partner / Director for the Group),

NOTE - TTS Limited is not subject to separate audit, therefore the percentages on the next page exclude TTS Limited.



3. Audit scope, approach and timeline

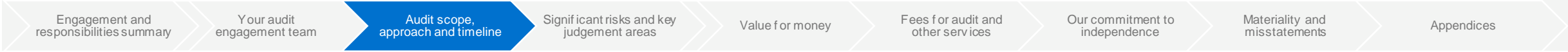
Group audit approach

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2021/22 estimate	100%	0%	0%

Percentage of group (using operating expenditure) audited by responsible individual

Gavin Barker is responsible for the audit of all entities within the Group



04

Section 04:

Significant risks and other key judgement areas

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.

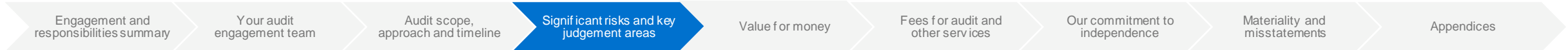
Enhanced risk

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.

Standard risk

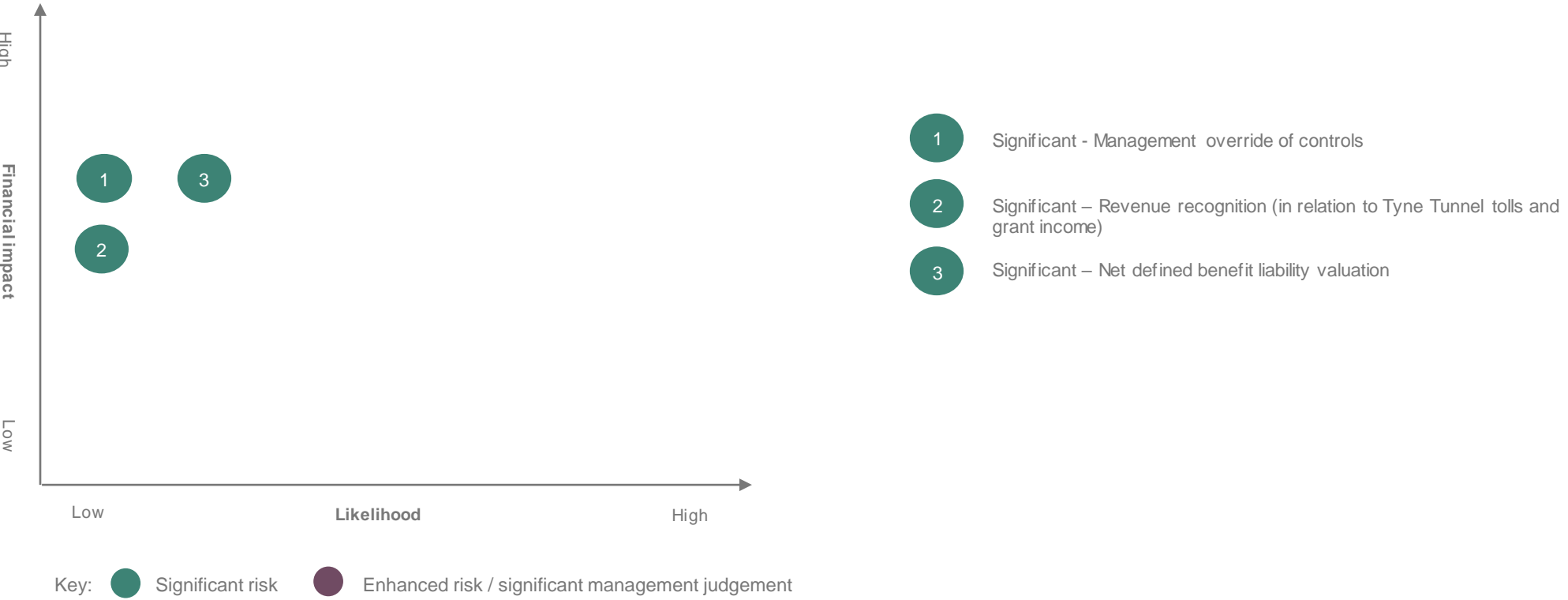
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the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



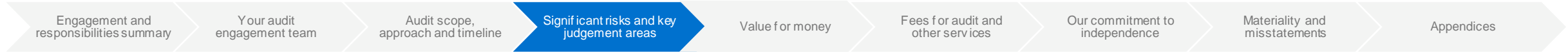
4. Significant risks and other key judgement areas

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 Leadership Board.

Significant risks

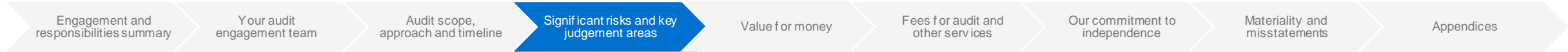
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls (single entity and group accounts)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation 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>	●	○	○	We plan to address the management override of controls risk through performing audit workover accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



4. Significant risks and other key judgement areas

Significant risks

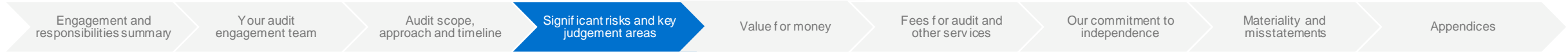
	Description	Fraud	Error	Judgement	Planned response
2	<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> • cut off considerations for Tyne Tunnel toll income; 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 workover:</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; • Tyne Tunnel toll income around the year end to ensure it has 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.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Defined benefit liability valuation (relevant to group accounts only)</p> <p>The financial statements contain material pension entries in respect of 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 will discuss with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we will:</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 outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.



05

Section 05:

Value for money

5. Value for money

The framework for Value for Money work

We are required to form a view as to whether NECA 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.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that NECA has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on NECA's arrangements in the Auditor's Annual Report.

Specified reporting criteria

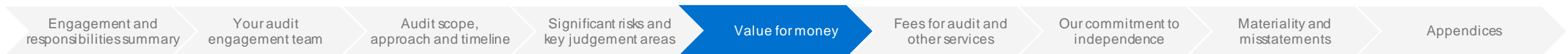
The Code requires us to structure our commentary to report under three specified criteria:

- 1. Financial sustainability** – how NECA plans and manages its resources to ensure it can continue to deliver its services
- 2. Governance** – how NECA ensures that it makes informed decisions and properly manages its risks
- 3. Improving economy, efficiency and effectiveness** – how NECA 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 NECA'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 NECA 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.

Planning and risk assessment	<p>Obtaining an understanding of NECA's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions with staff and Members.
Additional risk based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from NECA.



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 NECA's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Standards Committee, if any arise, as part of our continuous risk assessment.



06

Section 06:

Fees for audit and other services

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	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work; PSAA scale fee	£18,709	£18,709
Fee increases agreed with Management.	TBC	TBC
Total audit fees *	£18,709 *	£18,709

* 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 management 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

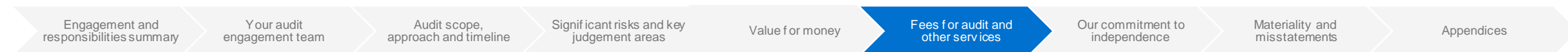
There is no 2021/22 non-audit fee work planned at this stage.

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 NECA, Nexus and TTS. We are responsible for the direction, supervision and performance of the Group audit.

We are also the external auditor for Nexus. 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

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.

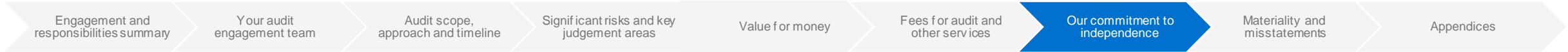
We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all 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.

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



08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold NECA £'000s	Initial threshold Group £'000s
Overall materiality	5,740	11,961
Performance materiality	4,305	8,971
Specific materiality: senior officers' remuneration	5	5
Trivial threshold for errors to be reported to the Audit & Standards Committee and the Leadership Board	172	359

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.

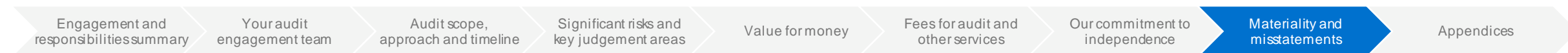
The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- 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.



8. Materiality and misstatements

Materiality (continued)

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 expenditure at the net cost of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Standards Committee and the Leadership Board.

We consider that the gross expenditure at the net cost of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the benchmark. Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £5.740 million for NECA and £11.961 million for the Group (prior year at the planning stage was £6.286 million for NECA and £12.196 million for the 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.

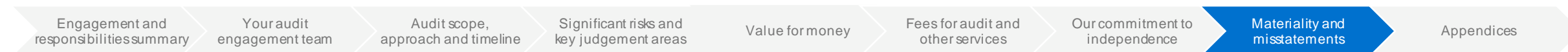
Misstatements

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 Audit & Standards Committee and the Leadership Board 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 £0.172 million (NECA) and £0.359 million (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 Audit & Standards Committee and the Leadership Board

The following three types of audit differences above the trivial threshold will be presented:

- 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:

- Audit Strategy Memorandum;
- 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.

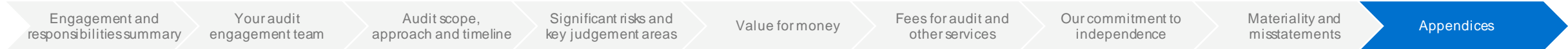
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- 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

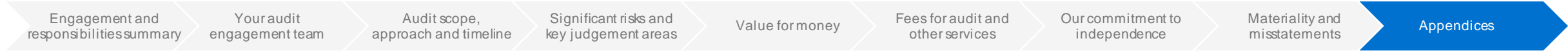
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft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



Appendix: Key communication points

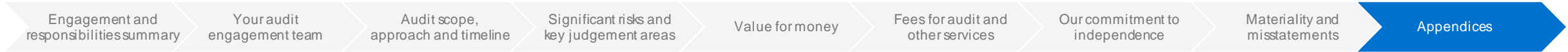
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

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 Audit & Standards Committee 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 Audit & Standards Committee and the Leadership Board Audit planning and clearance meetings



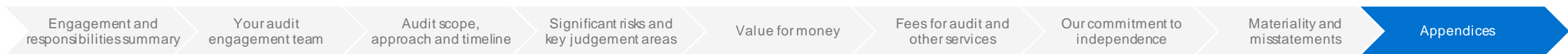
Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <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 Audit & Standards Committee and the Leadership Board in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>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.</p>	<p>Audit Completion Report</p>



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 Audit & Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Standards Committee may be aware of.	Audit Completion Report and Audit & Standards Committee and the Leadership Board 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 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.