



Audit and Standards Committee

APPROVED MINUTES

30 July 2018

(10.00 - 11.55 am)

Meeting held North Tyneside Council, Quadrant, The Silverlink, Cobalt Business Park, NE27 0BY

Present:

Independent Members: M Scrimshaw (Chair) G Clark (Vice Chair)

Councillors: E Bell (Durham), Cllr M Swinburn (Northumberland), G Hobson (South Tyneside) and P Stewart (Sunderland City Council)

Also Present: Councillor B Kellet (Reserve – Durham)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A Lower (Newcastle) and S Gardner (Independent).

2 DECLARATIONS OF INTEREST

None

3 CHAIRS ANNOUNCEMENT

The Chair advised that Agenda Item No. 6 – Statement of Accounts 2017-18 and Agenda Item no. 7 – External Auditors Report would be brought forward and discussed as the first item of business, pointing out that the two papers would be discussed together.

A brief discussion took place around whether there was a need to hold the September meeting. The Chief Finance Officer agreed to discuss with the Monitoring Officer whether there would be any business that would need to be discussed, and if there wasn't then he would arrange for the meeting to be cancelled.

The Chief Finance Officer provided a brief update on the timetable change around the North of Tyne Devolution proposals, highlighting that approval from Parliament was now likely to be in October 2018. If approval was granted at the end of

October, it would result in the first meetings for the new/restructured Combined Authorities and the Joint Transport Committee taking place in November 2018.

4 **STATEMENT OF ACCOUNTS 2017/18 AND EXTERNAL AUDIT COMPLETION REPORT**

Submitted: Report by Interim Chief Finance Officer (previously circulated and a copy attached to official minutes), which presented the 2017/18 accounts for review by Audit and Standards Committee and the narrative report and statement of Accounts (circulated on a supplemental agenda in accordance with the provisions of the Local Government Act 1985), which invited the committee to comment and submit views to the Leadership Board scheduled to hold their meeting 31 July 2018.

Submitted: Report by External Auditor (circulated on a supplemental agenda in accordance with the provisions of the Local Government Act 1985), which summarised the audit conclusions for the year ended 31 March 2018.

The Chief Finance Officer introduced the report, highlighting the key areas, drawing the committee's attention to the adjustments to the financial statements. He explained that this year the preparation and audit of the Final Accounts had been brought forward by two months. This had compressed the time available to complete the work and to circulate the papers.

The External Auditor introduced the Audit completion report, drawing the committee's attention to the status of the audit work and highlighting the key areas. He stated that from an independent point of view, an unqualified opinion, without modification on the financial statements would be issued. He expressed his thanks to the accounting team for their assistance during the audit.

During discussions the following points were made:

- Concern was raised around the number of outstanding adjustments yet to be made to the accounts and the reasons why it had been so complex. It was confirmed that these were not material. The production of the Group Accounts had been even more complex this year due to the changes in the accounts for the new NEMOL company being made into the Nexus Group Accounts, which then needed to be included in the NECA group accounts.
- Clarification was provided on the decision-making process that resulted in a grant to Newcastle International Airport for advertising and marketing and the reasons for the adjustment to the phasing of the accounting for the payment over time.
- Reference was made to why there was two separate entries for the officers' remuneration salaries. It was explained that the two entries were required to differentiate between the statutory officer positions from other officers. Entries included information about contractors as well as direct employees to provide transparency.
- It was explained that the variations in the amount of Enterprise Zone business rate income received each year, was due to the impact of business rate appeals and resulting backdated payments.
- A query was raised about the soft loan provided to Durham University. The Chief Finance Officer agreed to send a written response providing details.

- Clarification was given about the soft loan in 2016/17 for the refurbishment of 'The Jesmond' which was to create office space for SME businesses. The LEP now had added security of a first charge on this building
- A query was raised about the capital expenditure on the skills thematic area and the reasons for this being only £2.3m. The committee was informed that this was the agreed support to specific capital projects this year and that the figures varied from year to year and had been higher in previous years. The core revenue skills budget was not part of the NECA accounts. Should additional finance come on stream for the skills thematic area in future years then this would be reflected in the accounts for those years.
- A query was raised about the substantial increase in pensions costs between 2016/17 and 2017/18. The Chief Finance Officer confirmed that this was because of NEMOL employees being transferred to NEXUS establishment in 2017/18. It was agreed that an explanation be included in the narrative of the accounts under the heading - *Transactions relating to post-employment benefits*, to highlight the reason why there was a substantial increase.
- A query was raised about the difference in the actuarial gains/(losses) on liabilities – financial assumptions within the funding liabilities: Local Government Pension Scheme. The Chief Finance Officer and the External Audit pointed out the value of assets varied from year depending on a range of factors including movements in the value of stocks and shares and any changes in the assumptions used by the actuaries. The NECA pension scheme was in a surplus position at the year end.

(The External Auditor left the meeting).

(Councillor B Kellet, reserve member Durham left the meeting).

(A five-minute comfort break was taken).

- The Chief Finance Officer explained that due to the complexity of the group accounts this year and the tight timescales for completing the accounts, officers were discussing the lessons learned with the External Auditor for the closedown process for the 2018/19 accounts, which would be more complex. As a result, he indicated that he would be discussing with the Audit, Risk and Insurance Manager the implementation of internal quality checks to support the accounting process for future years.
- A suggestion was made that in future, a draft statement of accounts should be circulated at end of May to enable members to review; raise questions or seek clarification prior to the account sign off meeting. The Chief Finance Officer agreed to undertake this.
- The Chief Finance Officer explained that although the External Auditor had not mentioned it, management had been agreed that the officer declaration of interest should be updated annually as part of the Annual Governance Statement.

The committee expressed their thanks and appreciation to the officers and External Auditors for closing the accounts 2-months earlier.

In concluding, the Chief Finance Officer explained that a process assessment meeting was to be scheduled with the External Auditors and an update would be

given at the December meeting. He confirmed that planning was already underway around the process for preparing the accounts for 2018/19 light of the in-year changes around devolution.

RESOLVED –

- i. That the External Auditor's report be noted.
- ii. That in line with the identified adjustments highlighted the Statement of Accounts for 2017/18 be presented to the Leadership Board for approval.

5 MINUTES OF GOVERNANCE COMMITTEE HELD ON 3 APRIL 2018

RESOLVED – That the Minutes of Governance Committee held on 3 April 2018 were agreed as a correct record and were signed by the Chair.

Matters Arising:

- i. Rebranding of the committee – The Chair provided clarification to a new member around the rebranding of the committee from Governance to Audit and Standards.
- ii. Minute 40 – North of Tyne Governance Update – A member raised concern about reduced oversight of NEXUS issues. The Chair providing assurance that concerns had already been raised but it was envisaged that the new joint transport arrangements would strengthen matters moving forward.
- iii. Minute 42 – Draft Annual Governance Statement 2017/18 – A member enquired as to whether the briefing session by the Managing Director (NEXUS) on the decision making/governance arrangements for Transport for the North had been scheduled yet. It was explained that it had not but that the Managing Director (NEXUS) was to be invited to the December meeting.
- iv. Minute 46 – Date and Time of Meetings 2018-19 – The committee was advised that the provisional dates listed had been confirmed at the NECA Annual General Meeting. It was agreed that unless there was business to be discussed in September, the meeting would be cancelled.

6 CONSTITUTIONAL CHANGES PROPOSED TO LEADERSHIP BOARD – FEEDBACK REPORT

Submitted: Report by the Monitoring Officer (previously circulated and a copy attached to official minutes).

In the absence of the Monitoring Officer, the Chief Finance Officer provided feedback on the proposed changes to the NECA Constitution discussed by members on 3 April 2018 and decided by the Leadership Board on 19 June 2018.

The Chief Finance Officer reminded the committee about the timetable change around the North of Tyne Devolution proposals.

RESOLVED – That the report be noted.

7 GENERAL DATA PROTECTION REGULATION (GDPR) AND NECA'S INFORMATION GOVERNANCE POLICY - UPDATE

Submitted: Report by the Monitoring Officer (previously circulated and a copy attached to official minutes).

In the absence of the Monitoring Officer, the Chief Finance Officer provided an update of the changes that were implemented as part of the NECA's General Data Protection Regulation (GDPR) readiness project.

The Audit, Risk and Insurance Manager appraised the committee on a couple of incidents, which were confirmed as small scale resulting from increased awareness and training of staff around GDPR. The lessons learned were fed back to the individuals concerned and generic information would be shared as part of awareness training. During discussions, he confirmed that training and guidance had proven useful and would continue; Freedom of Information (FOI) requests would continue to run alongside GDPR as had always happened as both existed under different legislation and as a result of concerns raised, agreed that Combined Authority Officers should be reminded to use 'best practice' established for sending emails e.g. BCC recipients.

A discussion took place on the transition arrangements and measures that needed to be put into place to support the Combined Authority and North of Tyne Mayoral Combined Authority. It was confirmed that work on this was currently being progressed. The committee was informed that key decisions at high level still needed to be taken before structures and support could be put in place.

The committee requested that information on data breach incidents should be shared with the committee moving forward.

(Councillor P Stewart left the meeting)

(At this point, the meeting became inquorate; however, it was agreed to continue and deal with the remainder of the business listed on the agenda).

Clarification was provided on privacy cookies and fair processing policy.

A brief discussion took place about the transfer and retention of data when the North of Tyne Mayoral Combined Authority was established, and the work required on this in moving forward.

RECOMMENDATION – That the report be noted.

8 INTERNAL AUDIT PROGRESS REPORT AND ANNUAL REPORT

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided Members with a summary of the outcomes from the delivery of the 2017/18 internal audit plan; information on the implementation of audit recommendations; progress against the delivery of the

2017/18 internal audit plan. The Audit, Risk and Insurance Service Manager's Opinion, required by the Public Sector Internal Audit Standard (PSIAS) 2013 on the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2017/18 was that it was effective and provided a substantial level of assurance.

Confirmation was provided that the service level agreements for a number of functions were being formalised for NECA.

In responding to questions raised about the scheme of delegation which was being established to address the issues of procurement thresholds, the Chief Finance Officer agreed to circulate a copy of the scheme when it was submitted to the Leadership Board for approval.

RECOMMENDED – That the committee considered the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2017/18 and noted the internal audit activity undertaken during 2017/18.

9 **ANNUAL GOVERNANCE STATEMENT 2017/18**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided details on the final 2017/18 Annual Governance Statement (AGS) for Members to consider and include in the annual accounts.

The Audit, Risk and Insurance Manager advised the committee that the draft Statement was agreed at the April Audit and Standards Committee (previously Governance Committee), and there had been no significant weaknesses identified since its approval. However, there had been an additional area identified as requiring improvement, around the governance and management of the Tyne Tunnels. Areas requiring improvement were included within Appendix A of the Statement. Since the April Audit and Standards Committee, the Governance Framework (section 3 of the AGS) had been updated to reflect the principles of the latest CIPFA delivering good governance framework guidance. The changes to the core principle descriptions had not altered the outcomes noted against them or impacted upon the assurance framework Members reviewed at the last meeting. He highlighted that prior to submission to the Leadership Board the Annual Governance Statement would need to be amended to take account of the change from September to Autumn in the North of Tyne Devolution proposals in Section 5 of the report.

RECOMMENDED – That the committee:

- i. Acknowledged the additional area requiring improvement (Appendix A of AGS)
- ii. Agreed the Annual Governance Statement for inclusion in the annual accounts and recommended it for signature by the Vice Chair of the North East Combined Authority and Head of Paid Service. The Annual Governance Statement was at Appendix 1.

10 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

Submitted: Report by Audit, Risk and Insurance Manager (previously circulated and a copy attached to official minutes), which provided members with an update of the Strategic Risks for the North East Combined Authority.

The Chief Finance Officer responded to questions raised, confirming that the Combined Authority had unanimously signed off on the creation of the North of Tyne Mayoral Combined Authority; explaining that a programme had not yet been established post 2020 in relation to European Funding but the local authorities and the LEP were continuing to monitor the Brexit proposals and lobby ministers; and agreed to share information with the committee from the Government's report on the review of the role and scope of LEP activity.

RECOMMENDED – That the committee reviewed the outcome of the strategic risk review and noted the information.

11 **DATE AND TIME OF NEXT MEETING**

Lead Officers to determine if there was a need to hold the 4 September 2018 meeting. If there was no business to be discussed, the meeting would be cancelled.