



## **North East Combined Authority, Governance Committee**

Friday 1st April, 2016 at 2.00 pm

Meeting to be held: Newcastle City Council, Committee Rooms, Civic Centre, Barras Bridge, Newcastle upon Tyne NE1 8QH

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# AGENDA

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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 handed to the Democratic Services Officer).

Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes of Previous Meeting**

(a) **11 September 2015** 1 - 4

(b) **11 December 2015 - Inquorate Meeting** 5 - 10

4. **Accounting Policies Update 2015/16** 11 - 32

5. **External Audit Progress Update** 33 - 48

6. **Internal Audit Progress Report** 49 - 70

7. **Annual Governance Statement**

**71 - 76**

8. **Date and Time of Next Meeting**

Tuesday 5 July 2016 at 2.00pm - North Tyneside Council (Venue to be confirmed)

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail:  
christine.patterson@newcastle.gov.uk

**To: All Members**

## North East Combined Authority, Governance Committee

11 September 2015

(2.00 pm - 3.15 pm)

Meeting held Durham County Council, County Hall, Durham, DH1 5UZ

### Present:

Independent Members: M Scrimshaw (Chair), G Clark

Councillors: B Coates, A Dale, G Hobson, J O'Shea, H Trueman  
D Jones and M Williams (reserve members)

### 11 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bell and Franks. The Committee was advised that their respective substitutes, Councillors Williams and Jones were in attendance.

### 12 DECLARATIONS OF INTEREST

None

### 13 MINUTES OF PREVIOUS MEETING HELD ON 10 JULY 2015

**RESOLVED** – That the Minutes of the previous meeting held on 10 July 2015 be agreed as a correct record, subject to the following amendments and then be signed by the Chair:

- Removing G Clark from the list of Councillors and separately listing as an Independent Member.
- Correctly spelling G Clark surname, 1<sup>st</sup> paragraph of Minute 1.
- Change the wording in 2<sup>nd</sup> paragraph, 1<sup>st</sup> sentence of Minute 1 from 'NEXUS Board' to 'NEXUS Audit Committee'.

P Woods referred to the next Agenda Item - Annual Report and Accounts and suggested that the Committee may like to consider the External Auditors report and their views prior to considering this report. The Committee agreed.

### 14 EXTERNAL AUDITORS REPORT

Submitted: Report by the External Auditor (circulated on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985, which summarised the findings of the 2014/15 Audit.

Paul Thompson and N Rayner, representative from External Auditor introduced the report, summarising the key aspects. It was pointed out that the overall process of auditing the accounts had been good and Deloitte wished to thank the management team for their assistance and co-operation during the course of their audit work.

During discussions the Committee raised concerns around the time taken to receive confirmation letters from Lloyds Bank, asking for an update to be provided on how much was charged for these letters and how long Lloyds Bank took to issue the letters. The Committee was informed that the annual request could be made more promptly next year and a response be chased more heavily.

Councillor Jones arrived at meeting 2.35

Clarification was provided on the grant and loan criteria, with members being informed that if they had any queries about the terms and conditions of the loans they should be directed to P Woods. Assurances were provided about the future process for countersign off of the journals and about the declaration of interests' framework.

**RESOLVED** - That the Committee received and noted the report of the External Auditor attached as Appendix 1.

## 15 **ANNUAL REPORT AND ACCOUNTS**

Submitted: Report by the Chief Finance Officer (circulated on a supplemental agenda in accordance with the Local Government (Access to Information) Act 1985, which presented the final accounts for approval and summarised the findings of the audit.

P Woods introduced the report advising the Committee about the Tyne Tunnel VAT being incorrectly identified; however, action was being taken to recover this amount and it would be reflected in the 2015-16 accounts. He thanked Eleanor Goodman, Newcastle City Council and Paul Dixon, Sunderland who had worked extremely hard on preparing the accounts. He confirmed that as a result of comments raised during the External Auditors Report, the balance figures would be included in the opening information when submitted to the Leadership Board for approval.

In response to comments raised, the Committee was informed that:

- The loan and grant amounts were included in the accounts but to a layperson they were not perhaps obvious. The details on this would be circulated to members for information.
- The officers had confidence in the recoverability of the long term debt through the regular scheduled payment agreements.

The Committee received and noted the additional paper circulated, which provided some overview information around NECA and would supplement the Annual Report and Accounts.

**RESOLVED** - That the Annual Report and Accounts 2014/15, be recommended for approval and sign-off to the Leadership Board.

## 16 **ANNUAL GOVERNANCE STATEMENT**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which

presented the Annual Governance Statement for approval for inclusion in the annual accounts.

P Slater introduced the report. During discussions members were informed about progress on the risk register. Reference was made to Appendix 1 – Governance Framework, *‘developing the capacity of members and officers to be effective’*, with comments raised that members had not received any training as a NECA member. A comment was made that it should be determined whether there was a need for NECA members to have specific training around their strategic roles.

**RESOLVED** – That the Annual Governance Statement be included in the annual accounts.

## 17 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: Report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided a progress update against the delivery of the 2015/16 internal audit plan; information on the implementation of audit recommendations; and an Audit Charter, which detailed the roles and responsibilities of internal audit within the Combined Authority, seeking Committee approval.

P Slater introduced the report. He confirmed that although there were a number of audits to be completed during October and November, it would be manageable.

A request was made for the Committee to be provided with a link to the NECA website where the Combined Authority’s Partnership schedule was published.

A brief discussion was held around the varied approaches that all the local authorities took in relation to the declaration of interests’. Comments were raised around developing some consistency and to ensure NECA partners were involved in the process. The Committee was informed that the NECA declaration of interests’ form matched best practice.

Clarification was sought on some of the actions against the current position on the recommendations raised in 2014/15. As a result of some confusion, it was suggested that for future meetings, the presentation of information (e.g. sub numbering/bullet points) be examined, to ensure clarity about actions.

**RESOLVED** – That:

- (i) The internal audit activity to date be received and noted.
- (ii) The Audit Charter be approved.

## 18 **DATE AND TIME OF NEXT MEETING**

Friday 11 December 2015 at 2pm at Gateshead Council.

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## North East Combined Authority, Governance Committee

11 December 2015

(2.00 pm - 3.59 pm)

Meeting held Gateshead Council, Civic Centre, Regent Terrace, Gateshead, Tyne and Wear NE8 1HH

### Present:

Independent Member: M Scrimshaw (Chair), G Clark (Vice Chair)

Councillors E Bell, B Coates, G Hobson and J O'Shea

### 19 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting and brief introductions were provided. He advised the committee that the meeting was inquorate with members along with their reserves having submitted apologies. He explained that holding meetings in December may need to be re-considered.

### 20 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A Dale, M Talbot and H Trueman and S Gardner, Independent Person

### 21 DECLARATIONS OF INTEREST

Councillor G Hobson declared a personal interest in any matters raised around NECA Transport North East Committee and NECA Transport North East (Tyne and Wear) Sub Committee being a member of both committees.

The Chair, M Scrimshaw and Vice Chair G Clark declared personal interests in any matters raising around NEXUS being members of the NEXUS Audit Committee.

### 22 MINUTES OF PREVIOUS MEETING HELD ON 11 SEPTEMBER 2015

L Watson referred to Minute 16 – Annual Governance Statement and updated the committee on the survey results, which was undertaken to ascertain whether members had any particularly training and development needs to support their roles in relation to the combined authority. She stated that as members already received training within their constituent authority and on the basis of the survey responses, it seemed likely that if a training programme was rolled out it may not be well attended. Following a brief discussion, it was agreed to offer training or discussions on a bespoke basis for the small number of members who expressed an interest. In addition, induction training would be offered for new members in June 2016.

**IT WAS AGREED:** - That:

- (i) The Minutes be ratified at the next scheduled meeting 1 April 2016.
- (ii) The progress on training as outlined above be noted.

23 **REGIONAL MEETING OF CHAIRS AND DEPUTY CHAIRS OF STANDARDS AND GOVERNANCE COMMITTEES - 9 OCTOBER 2015**

Submitted: Report by Interim Monitoring Officer (amended report circulated on a supplemental agenda in accordance with Local Government (Access to Information) Act 1985), which updated the committee on the most recent regional meeting of the Chair and Vice Chairs of Standards Committee and Independent Persons held on 9 October 2015.

The Vice Chair expressed his disappointment at how the meetings, in his opinion, had become too formal and lost their original intent as an informal opportunity to share learning and experience. Following a brief discussion, the Chair in agreeing with the comment, suggested that a pre-meeting of the Independent Members and Independent Persons be arranged, if possible, prior to the next Regional meeting to enable a discussion to be held on the format of future Regional Meetings. He requested a list of email addresses/contact details of all Independent Members and Independent Persons be provided to him.

Councillor E Bell arrived at the meeting at 2.10pm

Reference was made to the discussions that took place around dealing with persistent offenders. The Chair informed the committee that Newcastle City Council's Monitoring Officer was collating some evidence and preparing a joint representation to DCLG, which he would ensure was circulated to this committee, when it became available.

**IT WAS AGREED:** That the report be received and the comments outlined above be actioned accordingly.

24 **CODE OF CONDUCT FOR MEMBERS - DECLARATION OF INTERESTS AND GIFTS AND HOSPITALITY**

Submitted: Report by Interim Monitoring Officer (previously circulated and a copy attached to official minutes), which advised the committee of the requirements of Members' Code of Conduct in relation to the declaration of interests and the receipt of gifts and hospitality and advised on the use of the Members Code of Conduct when compared with other Combined Authorities.

L Watson introduced the report, confirming that each member was recently reminded about their responsibilities in relation to declarations and that those who had not responded would be contacted once again. Members asked that the follow up be to contact and advise members that the issue had been discussed at this meeting.

The Chair requested that the gifts and hospitality form be sent out to each member with their agenda to ensure a form was returned for each period, even if it was a NIL return.



**IT WAS AGREED:** That the report be received and comments as outlined above be actioned accordingly.

25 **ANNUAL AUDIT LETTER 2014-15**

Submitted: Report by Finance Officer (previously circulated and a copy attached to official minutes), which presented the Annual Audit Letter for 2014-15 and an update on the final closure of accounts sign off, including some additional information, which was requested by the committee at the last meeting.

During discussions the following points were raised:

- Further information on how many loans were issued; who the loans were issued too and the criteria to be met to receive a loan was requested.
- A request was made for a brief discussion to be held on the above ½ hour prior to the next scheduled meeting.

**IT WAS AGREED:** That the report be received and comments as outlined above be actioned accordingly.

26 **NEXUS ANNUAL AUDIT LETTER 2014/15**

Submitted: Annual Audit Letter 2015 (previously circulated and a copy attached to official minutes), which summarised the outcome of the audit of the 2014-15 annual accounts and the work on the value for money conclusion.

During discussions, it was suggested that for completeness, copies of Durham and Northumberland's transport audit extracts be included in future reports.

**IT WAS AGREED:** That the report be received and the comments as outlined above be actioned accordingly.

27 **EXTERNAL AUDIT PROGRESS UPDATE**

Submitted: Report by External Auditor (previously circulated, corrected on supplemental agenda in accordance with Local Government (Access to Information) Act 1985), which provided a full update on their work so far in 2015-16 and the planned work for the remainder of the year.

**IT WAS AGREED:** That the report be received and noted.

Councillor Foreman, South Tyneside reserve member was in attendance at 2.30pm

28 **DRAFT BUDGET 2016/17 AND TRANSPORT LEVIES**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which sought views of the Governance Committee on proposals for 2016-17 NECA Budget, as part of its consultation process.

The following provided a summary of discussions that ensued:

- Comments were raised around the cash reduction in the provisional transport revenue budget and levies for 2016-17. It was explained that an incremental approach to budget setting had been established. Key elements of the devolution agreement would impact significantly on funding for 2016-17 and future years. A strategic review of all discretionary expenditure during the first half of 2016, would form the basis of a consultation on proposals for services needed from 2017-18 onwards.
- Reference was made to the reports continuing to display the working in silos across the combined authority, particularly in transport. It was explained that developing a more common approach was required, especially if the devolution deal was achieved. The Leaders, Deputy Leaders and Chief Executive's needed to discuss the harmonising of policy prescripts and develop a fair working relationship for all authorities.
- Comments were expressed about the impact of the Council's austerity cuts, particularly around transport in Durham and the implications of further cuts.
- The uncertainty around the funding settlement for the North East Councils was raised. It was explained that the full details were expected next week when a briefing note would be produced. The Chair requested that any non-confidential briefing notes circulated should also be sent to this committee.
- Comments were raised around the budget for the elected Mayor's office and its responsibilities. It was explained that the costs would need to be funded from £30m allocation in the event of a devolution deal being agreed; this included any election costs. It was hoped that interest could be generated from the allocation. Financial and governance implications associated with the devolution agreement would impact positively on the Budgets in future years, particularly in relation to the responsibilities of NECA and NELEP and any elected Mayor. Future arrangements would likely be funded via a small precept on the Council Tax. Confirmation was provided that a benchmarking exercise was currently being undertaken around the potential expenditure of the Mayoral office.
- Information was provided on the residents' poll on the devolution agenda to be held in Durham. A comment was made around the importance of the public understanding what opportunities would be derived from a devolution deal.
- Reference was made to the potential pooling of resources in relation to treasury management arrangements, particularly extending so Teesside was included. It was pointed out focus had to be on the areas covered by combined authority. Details of the potential benefits and opportunities to be derived from pooled treasury management arrangements were explained.
- Clarification was provided about the reduction in the Levy which would be a saving to each of the five Tyne and Wear authorities.
- In response to a query around the Tyne Tunnel reserves, it was explained that the reserves were ring-fenced for the financing of the Tyne Tunnel. The tolls were due to rise to keep in line with inflation to help cover the increase in payments to the concessionaire and keep the annual deficit in the tunnels account to a minimum level.
- Clarification was provided on the capital financing requirements as depicted at Table 4 of Appendix 4 – Treasury Management Mid-Year Update. Further information would be included in the report to be submitted to the Leadership Board in January 2016.

- Reference was made to the lack of figures around borrowing in Durham and Northumberland. It was confirmed that there was no borrowing figures to be included and there were no proposals for this to happen in the future.
- Comments were raised around the capital programme and the general fund schemes. It was explained that more detailed information, particularly on the capital programme for the whole area, including information still to be announced or confirmed about grant funding and its proposed uses would be reflected in the report to be submitted to the Leadership Board in January 2016.

**IT WAS AGREED:** That:

- (i) That the report be received and noted.
- (ii) The views and comments as outlined above be submitted as part of the consultation process.
- (iii) Any non-confidential briefings prepared on the Government Settlement to be circulated to this committee.

## 29 **QUALITY CONTRACTS SCHEME (QCS) UPDATE**

Submitted: Report by Managing Director (Transport Operations), NEXUS (previously circulated, corrected on supplemental agenda in accordance with Local Government (Access to Information) Act 1985), which provided the committee with links to documents relating to the proposed quality contracts scheme (QCS) for Tyne and Wear, previously presented to the North East Leadership Board.

During discussions the following points were made:

- A suggestion was made for a copy of the QCS briefing paper discussed at the NEXUS Audit Committee to be circulated to this committee.
- Clarification was provided on potential loss and the legal advice sought around whether compensation payments should be given as a result of the proposed QCS.
- Reference was made to the devolution agreement with confirmation being provided that there would be no flexibility around concessions. A national discussion and extensive modelling would be required before action was taken.
- Concerns were expressed at the limited information in the 'other considerations' sections of the report. P Slater agreed to consider and issue report writing guidance.

**IT WAS AGREED:** That the report be received and comments as outlined above be actioned accordingly.

## 30 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

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

The committee welcomed the report with clarification being provided on the purpose of the next steps section.

**IT WAS AGREED:** That a summary of the Combined Authority risks and opportunities be circulated to the Chief Executives and Leadership Board.

31 **EXCLUSION OF PRESS AND PUBLIC**

**IT WAS AGREED:** That by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 press and public be excluded from the remainder of the meeting for the duration of the consideration of agenda item 13 – Internal Audit Progress Report, because exempt information was likely to be disclosed and the public interest test against the disclosure was satisfied.

32 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided members with progress against the delivery of the 2015-16 internal audit plan and information on the implementation of audit recommendations.

During discussions an update was provided around the Tyne Tunnel Reserves.

**IT WAS AGREED:** That the report be received and noted.

33 **ANY OTHER BUSINESS - QUORUM FOR MEETINGS**

A brief discussion took place around the need to possibly reduce the quorum of this committee from 5 to 4 members, not including the co-opted Independent Members or the Independent Person. The committee considered that this should be considered as part of the next review of the Constitution.

**IT WAS AGREED:** That the comments be noted and actions be taken accordingly.

34 **DATE AND TIME OF NEXT MEETING**

Friday 1 April 2016 at 2pm at Newcastle City Council

## North East Combined Authority

### Governance Committee

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**Date:** 1 April 2016

**Subject:** Accounting Policies for 2015/16 Accounts

**Report of:** Chief Finance Officer

#### **Executive Summary**

This report updates Governance Committee on the Authority's Accounting Policies to be applied in the preparation of the Statement of Accounts for 2015/16, and an update on changes to accounting and reporting standards and guidance which may have an impact on the Authority's accounts.

#### **Recommendations**

Governance Committee is recommended to review the Accounting Policies presented with this report and approve their use in the preparation of the 2015/16 Statement of Accounts.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

- 1.1 The purpose of this report is to update Governance Committee on the Authority's accounting policies to be applied in the preparation of the Statement of Accounts for 2015/16 and to seek confirmation from the Governance Committee that appropriate policies are being applied.
- 1.2 This report also provides an update on changes to the Code of Practice on Local Authority Accounting published by CIPFA ("the Code") and any other changes to UK accounting and reporting standards which may have an impact on NECA's accounts for the year ending 31 March 2016 and forthcoming changes for future years.
- 1.3 A schedule summarising which policies have changed since 2014/15 is set out in Appendix 1. The full draft accounting policies are attached as Appendix 2.

### 2 Proposals

#### 2.1 Accounting Policies Update

For 2015/16 the following changes are being applied to the Accounting Policies based on changes to the Code for 2015/16, and some minor amendments for clarity.

- General Principles (Section 1) – a sentence has been added to this policy to make clear that the accounts are prepared on a Going Concern basis.
- Cash and Cash Equivalents (Section 3) – the definition of what constitutes a cash equivalent has been amended for clarity from 3 months to 'less than ninety days'.
- Employee Benefits (Section 7) – this has been updated with policies on benefits payable during employment and termination benefits. As the Combined Authority employs more staff, amounts may become material in future years and therefore policies have been included at this stage although there will not be entries in the 2015/16 accounts as a result.
- Fair Value Measurement (Section 9) – this is a new standard introduced as a result of the adoption of International Financial Reporting Standard (IFRS) 13 'Fair Value' by the Code of Practice. For NECA, the impact will be on additional disclosures required around Financial Instruments and the basis for calculating their fair value. This standard sets out clarification of what is meant by 'Fair Value' when it is used in relation to specific items later in the Accounting Policies.

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- Property, Plant and Equipment (Section 13) has been amended to reflect the meaning and use of 'Fair Value' based on IFRS 13 amendment above.

### 2.2 Accounts and Audit Regulations 2015 Update

2.2.1 The main change effected by the revised regulations is that, from 2017/18, the draft accounts must be prepared and signed off by 31 May (currently 30 June) and the audit completed and final accounts signed off by 31 July (currently 30 September). For the 2015/16 accounts, all deadlines remain as per previous years, but NECA plans to use 2016/17 as a trial run according to the new deadlines. A significant amount of work will be required during 2016/17 to achieve these faster close targets.

2.2.2 The regulations also stipulate that for 2015/16 and 2016/17, the public inspection period must include the first 10 working days of July and must total 30 working days. From 2017/18, the requirement will be to include the first 10 working days of June in the 30 working day public inspection period.

2.2.3 A further change to the accounts introduced by the Accounts and Audit regulations is the introduction of a Narrative Report to accompany the financial statements, which replaces and extends the previous requirement for an Explanatory Foreword.

### 3 **Next Steps**

3.1 The agreed accounting policies will be applied in the production of the Statement of Accounts 2015/16, which will be presented to Governance Committee in draft form in July 2015 and in audited form in September 2016 for recommendation to the Leadership Board.

3.2 A project plan will be developed and implemented during 2016/17 to meet the revised, shorter deadlines for the production and audit of the accounts which become statutory requirement for 2017/18.

### 4 **Potential Impact on Objectives**

4.1 This report has no specific impact on Objectives.

### 5 **Finance and Other Resources**

5.1 The report considers the Accounting Policies for the Authority's Statement of Accounts for 2015/16.

### 6 **Legal**

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

### **7 Other Considerations**

#### **7.1 Consultation/Community Engagement**

There are no community engagement implications arising from this report.

#### **7.2 Human Rights**

There are no human rights implications directly arising from this report.

#### **7.3 Equalities and Diversity**

There are no equalities and diversity implications directly arising from this report

#### **7.4 Risk Management**

There are no risk management implications directly arising from this report.

#### **7.5 Crime and Disorder**

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

#### **7.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **8 Background Documents**

### **9 Links to the Local Transport Plans**

- 9.1 There are no links to plans in the policy framework

### **10 Appendices**

- 10.1 Appendix 1 – Summary of changes to Accounting Policies 2015/16  
Appendix 2 – North East Combined Authority Accounting Policies 2015/16

### **11 Contact Officers**

- 11.1 Eleanor Goodman, Principal Accountant NECA,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

### **12 Sign off**



# North East Combined Authority

## Governance Committee

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

# North East Combined Authority

## Governance Committee

### APPENDIX 1

#### Summary of Accounting Policies 2015/16

Accounting Policy	New policy	Amended policy	No change	In line with Code
1. General Principles		✓		✓
2. Accruals of Income and Expenditure			✓	✓
3. Cash and Cash Equivalents		✓		✓
4. Exceptional Items			✓	✓
5. Prior Period Adjustments, changes in Accounting Policies and Estimates, and Errors			✓	✓
6. Charges to Revenue for Non-Current Assets			✓	✓
7. Employee Benefits		✓		✓
8. Pensions			✓	✓
9. Events after the Reporting Period			✓	✓
10. Fair Value Measurement	✓			✓
11. Financial Instruments			✓	✓
12. Government Grants and Contributions			✓	✓
13. Leases			✓	✓
14. Property, Plant and Equipment		✓		✓
15. Public Private Partnership (PPP) Contracts			✓	✓
16. Provisions			✓	✓
17. Contingent Liabilities			✓	✓
18. Reserves			✓	✓
19. Revenue Expenditure Funded from Capital Under Statute			✓	✓
20. VAT			✓	✓
21. Overheads			✓	✓
22. Tyne Tunnels Income			✓	✓
23. Group Accounts			✓	✓

# North East Combined Authority

## Governance Committee

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### APPENDIX 2

#### North East Combined Authority Accounting Policies 2015/16

##### 1. General Principles

The Statement of Accounts summarises the North East Combined Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) 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 2015/16, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historic 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

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

##### 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 ninety 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

Where 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.

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### **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 service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

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 the 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

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employees render service to the Council. 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 will be reviewed each year to ensure it is still an appropriate treatment.

### Termination Benefits

This policy 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 2015/16.

### 8. Pensions

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](http://www.twpf.info).

The Local Government Pension 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.

# North East Combined Authority

## Governance Committee

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- 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:

- a) 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 services for which the employees worked.
- b) 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 Non-Distributed Costs.
- c) Net interest on the net defined liability, i.e. net interest expense for the Authority, the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in 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 at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefits.
- d) Remeasurements comprising:
  - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability, 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.
- e) 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.

# North East Combined Authority

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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 26 to the accounts.

### 9. Events After the Reporting Period

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; and
- 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 of 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.

# North East Combined Authority

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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



# North East Combined Authority

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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 charge 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 classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

Loans and receivables 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 Comprehensive Income and Expenditure Statement 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 loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

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### Available-for-Sale Assets

Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

# North East Combined Authority

## Governance Committee

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### 12. Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Authority (whether they are paid on account, by instalment or in arrears) when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- 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 that 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 Financed from Capital Under Statute) 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. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

NECA's contractual arrangements have been reviewed and it is not currently party to any lease arrangements.

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### a) The Authority as Lessee Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### b) The Authority as Lessor Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the long term on the same basis as rental income.

## 14. Property, Plant and 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; and

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## Governance Committee

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- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 fair value 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 bases:

- Infrastructure, community assets and assets under construction – depreciated historical 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).

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 that 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. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. 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); and
- 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.

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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); and
- 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, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for 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 is calculated by taking the asset value at 31 March 2016, divided by remaining life expectancy. Depreciation is therefore 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.

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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 Plaza 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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is 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.

### 15. 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 the 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 tangible fixed 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 IAS17. 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 the new tunnel and the existing tunnel. NECA may therefore have no long term

# North East Combined Authority

## Governance Committee

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obligation to transfer economic resources to TT2 Ltd., 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 type 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 guidance 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 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.

### **16. 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



# North East Combined Authority

## Governance Committee

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year – where it becomes less than probable 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.

### **17. 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.

### **18. 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 – these reserves are explained in the relevant policies.

### **19. Revenue Expenditure Funded from Capital Under Statute**

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 reversed out the amounts charged so that there is no impact on the levy.

### **20. VAT**

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

# North East Combined Authority

## Governance Committee

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### 21. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to NECA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

### 22. Tyne Tunnels Income

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued.

### 23. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 to produce Group Accounts to include services provided to Council Tax payers in the North East 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 2015/16 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2015/16 accounts and comparators for 2014/15. 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.

# Audit Strategy Memorandum

North East Combined Authority - year ending 31 March 2016

March 2016



Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

North East Leadership Board  
North East Combined Authority  
Quadrant  
Cobalt Business Park  
The Silverlink North  
North Tyneside  
NE27 0BY  
March 2016

Dear Members

**Audit Strategy Memorandum for the year ending 31 March 2016**

We are delighted to present our Audit Strategy Memorandum for the North East Combined Authority for the year ending 31 March 2016.

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. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with you and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Governance Committee meeting on 1 April 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

Cameron Waddell  
Partner  
Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the North East Combined Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

# 01 Purpose and background

## Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of the North East Combined Authority (the Authority) for the year ending 31 March 2016, and forms the basis for discussion at the Governance Committee meeting on 1 April 2016.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between us and you as 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 as part of the two-way communication process 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 you face which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

## Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

## Responsibilities

### • Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management nor the North East Leadership Board, as those charged with governance, of their responsibilities. We are also required to reach a conclusion on the arrangements that the Authority has put in place to secure economy, efficiency and effectiveness in its use of resources (our Value for Money conclusion).

### • Whole of Government Accounts

We report to the National Audit Office in respect of the consistency of the Authority's Whole of Government Accounts submission with the financial statements.

### • 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. In accordance with International Standards on Auditing (UK and Ireland) 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.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

We are also required to give an elector, or any representative of the elector, an opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts by an elector.

# 02 Audit scope, approach and timeline

## Audit scope

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

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the National Audit Office's Code of Audit Practice. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those affected 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

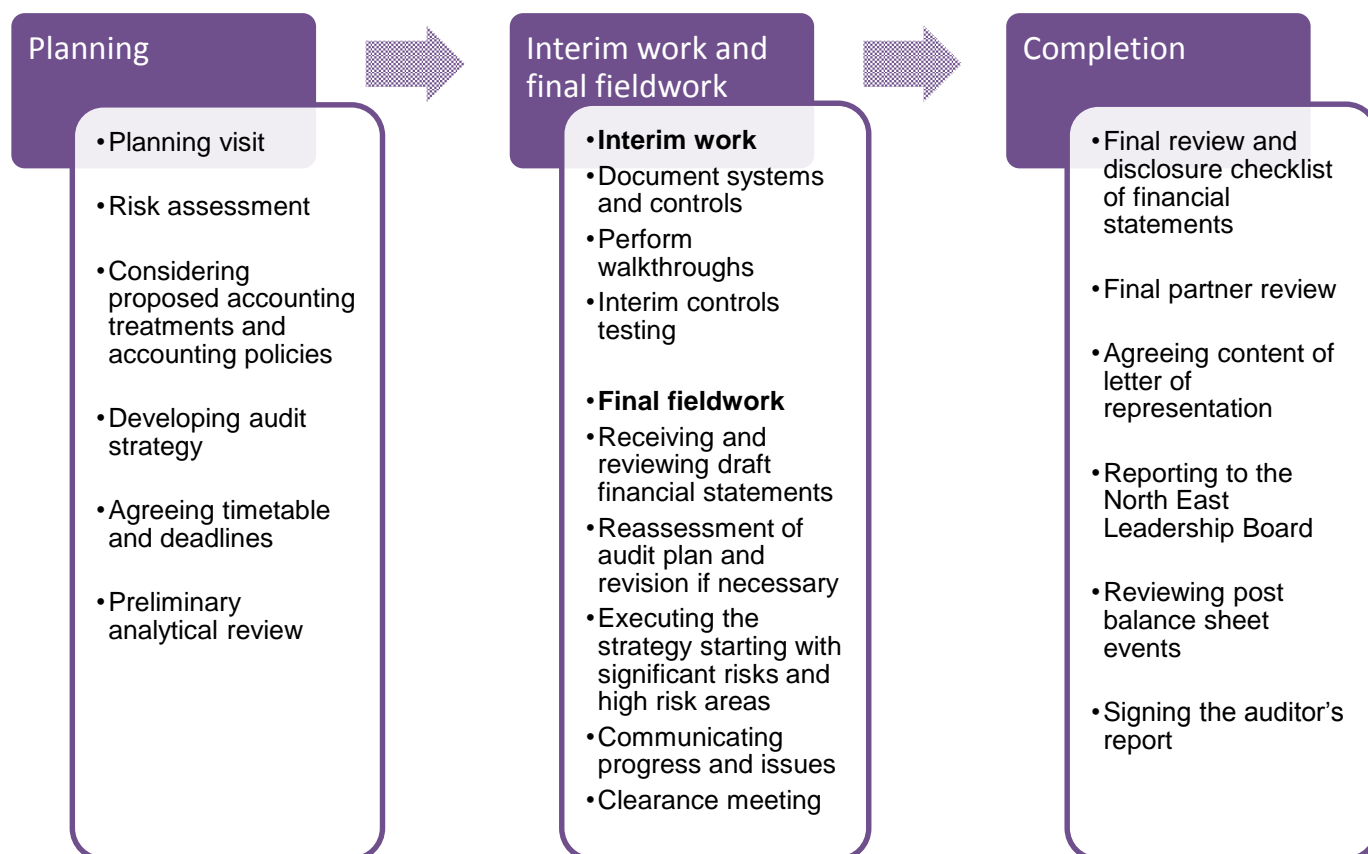
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

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.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



## Group audit approach

The group consists of the North East Combined Authority and Nexus. We are responsible for the direction, supervision and performance of the group audit. We are also the external auditor for Nexus.

## 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 of 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.

## Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Item of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures	Tyne and Wear Local Government Pension Fund Auditor (EY)	Accuracy of data supplied to the pension fund actuary by the pension fund

## Service organisations

There are material entries in your financial statements where the Authority is dependent on an external organisation. We call these entities service organisations. The table below outlines our approach to understanding the services that the Authority receives from the organisation and the effectiveness of controls in place to reduce the risk of material misstatement in the financial statements.

Nature of services provided and items of account	Name of service organisation	Audit approach to be adopted
All areas	Newcastle City Council	Review the Authority's controls over: <ul style="list-style-type: none"><li>the information provided to the service organisation; and</li><li>the outputs provided by the service organisation to the Authority.</li></ul>

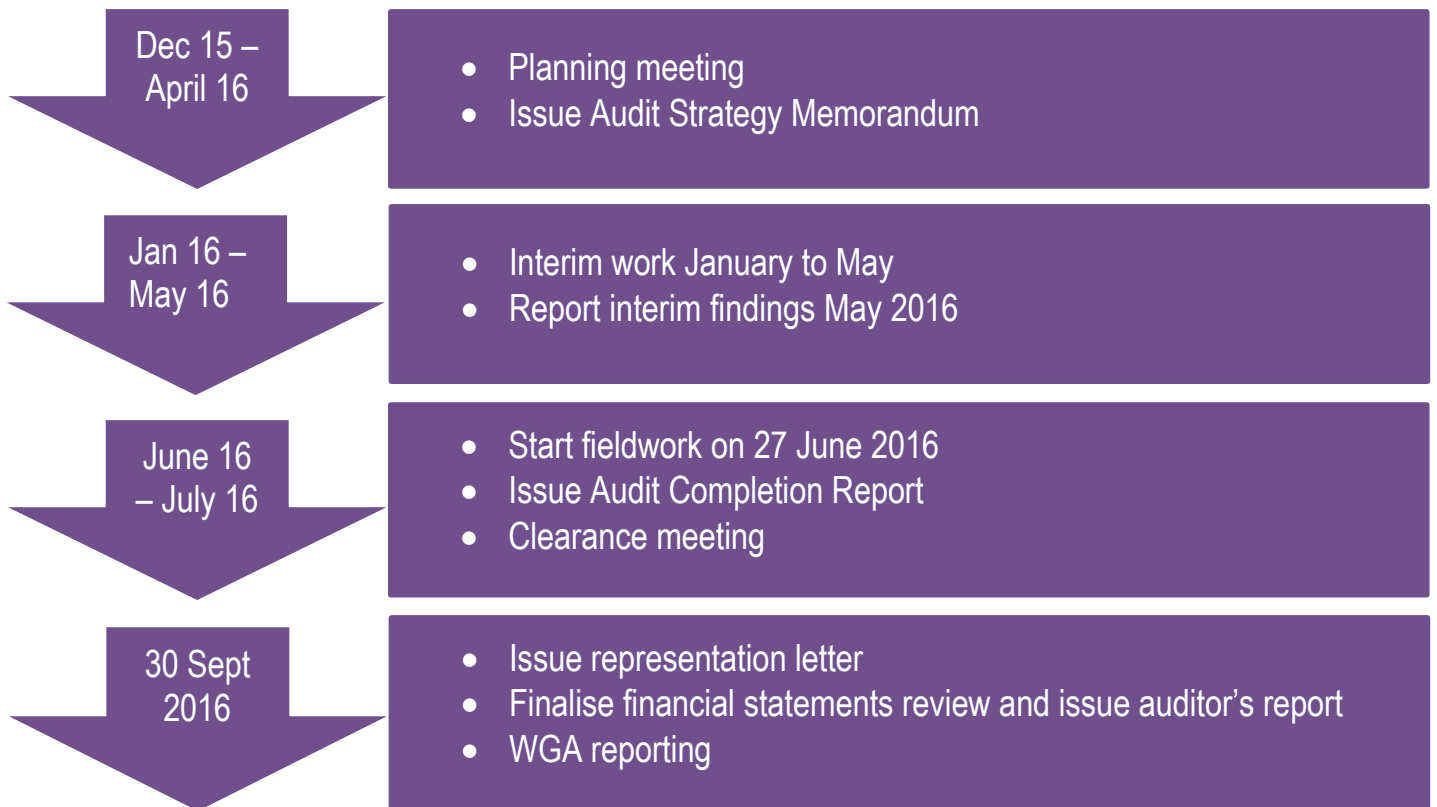
## The work of experts

The following experts are relevant to our work for the year ended 31 March 2016.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	National Audit Office's consulting actuary (PWC)
Property, plant and equipment valuations	Your internal valuer	National Audit Office's consulting valuer (Gerald Eve)
Fair values	Arlingclose	Central assurance provided by the National Audit Office



The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



# 03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Authority faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

## Significant risks

### Management override of controls

#### Description of the risk

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

#### How we will address this risk

Our testing strategy will include:

- review of material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and review of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

### Revenue recognition (in relation to Tyne Tunnel tolls and grant income)

#### Description of the risk

Revenue recognition has been identified as a significant risk due to:

- 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.

#### How we will address this risk

We will address this risk through performing audit work over:

- 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; and
- for major grant income, obtaining counterparty confirmation.

## Pension Estimates (IAS 19) – Group level only

### Description of the risk

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.

### How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- 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.

# 04 Value for Money Conclusion

## Scope of work

For 2015/16, we are required to conclude whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We perform our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This requires us to consider one overall criterion which is made up of three sub-criteria.

## Overall criterion

The overall criterion set out by the NAO is as follows:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

Sub-criteria	Guidance
<b>Informed decision-making</b>	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</li><li>• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities.</li><li>• Managing risks effectively and maintaining a sound system of internal control.</li></ul>
<b>Sustainable resource deployment</b>	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</li><li>• Managing and utilising assets effectively to support the delivery of strategic priorities.</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
<b>Working with partners and other third parties</b>	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities.</li><li>• Commissioning services effectively to support the delivery of strategic priorities.</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

As part of our work, we will also:

- review your annual governance statement;
- consider the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine appropriate.

## Significant risks

Having completed our initial planning work, we have not identified any significant risks at this stage. However, given this is our first year as your external auditor, and the significant changes in the VfM conclusion criteria for 2015/16, we are now undertaking a more detailed risk assessment that will be reported to a future Governance Committee.

# 05 Your audit team

Below are your audit team and their contact details.

Engagement lead /  
Partner

- Cameron Waddell
- [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)
- 0191 3836314

Engagement senior  
manager

- Jim Dafter
- [jim.dafter@mazars.co.uk](mailto:jim.dafter@mazars.co.uk)
- 0191 4333662

Team leader

- Elaine Hall
- [elaine.hall@mazars.co.uk](mailto:elaine.hall@mazars.co.uk)
- 0191 6435777

# 06 Fees for audit and other services

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) for the Code audit work.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee (Note 1)
Code audit work	£24,298	£24,298	£32,397
<b>Total fee</b>	£24,298	£24,298	£32,397

Note 1: audit carried out by Deloitte

## **Non-audit services**

We do not currently plan to perform any non-audit services.

# Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. 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 who are required to rotate off a client after a set number of years; 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 wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell.

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

We are satisfied that, as in previous years, the grant claim certification work set out in this plan (including work on non-PSAA grants) does not give rise to any threat to our independence as your external auditor.

**No threats to our independence have been identified.**

# Appendix B - 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.

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.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.



# Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' 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 to the Governance Committee and the Leadership Board the following reports:

- our Audit Strategy Memorandum;
- our Audit Completion Report; and
- Our Annual Audit letter.

These documents will be discussed with management prior to being presented to the Governance Committee and the Leadership Board 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 independence;
- responsibilities for preventing and detecting errors;
- materiality; 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;
- unadjusted misstatements;
- management representation letter;
- our proposed draft audit report; and
- independence.

# Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Authority, of which you should be aware. We provide workshops explaining these changes to which we invite officers from the Authority responsible for preparing the financial statements. The workshops provide full details of the changes in the 2015/16 Code as well as a forward look to potential future accounting changes that may be of relevance to the Authority.

As well as the accounting issues outlined below, we would like to draw the Governance Committee and the Leadership Board's attention to changes in the Accounts and Audit (England) Regulations 2015 that require the Authority to notify us of the date on which the period for the exercise of public rights commences. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

## Forthcoming accounting issues

Highways Network Assets	How this may affect the Authority
The measurement basis for the Authority's Highways Network Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, but with no prior period restatement required.	It is likely that the impact of this change will be significant and that the value of relevant assets on the Authority's balance sheet will increase.
Early deadlines	How this may affect the Authority
The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account from the 2017/18 financial year.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with the Authority officers.
Fair Value accounting	How this may affect the Authority
The Code adopts the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16.	Some assets and liabilities held by the Authority may need to be revalued on the basis of their fair value for the first time in 2015/16.

## North East Combined Authority

### Governance Committee

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**DATE:** 1 April 2016

**SUBJECT:** Internal Audit Progress and Audit Plan

**REPORT OF:** Audit, Risk and Insurance Service Manager

#### **EXECUTIVE SUMMARY**

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2015/16 internal audit plan
- Information on the implementation of audit recommendations
- A draft Internal Audit Plan for the Combined Authority for 2016/17 to 2018/19.

#### **RECOMMENDATIONS**

It is recommended that the Committee:

- Note the internal audit activity during 2015/16.
- Approve the Annual Internal Audit Plan for 2016/17 and consider proposed audits for 2017/18 and 2018/19, as well as agree to receive regular reports on activity undertaken against the audit plan during the coming year.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

#### 2015/16 Progress Report

- 1.1 The 2015/16 audit plan was agreed in June 2015 and included 5 pieces of audit work. The Chief Finance Officer requested an additional interim review of the Tyne Pedestrian and Cyclist Tunnel project during the year which was reported to the December 2015 Governance Committee.
- 1.2 The 2015/16 internal audit plan is now complete and this includes 5 audits delivered since the last committee (see the table below), 2 of which are undertaken as part of Nexus's internal audit plan and Nexus's Internal Audit Service provide information to NECA so that assurance can be given in these areas.

Assignment	Level of Assurance
Information Governance	Limited
Tyne Tunnel – Cash Collection	Substantial
Budget Setting and Monitoring Arrangements	Substantial
Concessionary Travel (Nexus)	Full
Metro Reinvigoration (Nexus)	Full

- 1.3 Appendix 1 contains the 2015/16 plan and details progress while Appendix 2 gives more detail on the completed audits.
- 1.4 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendations raised in 2014/15 and 2015/16 is detailed below:

	2014/15	2015/16
Recommendations issued	10	10
Recommendations fully implemented	7 (70%)	2 (20%)
Recommendations not yet due for implementation	0 (0%)	7 (70%)
<b>Recommendations not fully implemented and the target date for implementation has been exceeded (detailed table below)</b>	<b>3 (30%)</b>	<b>1 (10%)</b>

# North East Combined Authority

## Governance Committee

Ref.	Audit and Recommendation	Implementation due date	Comments
<b>1</b>	<b>Financial Management</b>		
1.1	Financial systems and processes are the responsibility of the interim Chief Finance Officer and compilation of the financial records and routine budget monitoring etc. is carried out by the Senior Accountant only. Financial responsibilities will increase in 2015/16 and there are no contingency arrangements in place to cover these roles. (Medium)	Original date - September 2015, recommendations substantially implemented by January 2016  Permanent appointments to be in place by July 2016	This recommendation is substantially implemented as action has been taken to introduce contingency arrangements. The Principal Accountant now has support from accounting trainees pending the appointment of a dedicated accountant. A Deputy CFO has been nominated.  The process of appointing a permanent Director of Resources is underway.
1.2	Formal Service Level Agreements were not in place for 2015/16 services provided to the Combined Authority by member authorities. (Medium)	Original date - September 2015 SLA costs were updated for the January 2016/17 Budget.  SLAs for 2016/17 will be negotiated and agreed once the decision on devolution is clear.	All providers have updated costs for 2015/16 and estimates have been made for 2016/17. The Chief Finance Officer will review 2016/17 arrangements with the Head of Paid Service once the decision on devolution has been taken.
1.3	Information is obtained from across the Councils making up the Combined Authority and there is a risk this fragmentation can reduce effectiveness going forward. (Medium)	Original date - September 2015  Revised date for centralising accommodation and finance systems is July 2016.	The Head of Paid Service is putting in place more centralised accommodation and finance arrangements. Risks have been mitigated by co-ordination of activity by the Chief Finance Officer.

# North East Combined Authority

## Governance Committee

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<b>2</b>	<b>Treasury Management</b>		
2.1	<p>Responsibility for the creation and maintenance of Treasury Management Practices that support the NECA Treasury Management Strategy and Policy Statement is not clearly set out. Practice notes covering NECA Treasury Management have not been created.</p> <p>Furthermore, a Service Level Agreement between Newcastle City Council and NECA covering this function is being developed and until this is finalised the previous SLA continues to be used.</p>	<p>Original date - January 2016</p> <p>Revised date – April 2016</p>	<p>Treasury Management Practices have been drafted to support the NECA Treasury Management Strategy and Policy and are to be signed off for the start of the new financial year (2016/17).</p> <p>The SLA is being drafted and will be agreed for the new financial year.</p>

Appendix 3 includes definitions for the overall assessments and recommendation ratings used in the audit reports. These definitions have been developed for the Combined Authority and will be used in all reports regardless of which Council's Internal Audit Service has delivered the work

### 2016/17 – 2018/19 Audit Plan

- 1.5 The proposed Internal Audit Plan aims to support the Combined Authority in developing as well as giving the Governance Committee assurance on the effectiveness of controls in place. A draft plan is attached at Appendix I showing potential audit coverage for the year.
- 1.6 Newcastle City Council's Internal Audit service will co-ordinate the planning and reporting of Internal Audit activity to the Governance Committee.
- 1.7 The Internal Audit Plan reflects the current position of the Combined Authority and covers the following:
  - Advice and consultancy on the design, development and implementation of key business activities.
  - Review of newly established arrangements to ensure they operate as expected and efficiently.
  - Audit of key business areas and risks to support the Authority.

# North East Combined Authority

## Governance Committee

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- 1.8 The plan has been prepared by the Audit, Risk and Insurance Service Manager based on a risk assessment of the Combined Authority and after considering the following:-
- Review of Strategic Risk Register, and risks identified in other documents such committee reports
  - Consultations with:
    - Statutory Officers
    - Governance Committee (at April 2016 meeting)
    - Heads of Audit in other LA7 local authorities
    - Staff within the Internal Audit Service
  - Consideration of evidence for the 2015/16 Annual Governance Statement
  - Outcomes of audits undertaken in 2015/16
  - Known national developments and changes in legislation
- 1.9 Each audit in the plan will consider the effectiveness and efficiency of systems under review and will make recommendations to improve value for money and control. This will include identifying opportunities to generate income, where appropriate, and assessing whether services are achieving their required outcomes.
- 1.10 It is standard practice to develop a Strategic 3 Year Internal Audit Plan including an annual plan which sets out proposed audit work over the period. Years 2 and 3 are however only indicative and reviews will take place annually to ensure they continue to reflect the risk environment the Combined Authority operates in.

## 2 Next Steps

- 2.1 The internal audit work feeds into the Internal Audit Annual Report and Annual Governance Statement which will presented to the June meeting of the Committee.
- 2.2 Governance Committee have the following options in relation to the 2016/17-2018/19 audit plan:
- a) Propose changes to the Internal Audit Plan attached at Appendix 4
  - b) Approve the Internal Audit Plan attached at Appendix 4.

## 3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

# North East Combined Authority

## Governance Committee

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### **4 Finance and Other Resources**

- 4.1 Internal Audit is provided principally by Newcastle City Council and a Service Level Agreement has been developed to cover this. There are no financial implications arising specifically from the report.

### **5 Legal**

- 5.1 No direct legal implications arising specifically from the report.

### **6 Other Considerations**

#### **6.1 Consultation/Community Engagement**

No external consultation or community engagement required.

#### **6.2 Human Rights**

No implications under the Human Rights Act 1998 (or as amended).

#### **6.3 Equalities and Diversity**

There are no equalities and diversity implications directly arising from this report.

#### **6.4 Risk Management**

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Plan. Members assess the plan to determine if they feel key risks are covered by the planning process.

#### **6.5 Crime and Disorder**

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

#### **6.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **7 Background Documents**

- 7.1 Final Internal Audit Reports

### **8 Links to Plans in the Policy Framework**

- 8.1 No direct link to the Policy Framework.



# North East Combined Authority

## Governance Committee

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### 9 Appendices

- 9.1 Appendix 1 – Audit Plan 2015/16
- Appendix 2 – Audit Activity since December 2015
- Appendix 3 – Definitions
- Appendix 4 – 2016/17- 2018/19 Audit Plan

### 10 Contact Officers

- 10.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### 11 Sign off

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

# North East Combined Authority

## Governance Committee

<b>Appendix 1 – Progress with 2015/16 Audit Plan</b>				
<b>Audit</b>	<b>Audit scope and coverage</b>	<b>Days</b>	<b>Status</b>	<b>Date reported to Governance Committee</b>
Governance of Major Projects	To review a sample of major projects across themes to ensure adequate governance is in place for NECA.	8	Complete	December 2015
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cashflows and investment / borrowing activity.	5	Complete	December 2015
Tyne Pedestrian and Cyclist Tunnel (Interim Review)	Additional piece of work - The Chief Finance Officer requested that internal audit carry out an interim review of this project and progress to date. A full contract audit is to be undertaken at the project's completion, which will be within a future year's audit plan.	+	Complete	December 2015
Tyne Tunnels – Cash Collection	Assess the adequacy and effectiveness of arrangements.	4	Complete	April 2016
Information Governance	To determine the level of assurance being provided from the current operating models within the Combined Authority and compliance with standards and legislation.	5	Complete	April 2016
Budget Setting and Monitoring	To assess the adequacy and effectiveness of budget setting and budgetary control arrangements.	4	Complete	April 2016
Concessionary Travel	Assurance obtained from Nexus's Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	*	Complete	April 2016
Metro Re-Invigoration				
Contingency	Provision to cover emerging risks, fraud investigation and general advice e.g. Tyne Pedestrian and Cyclist Tunnel. (+)	5	Complete	
Governance Committee Support	<ul style="list-style-type: none"> <li>Development and monitoring delivery of the Internal Audit Annual Plan.</li> <li>Preparation of reports to and</li> </ul>	4	Complete	

# North East Combined Authority

## Governance Committee

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	attendance at Governance Committee. <ul style="list-style-type: none"><li>• Follow up on the implementation of recommendations made within Internal Audit reports.</li><li>• Member Training</li></ul>		
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\* Nexus – this work is undertaken as part of Nexus’s internal audit plan delivered by their Internal Audit Service

# North East Combined Authority

## Governance Committee

Appendix 2 – Audit Activity since December 2015					
Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Information Governance	Limited	1	2	-	-
<b>Audit objectives and scope</b>					
<p>The objective of the audit was to assess whether significant risks in relation to Information Governance are adequately and effectively controlled through review of the following:</p> <ul style="list-style-type: none"> <li>• A policy is in place for NECA, which complies with legislation and covers high risk areas.</li> <li>• Appropriate training has taken place for staff and third parties handling NECA information based on comprehensive risk assessments.</li> <li>• A risk assessment process has been followed to identify where and how information is held and potential hazards that may exist.</li> <li>• There is a procedure in place to handle Freedom of Information requests made to NECA within the statutory deadline.</li> <li>• Procedures are in place to achieve value for money and identify efficiency</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Arrangements in place were discussed with the Monitoring Officer/ SIRO and other officers to ascertain the nature of the system and identify the controls operated.</li> <li>• Review of draft Information Governance Policy and supporting policies.</li> <li>• Review of the published Freedom of Information guidance on the website.</li> <li>• Review of current systems for responding to Freedom of Information requests and detailed testing of a sample of 5 requests.</li> </ul>					
Assurances	Control weaknesses impacting on assurance			Opportunities to enhance efficiency and value for money	
A procedure is in place to handle Freedom of Information requests made to the Authority within the statutory deadline and guidance has been made available on the NECA website.	<p>NECA has not undertaken a risk assessment process to identify where and how its information is held and potential hazards. The draft Information Governance Policy and supporting policies did not include arrangements for managing Authority information held by constituent authorities and third parties (High).</p> <p>NECA has not provided appropriate training for its staff or obtained assurances from constituent authorities that officers acting on behalf of the Authority have received appropriate training (Medium).</p> <p>Copies of interim responses to Freedom of Information requests were not retained for requests not fully responded to within the statutory time period. (Medium).</p>			None	

# North East Combined Authority

## Governance Committee

Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
<b>Tyne Tunnel – Cash Collection</b>	<b>Substantial</b>	-	1	-	-
<b>Audit objectives and scope</b>					
<p>The audit was to assess whether significant risks in relation to collection and accounting for toll income were adequately and effectively controlled through examination of the following:</p> <ul style="list-style-type: none"> <li>• There is a formal contract in place setting out arrangements for collection of toll income and transfer of monies into the Combined Authority bank account.</li> <li>• Toll income is collected, counted and banked in line with the agreed contract.</li> <li>• Toll income is promptly allocated to relevant income codes, reconciled against expected amounts with discrepancies being investigated and promptly resolved.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Discussions with Senior Accountant to ascertain the nature of the system and identify the controls operated.</li> <li>• Evaluation of current systems and controls through review and testing of the following: <ul style="list-style-type: none"> <li>○ Contractual arrangements between the NECA, TT2 and Newcastle City Council for the cash collection and banking service.</li> <li>○ Confirming, for a sample of 3 days, that cash collections were made as expected, cash has been counted, banked, and accounted for promptly and correctly, and there is documentary evidence to support these processes.</li> <li>○ Arrangements for reconciling income received to expected income to provide a reasonableness check that the income is complete and accurate.</li> </ul> </li> </ul>					
<b>Assurances</b>		<b>Control weaknesses impacting on assurance</b>		<b>Opportunities to enhance efficiency and value for money</b>	
<p>A renewed contract is in place for Tyne Tunnel cash collection to March 2020 which details collection and banking processes.</p> <p>Collections taken place in line with an agreed schedule.</p> <p>Arrangements for security of cash during the collection/counting/banking phases are robust and appropriate.</p> <p>Relevant reports are provided to TT2 confirming income counted and any discrepancies are promptly investigated.</p> <p>Income is posted correctly, and accounting and reconciliation arrangements are appropriate.</p>		<p>A signed copy of the contract between TT2 (the Tyne Tunnel operator) and Newcastle City Council could not be located at the audit.</p>		<p>None</p>	

# North East Combined Authority

## Governance Committee

Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
<b>Budget Setting and Monitoring Arrangements</b>	<b>Substantial</b>	-	1	-	-
<b>Audit objectives and scope</b>					
<p>The audit assessed whether significant risks in relation to budget setting and monitoring arrangements are adequately and effectively controlled through examination of the following:</p> <ul style="list-style-type: none"> <li>• Budget monitoring is undertaken in line with the Authority's financial regulations and documentary evidence is retained to support this. Variations identified through budget monitoring are reported and appropriate action is taken to address these promptly.</li> <li>• The budget setting process meets statutory and NECA requirements including those relating to consultation and approval deadlines.</li> <li>• Assumptions made during the budget setting process are supported by appropriate risk assessments and evidence.</li> <li>• Procedures are in place to achieve value for money and identify efficiency.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>• Discussions were held with the NECA Senior Accountant to ascertain the nature of the system and identify the controls operated.</li> <li>• Review and testing of the following: <ul style="list-style-type: none"> <li>○ Statutory and internal requirements relating to budget setting and checking whether these have been adhered to;</li> <li>○ Reasonableness and accuracy of assumptions made during the budget setting process;</li> <li>○ Budget monitoring to ensure this is being done regularly and any issues dealt with promptly and effectively.</li> </ul> </li> </ul>					
<b>Assurances</b>	<b>Control weaknesses impacting on assurance</b>	<b>Opportunities to enhance efficiency and value for money</b>			
<p>The budget setting process for 2016/17 was in line with statutory and internal requirements, with an appropriate consultation period and final approval at the required level.</p> <p>There are a number of issues that may affect the budget in the coming months and these have been clearly defined, reported to Leadership Board, and arrangements are in place to factor these into the budget if necessary once figures are known.</p> <p>Responsibility for budget monitoring has been assigned to an appropriate officer.</p> <p>Budget information is readily available, is in an appropriate format, and is obtained on a</p>	<p>Assumptions made during the budget setting process are not formally evidenced. Also it is not recorded that they have been agreed as reasonable prior to including in the budget. (Medium)</p>	None			

# North East Combined Authority

## Governance Committee

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regular basis for monitoring purposes.  The budget position is regularly and accurately reported to a relevant Committee		
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# North East Combined Authority

## Governance Committee

Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Concessionary Travel (Nexus)	Full	-	-	-	-
<b>Audit objectives and scope</b>					
<ul style="list-style-type: none"> <li>To review the fixed payment agreement with operators and to ensure that the four weekly returns and audit certificates from the major operators are complete, accurate and matched with Continuous Monitoring returns which show good correlation to support payments made.</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<ul style="list-style-type: none"> <li>A sample of payments were checked in the year.</li> <li>The current agreement will be until 31.3.2017 and as such has a further year to run.</li> </ul>					
<b>Assurances</b>			<b>Areas for further development</b>		
<p>Mazars (External Auditor) review procedures on an annual basis and update a control flowchart</p> <p>Independent audit certificates are received from major operators to confirm the accuracy of the four weekly returns.</p> <p>Fixed payments are agreed with the 3 major operators.</p> <p>Budget certainty on both sides and assists to promote a stable network for our customers in Tyne and Wear;</p> <p>Removes the risk of operator appeal and the associated costs and timeliness of the decision could affect both future budgets for both parties and have a consequential knock-on effect to secured services and commercial services, again affecting our customers;</p> <p>Nexus ensure that ridership targets are met and if this goes below the 5% of the agreed target then a clawback payment is enforced. This will be finalised in April 2016. Nexus are monitoring ridership figures on a periodic basis.</p>			<p>Continuous Monitoring; surveys have been extended to include additional questions on journeys and possible increased passenger profiling.</p> <p>Smart Card technology; these will give further electronic data on passenger journeys frequency of travel to assist in data to support contracts with operators and secured services (Concessionary Travel , Gold Cards, Under 16 and 16-18 smartcards);</p> <p>Ticketing &amp; Gating. This will assist in the reduction of fraudulent travel for metro and cross over services, project testing has been positive in the year this is shown in the increase in revenues and passenger numbers since their introduction.</p>		



# North East Combined Authority

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Nexus utilise the Department of Transport (DFT) guidelines as to how to reimburse operators for concessionary passengers as the base document in assisting in the negotiations with operators to ensure we (Nexus) achieve best value on behalf of the Tyne and Wear districts which we represent. The negotiations involve some judgement, for example to calculate average fare, and Nexus utilise external consultants to both assist and give an independent assessment.

Nexus Continuous Monitoring and smartcard survey data is used to correlate survey results with the four weekly returns from operators on revenue, mileage and total ridership.

# North East Combined Authority

## Governance Committee

Audit	Assessment	Recommendations			
		High	Medium	Low	VFM
Metro Reinvigoration (Nexus)	Full	-	-	-	-
<b>Audit objectives and scope</b>					
<p>To ensure appropriate levels of control and supervision have been exercised over the projects making up the Metro Reinvigoration programme and adequate records exist to support payments made in accordance with funding requirements. The elements of the Metro Reinvigoration linked to the Metro Operating Concession include:</p> <ul style="list-style-type: none"> <li>• Delivery by the Metro Concessionaire of the Metrocars ¾ life refurbishment programme is now completed with spend in 2015/16;</li> <li>• Facilitate the delivery of the Automatic Fare Collection project (“the AFC project”) by working in partnership with Nexus and its appointed contractors. The project is due for completion in 2015/16;</li> <li>• Facilitate the delivery of the Asset Renewal Programme (ARP) to programme by working in partnership with Nexus and its appointed contractors</li> </ul>					
<b>Internal Audit work undertaken was as follows:</b>					
<p>Good progress has been made to date on both Metro Reinvigoration and the Concession. Nexus have met DfT spend target for 2012/2013, 2013/2014 and 2014/15. Spend for 2015/16 is on target with major works planned for March 2016. To date Nexus have satisfied DfT conditions on spend.</p> <p>Project reviews in the year carried out by Audit have identified strong controls.</p> <p>The following projects were reviewed in the current year 2015/16:</p> <ul style="list-style-type: none"> <li>• Fire alarm replacement;</li> <li>• QE11 Bridge track replacement;</li> <li>• Drainage renewal South Gosforth to Jesmond.</li> </ul>					
<b>Assurances</b>			<b>Areas for further development</b>		
<p>Capital programme was submitted to and approved by the NECA Leadership Board.</p> <p>All expenditure (committed and actual) charged to capital projects was appropriate, monitored on a regular basis and reported to Corporate Management Team. Capital funding reclaims were correct.</p> <p>Project slippage is monitored and reported to the Combined Authority on a quarterly basis.</p> <p>Correct approvals for the individual schemes obtained.</p>			<p>Constant dialogue with DfT on funding and budget virement.</p> <p>Stage Gate procedures continue to improve through the Project Management Office involvement under the Finance and Resources Directorate and control both ARP and Non Metro Projects.</p> <p>The creation of the Capital Delivery Team provide an effective resource in the delivery of track improvement throughout the system and OHL renewals and result in financial savings for 2015/16.</p>		

# North East Combined Authority

## Governance Committee

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<p>Competitive tenders were sought and appropriate contracts made.</p> <p>Adequate levels of supervision and control had been exercised during the contract period.</p> <p>Overall financial standing of the Metro ARP is understood and communicated to those charged with governance. Forecast overspends are identified, challenged and managed down.</p> <p>Payments are correctly allocated and adequate records exist to support payments made.</p> <p>The Concession Agreement which commenced on 1 April 2010 between Tyne and Wear PTE and DB Regio Tyne and Wear Limited regarding the requirements and timetable for capital expenditure are comprehensive and subject to monthly review. Performance levels have been short of target and Nexus have been proactive with DB Regio to address the issues with fleet reliability remaining the biggest problem. The scope of audit work carried out on an annual basis was in respect of fixed payments for variable and non-variable costs, penalty and reward clauses on performance and committed obligations for which penalties can be charged.</p> <p>Review of the asset maintenance programme for 2015/16.</p>	<p>Audit work on the Concession is under the following areas:-</p> <ul style="list-style-type: none"><li>• Concession adjustments/committed obligations;</li><li>• Concession payments – fixed and variable;</li><li>• Concession asset maintenance.</li></ul> <p>No problems were encountered with the above and payments made were in accordance with the contract agreement.</p>
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#### Overall Opinion

##### Full Assurance

There is a highly effective system of internal control in place designed to achieve the Authority's objectives with no issues being identified.

##### Substantial Assurance

There is an effective system of internal control in place designed to achieve the Authority's objectives with only minor issues being identified which require improvement.

##### Moderate Assurance

There is a sound system of internal control in place with some weaknesses being present which may put some of the Authority's objectives at risk. Issues require management attention.

##### Limited Assurance

The system of internal control in place has some major weaknesses which may put the achievement of the Authority's objectives at risk. Issues therefore require prompt management attention.

##### No Assurance

There are significant weaknesses in the system of control which could result in failure to achieve the Authority's objectives. Immediate management action is therefore required.

#### Findings and Recommendations

##### High

A fundamental control weakness which could have a significant impact on the achievement of the Authority's objectives and reputation.

##### Medium

A control weakness which could have a major impact on the achievement of the Authority's objectives and reputation.

##### Low

An issue which if addressed would bring some improvement to the effectiveness of the control system.

# North East Combined Authority

## Governance Committee

### Appendix 4 – Internal Audit strategic plan

Audit	Delivered by	Audit scope and coverage	Days	Date to report to Governance Committee
<b>2016/17</b>				
Strategic Planning	Newcastle City Council	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of potential risks and opportunities as identified in the Combined Authority's risk register.	5	September 2016
Governance	Newcastle City Council	Review of the operation of governance arrangements in place and provide appropriate advice to officers establishing processes for reporting and monitoring.	4	September 2016
Financial Management	Newcastle City Council	Audit coverage will include: <ul style="list-style-type: none"> <li>The adequacy of financial arrangements for the overall Combined Authority.</li> <li>Processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems.</li> </ul>	4	December 2016
Partnerships	Newcastle City Council	To assess whether significant partnership arrangements are effective by considering whether: <ul style="list-style-type: none"> <li>Partnerships clearly align with corporate objectives.</li> <li>Formal governance arrangements are in place</li> <li>Performance management arrangements have been established and are monitored.</li> </ul>	8	December 2016
Tyne Tunnel	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.	4	April 2017
Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service		

# North East Combined Authority

## Governance Committee

		to confirm the adequacy and effectiveness of controls in relation to this area.		
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.		
<b>2017/18</b>				
North East Local Enterprise Partnership	Sunderland City Council	To review the arrangements for loans and grants to other organisations, specifically in terms of loan repayment.	To be determined following annual review early in 2017	
Communications	Newcastle City Council	To review arrangement to communicate with the public and stakeholders to ensure the Combined Authority is effectively promoted. This will include reviewing communications strategies and work with partnerships.		
Risk Management	Newcastle City Council	To review risk management arrangements for the Combined Authority.		
Human Resources, Training, Recruitment etc.	Newcastle City Council	To review human resource arrangements for the Combined Authority		
Tyne Tunnel	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.		
Concessionary Travel	Nexus	As above		
Metro Re-Invigoration	Nexus	As above		
<b>2018/19</b>				
Treasury Management	Newcastle City Council	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cashflows and investment / borrowing activity.	To be determined following annual review early in 2018	
Budget Setting and Monitoring	Newcastle City Council	To assess the adequacy and effectiveness of budget setting and budgetary control arrangements.		

# North East Combined Authority

## Governance Committee

Tyne Tunnel	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.		
Information Governance	Newcastle City Council	To determine the level of assurance being provided from the current operating models within the Combined Authority and compliance with standards and legislation.		
Strategic Planning	Newcastle City Council	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of potential risks and opportunities as identified in the Combined Authority's risk register.		
Concessionary Travel	Nexus	As above		
Metro Re-Invigoration	Nexus	As above		
<b>Allocation in each year of the audit plan</b>				
Contingency	Newcastle City Council	Provision to cover emerging risks, fraud investigation and general advice.	5	As required
Governance Committee Support	Newcastle City Council	<ul style="list-style-type: none"> <li>Development and monitoring delivery of the Internal Audit Annual Plan.</li> <li>Preparation of reports to and attendance at Governance Committee.</li> <li>Follow up on the implementation of recommendations made within Internal Audit reports.</li> </ul>	5	As required

Note - At the completion of work on Tyne Pedestrian and Cyclist Tunnels an audit will be included in the relevant year's internal audit plan.

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## North East Combined Authority

### Governance Committee

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**DATE:** 1 April 2016

**SUBJECT:** Assurance Framework for Annual Governance Statement  
2015/16

**REPORT OF:** Audit, Risk and Insurance Service Manager

#### **EXECUTIVE SUMMARY**

The purpose of this report is to introduce a draft framework for the production of the 2015/16 Annual Governance Statement and consider the sources of assurance required to support it.

#### **RECOMMENDATION**

It is recommended that the Committee agree the framework and process to develop the Annual Governance Statement.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

- 1.1 The 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 the system of internal control;
  - prepare an annual governance statement; and
  - through a relevant committee review and approve the annual governance statement.
- 1.2 To produce the Annual Governance Statement an assurance framework needs to be developed to assess the governance and internal control environment operating during 2015/16.

### 2 Proposals

- 2.1 The Leadership Board will have ultimate responsibility for the governance framework, internal control environment and the effectiveness of those arrangements, although the Governance Committee will fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.
- 2.2 The Annual Governance Statement will include narrative under the following headings covering governance arrangements in place during 2015/16:
- Scope of Responsibility
  - The Purpose of the Governance Framework
  - The Governance Framework
  - Annual Review of Effectiveness of Governance Framework
  - Conclusion
- 2.3 Appendix A shows the assurance framework diagrammatically and the flow of assurance from the business of the Combined Authority to the ultimate production of the Annual Governance Statement.
- 2.4 The proposed assurance framework for the Combined Authority is set out below. This table details the elements making up the framework and gives examples of how that assurance will be obtained. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and will be subject to review by the Authority's external auditors at the time of their audit of the final accounts for 2015/16.

# North East Combined Authority

## Governance Committee

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<b>Element of Assurance</b>	<b>Example of source of assurance</b>
Governance Arrangements	The Combined Authority's Constitution etc.
Statutory Officers - Monitoring Officer, Chief Finance Officer (Section 151 Officer), Senior Information Risk Owner (SIRO) and NEXUS	Completion of assurance statements from senior officers responsible for delivery of the Combined Authority's role.
Members	Views of the members of the Governance Committee
Internal Audit Activity	Outcomes reported during the year through the Head of Internal Audit's annual opinion
Risk Management	Outcomes from the Risk Review
Performance Management	Outcomes reported during 2014/15
External auditor and other external inspectorates	Reports received during the year
Key Partnerships	Completion of assurance statements detailing governance arrangements in place for each significant partnership to the Authority

- 2.5 The Governance Committee will use the assurance framework to review the governance and internal control environment operating during 2015/16 and to challenge assurance being provided on the effective operation of control systems before approving it for inclusion with the final accounts.
- 2.6 The final Annual Governance Statement will be signed by the Leader of the Combined Authority and the Head of Paid Service.
- 2.7 The Governance Committee will receive reports throughout 2016/17 to allow them to monitor the implementation of any actions to rectify weaknesses identified in the Annual Governance Statement.

### **3 Next Steps**

- 3.1 Agree an assurance framework including the sources of assurance which should be obtained and receive a draft Annual Governance Statement and supporting evidence at a future committee.

### **4 Potential Impact on Objectives**

- 4.1 No direct impact on objectives

# North East Combined Authority

## Governance Committee

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### **5 Finance and Other Resources**

- 5.1 This work will be carried out by Newcastle City Council under the SLA for 2015/16

### **6 Legal**

- 6.1 No legal implications.

### **7 Other Considerations**

#### **7.1 Consultation/Community Engagement**

No external consultation or community engagement required.

#### **7.2 Human Rights**

No implications under the Human Rights Act 1998 (or as amended).

#### **7.3 Equalities and Diversity**

There are no equalities and diversity implications directly arising from this report.

#### **7.4 Risk Management**

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the report.

#### **7.5 Crime and Disorder**

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

#### **7.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **8 Background Documents**

- 8.1 There are no background documents

### **9 Links to Plans in the Policy Framework**

- 9.1 No direct link to the Policy Framework

# North East Combined Authority

## Governance Committee

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### 10 Appendices

- 10.1 Appendix 1 - Assurance framework for the production of the Annual Governance Statement

### 11 Contact Officers

- 11.1 Philip Slater, Audit, Risk and Insurance Service Manager  
E mail: [philip.slater@newcastle.gov.uk](mailto:philip.slater@newcastle.gov.uk)  
Tel: 0191 2116511

### 12 Sign off

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

# North East Combined Authority

## Governance Committee

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