



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

Friday 10th July, 2015 at 2.00 pm

Meeting to be held: Sunderland Civic Centre, Burdon Road, Sunderland, Tyne and Wear, SR2 7SN

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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.	<b>Minutes of Previous Meeting held on 27 February 2015</b>	<b>1 - 6</b>
4.	<b>Outturn and Draft Financial Statements 2015/16</b>	<b>7 - 68</b>
5.	<b>Internal Audit Plan 2015/16 - 2017/18</b>	<b>69 - 76</b>
6.	<b>Annual Governance Statement 2014/15</b>	<b>77 - 86</b>
7.	<b>Internal Audit Annual Report including Quarter 4 Progress</b>	<b>87 - 104</b>

8. **Strategic Risks and Opportunities - Development of a Strategic Risk Register and Next Steps** 105 - 112

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

Friday 11 September 2015 at 2.00pm

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

**To: All Members**

## North East Combined Authority, Governance Committee

27 February 2015

(2.00 pm - 3.05 pm)

Meeting held Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

### Present:

Independent Member: M Scrimshaw (Chair)

Councillors: E Bell, B Coates, H Franks, A McMillan, H Trueman

Independent Person: S Gardner

### 31 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors A Dale, J O'Shea and G Clark, Independent Vice Chair.

### 32 DECLARATIONS OF INTEREST

The declaration of interest procedure was noted.

### 33 MINUTES OF PREVIOUS MEETING HELD ON 12 SEPTEMBER 2014 AND NOTES OF INQUORATE MEETING HELD ON 9 DECEMBER 2014

In response to a query raised on Minute 15 – Annual Report and Accounts 2013/14 of 12 September meeting, clarification was provided on the process for signing off the Annual Governance Statement. It was also confirmed that the process allowed sufficient opportunities for all to have input into the Statement prior to sign off.

#### RESOLVED – That:

- (i) The Minutes of the previous meeting held on 12 September 2014 were agreed as a correct record and signed by the Chair.
- (ii) The notes of the Inquorate meeting held on 9 December 2014 were received.

**Matters Arising:** None

### 34 BUSINESS ITEMS TO CONSIDER FROM IN QUORATE MEETING HELD ON 9 DECEMBER 2014

#### (a) Request for Dispensations

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

V Geary introduced the report, which provided information for determining three requests for dispensations from Members of the Leadership Board in relation to their registerable personal interest as Directors of Newcastle International Airport Limited.

**RESOLVED –**

- (i) That the requests for dispensation submitted by Members of the Leadership Board be granted.
- (ii) The Monitoring Officer be authorised to issue a certificate of dispensation to the Members concerned.
- (iii) The Monitoring Officer be authorised to grant dispensations to the Members of the Leadership Board who are also Directors of Newcastle International Airport Limited where such requests are not received in time for consideration by the Governance Committee.

(b) **Request for Dispensation**

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

V Geary introduced the report, which provided information on a request for dispensation for Councillor Eagle in relation to his registerable interest as an employee with Nexus Rail.

Concern was raised around the potential public perception in granting this dispensation. It was explained that the dispensation approval was to enable the Councillor to speak but not vote. The Councillor in question brought a wealth of knowledge and expertise to the Overview and Scrutiny Committee, particularly in relation to transport related issues.

**RESOLVED – That:**

- (i) The request for a dispensation submitted by Councillor Eagle be received and granted.
- (ii) The Monitoring Officer be authorised to issue a certificate of dispensation to the Member concerned.

35 **ACCOUNTING POLICIES UPDATE 2014-15**

Submitted: A report by Chief Finance Officer (previously circulated and a copy attached to official minutes).

E Goodman introduced the report, which updated the Committee on the NECA accounting policies to be applied in the preparation of the Annual Report and Accounts for 2014/15 and on changes to UK accounting and reporting standards and guidance, which may have an impact on the Authority's accounts for the year ending 31 March 2015.

P Woods referred to the recent tendering process in relation to banking arrangements for next year, confirming that Lloyds Bank had been awarded the contract. He also reminded the Committee that the external auditors for next year 2015-16 would be Mazars.

During discussions, clarification was sought on the reasoning behind the Cooperative Bank's decision to withdraw from local authority contracts and a brief outline about the relationship between NECA and the LEP was provided.

**RESOLVED** – That the accounting policies be approved and used in preparation of the 2014/15 accounts.

### 36 **BUDGET UPDATE 2015-16**

Submitted: A report by Chief Finance Officer (previously circulated and a copy attached to official minutes).

P Woods introduced the report, which updated the Committee on progress with the setting up of the 2015/16 budget. He also provided a detailed explanation about the two budgetary recommendations that were not agreed at the Leadership Board meeting on 20 January, which resulted in an extra-ordinary meeting on 17 February 2015 having to be arranged. He confirmed that the financial budget had now been agreed and would be monitored throughout the year with progress reported on a regular basis.

A concern was expressed about the risk value associated with agreement not being reached in future on vital decisions. It was explained that this would now be included as a risk in the register. A review of the budget process would also be undertaken to ensure inclusive consideration was carried out prior to the actual decision being taken.

Clarification was given about the reasons why the different amounts were shown against the bus infrastructure in the NEXUS budget for 2014-15 and 2015-16.

In response to a query raised, P Woods agreed to circulate two reports for information, which were presented to TNEC on 26 February around the discharge of transport functions in Durham and Northumberland.

A suggestion was made about inviting the Chair of NEXUS to a future meeting of this Committee to discuss whether there was a potential to harmonise operational issues between the rural and urban areas.

**RESOLVED** – That the report be received and noted.

### 37 **INTERNAL AUDIT PROGRESS REPORT**

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

P Slater introduced the report, which provided members with an updated Internal Audit Plan and detailed progress against the delivery of the plan and implementation of audit recommendations.

In response to a query was raised, it was explained that the Monitoring Officer had been appointed as the Senior Information Risk Officer (SIRO).

**RESOLVED** – That the Committee noted the internal audit activity to date.

### 38 **PARTNERSHIP ASSURANCE**

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

P Slater introduced the report, which provided the Committee with a template to be issued to the Combined Authority's significant partners to seek assurance on the effectiveness of their governance arrangements.

Clarification was provided about how the Audit Committee was an independent assessment carried out as part of the evidence gathering process that informed a judgement on the system's effectiveness. As such, this would not appear as a separate entity but could be part of the evidence of assurance under one or more of the categories listed.

Reference made to NEXUS, Durham and Northumberland and the need to perhaps send a slightly different template as these bodies were not classed as partners.

Comments were made about ensuring the template was consistent in its approach e.g. written in the third person; the importance of fully understanding the local government controls and ensuring partners had the same standards as local government and the Committee's knowledge and understanding of the overall process.

P Woods suggested that a training workshop could be arranged in June 2015, providing Members with a better understanding on the Accounts and how they were formulated and on the Annual Governance Statement and how it was produced, including information on the expectations of partners. A comment was made about trying to engage an external person, at low cost, to undertake the training.

**RESOLVED** – That the template was agreed and feedback be received along with other sources of assurance relevant to the Annual Governance Committee at their next meeting.

### 39 **RISK MANAGEMENT**

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

P Slater introduced the report, which provided information about the significant risks and opportunities facing the delivery of the Combined Authority's aims and ambitions that came out of a risk identification workshop.

A comment was made about how useful briefing session could be, particular reference being made to the economic regeneration and transport sessions held last year.

Concerns were expressed about members potentially having a lack of general understanding and knowledge. P Woods indicated that an overview of the various NECA issues could be provided as part of the suggested training workshop, discussed earlier in the meeting.

P Slater confirmed that a risk register would be compiled and a progress report given at the next meeting

**RESOLVED** – That the Committee:

- (i) Acknowledge and agreed the strategic risks and opportunity areas that have been identified at the workshop
- (ii) Noted the approach taken with Economic Directors to identify additional risk areas to investigate further.
- (iii) Agreed to receive a progress report at the next Governance Committee based on the outcome of the Economic Directors' meeting on 6 March 2015.

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

The Committee noted the proposed dates for 2015/16:

Friday 10 July 2015 at 2pm - Sunderland  
Friday 11 September 2015 at 2pm - Durham  
Friday 11 December 2015 at 2pm - Gateshead  
Friday 12 February 2016 at 2pm - Newcastle

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## North East Combined Authority

### Governance Committee

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**DATE:** 10 July 2015

**SUBJECT:** Outturn and Draft Financial Statements 2015/16 and External Audit Plan

**REPORT OF:** Chief Finance Officer

#### **EXECUTIVE SUMMARY**

The purpose of this report is to provide the Governance Committee with a summary of the North East Combined Authority's financial results for 2014/15, present the draft accounting statements and provide an overview of significant financial matters which occurred during the year.

Also presented with this report is the report of the External Auditor, Deloitte, which sets out the plan for the Audit and the particular risk areas they will focus on.

#### **RECOMMENDATIONS**

It is recommended that the Committee receive the report for consideration and comment.

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### **1 Background Information**

- 1.1 This outturn report provides Governance Committee with a summary of the Authority's financial results for 2014/15, explaining the key accounting statements and presenting an overview of significant financial matters which occurred during the year.

Under the Accounts and Audit Regulations 2011, the Statement of Accounts must be formally approved by the Authority by 30 September. It must be signed by the Chief Financial Officer and published by 30 June, but there is no longer a requirement for the draft accounts to be approved by Committee.

### **2 Proposals**

#### **2.1 Principal Financial Results for the Year**

This is the first set of accounts to be produced for the North East Combined Authority, which was established on 15 April 2014 by the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order which came into effect on that date. On the same date, the former Tyne and Wear Integrated Transport Authority was dissolved and its assets and liabilities transferred to the new Authority. The North East Combined Authority accounts include a consolidation of the financial results of the North East Local Enterprise Partnership (NELEP).

These accounts contain figures for the full period 1 April 2014 to 31 March 2015, therefore including the final two weeks of the Integrated Transport Authority and the operations of the North East Local Enterprise Partnership up to 29 April before NECA was formally made the Accountable Body (this role previously being fulfilled by Sunderland City Council). This is to aid transparency and to provide meaningful comparatives for future years' accounts.

This being a transitional year, the majority of NECA's operational activity and therefore its costs relate to Transport activity. Costs within the Transport budget are ringfenced between those relating to Tyne and Wear, Durham and Northumberland, reflecting the different funding arrangements in place in each area during 2014/15. The levy for 2014/15 was set by the Tyne and Wear ITA in January 2014, and covers the five Tyne and Wear Districts. For Durham and Northumberland, notional grant arrangements were in place during 2014/15 which were reported to the North East Combined Authority alongside other Transport budgets.

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For 2015/16, transport levies covering all seven authorities have been agreed. A summary of relevant transport expenditure in Durham and Northumberland is set out below for information. This does not form part of the income and expenditure set out in the financial accounts, and will be included for 2015/16.

### 2.1.1 Durham Transport budget

The final outturn for 2014/15 shows net a budget underspend of £366k for the year compared with the original budget for the year. The main reasons for the reported variances (outturn compared with the original budget) are shown below:

- i. Concessionary Fares £171k overspend – this results from the final agreements with the bus companies being higher than originally anticipated when the budget was set.
- ii. Subsidised Services £492k underspend – this has primarily resulted from reduced contract prices and increased patronage.
- iii. Bus Stations £31k underspend – this results from general efficiency savings.
- iv. Passenger Transport information £14k overspend – this results from various minor overspends.
- v. Staffing £28k underspend – savings are a result of vacancies and local agreements for reduced hours.

The underspend at the year-end will be retained by Durham County Council.

	<b>Original Budget</b>	<b>Outturn</b>	<b>Variance (Budget vs Forecast)</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Concessionary Fares	11,383	11,554	171
Subsidised Services	3,373	2,881	(492)
Bus Stations	66	35	(31)
Passenger Transport Information	115	129	14
Staffing	653	625	(28)
<b>Net Expenditure</b>	<b>15,590</b>	<b>15,224</b>	<b>(366)</b>

### 2.1.2 Northumberland Transport budget

The outturn position indicates that expenditure overspent by £214k for the financial year 2014/15. Northumberland County Council's two main areas of revenue expenditure are as follows:

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- a) Subsidised Bus Services – Northumberland County Council supports a range of socially necessary bus services, mainly in the rural North and West areas but some in the more urban South East. The Council is currently reviewing all contracts that do not offer value for money with a view to coming up with alternative delivery models.
- b) Concessionary Travel Scheme – The outturn shows a £256k overspend on Concessionary Travel due to the savings relating to the audit of disabled bus passes not being implemented as originally anticipated; rather the passes will be phased out in line with their natural expiry timescales and claims from operators (£130k) on the use of passes or where new commercial routes have been added to the network resulting in additional claims.

	<b>Original Budget</b>	<b>2014/15 Budget £000</b>	<b>2014/15 Actual £000</b>	<b>Variance £000</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Concessionary Travel	4,277	4,343	4,599	256
Subsidised Services	1,027	1,740	1,790	50
Passenger Transport Information	40	40	8	(32)
Staffing	199	199	139	(60)
<b>Net Expenditure</b>	<b>5,543</b>	<b>6,322</b>	<b>6,536</b>	<b>214</b>

### 2.1.3 Tyne and Wear levy-funded budget

Within Tyne and Wear, the vast majority of the levy is used to fund a grant to Nexus for the delivery of public transport services, as set out in the chart below. An element of the levy is retained to fund costs associated with the operation of transport activity, mainly historic capital financing costs.

The table below compares actual spend against the budget for 2014/15.

<b>Budget Heading</b>	<b>2014/15 Budget £000</b>	<b>2014/15 Actual £000</b>	<b>Variance £000</b>
Service Level Agreement and staffing charges	250	251	1
Audit Fees	18	18	-
Members Allowances and Expenses	5	5	-
Conferences, Travel and Subsistence	4	2	(2)
Supplies and Services	30	21	(9)
Financing Charges	2,328	2,269	(59)
Repayment to Tyne Tunnels	240	240	-

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Interest on investments and revenue balances	(3)	(10)	(7)
Contingency / Bus Strategy costs	70	35	(35)
<b>Total Tyne &amp; Wear Transport Operating Expenses</b>	<b>2,942</b>	<b>2,831</b>	<b>(111)</b>
Grant to Nexus	64,920	64,920	-
<b>Total Tyne &amp; Wear Transport Expenditure</b>	<b>67,862</b>	<b>67,752</b>	<b>-</b>
<b>Levy Income</b>	<b>(68,207)</b>	<b>(68,207)</b>	<b>-</b>
<b>Transfer (to)/from TW Transport General Fund Reserve</b>	<b>(345)</b>	<b>(456)</b>	<b>(111)</b>
<b>TW Transport General Fund Reserve</b>			
Reserves brought forward	(574)	(574)	-
Reserves refunded to TW Districts	440	440	-
Reserves contribution in year	(345)	(456)	(111)
Reserves carried forward	(479)	(590)	(111)

2.1.2 The net result for the year was a surplus of £456k, which is £111k better than expected and has been added to the Tyne and Wear Transport reserve. The use of some reserves was taken into account in setting the 2015/16 budget, where the budget funded by the Levy was reduced from £3,287k in 2014/15 to £2,700k in 2015/16, requiring use of reserves in 2015/16 to balance the budget in advance of forecast savings in financing charges in future years. It is proposed to ringfence £100k of the additional surplus achieved in 2014/15 to fund capacity for the Devolution work which will be taking place in 2015/16, a significant proportion of which will relate to Transport.

### 2.1.3 Tyne Tunnels Revenue budget

NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the levy to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd. Tolls on vehicles are used to fund all operational costs and the costs of borrowing undertaken for the completion of the New Tyne Crossing, a major construction project which

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began in 2008 to provide a new tunnel alongside the existing one. The new tunnel was completed and opened in February 2011, and the old tunnel was then closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, to carry two lanes of northbound traffic while the new tunnel carries two lanes of southbound traffic. The Pedestrian and Cycle tunnels are free to users. They are currently undergoing major refurbishment works which are due to be completed during 2015/16.

In 2014/15 the traffic level was 16.843m vehicles (an increase of 9% compared with 2013/14). This corresponded to a total toll income of £26.116m after adjusting for prepayments (compared with £23.744m in 2013/14). There were no increases in tolls during the year; they were maintained at £1.60 for cars and small vans and £3.20 for lorries and large vans (with a ten percent discount for permit holders).

The Tyne Tunnels are operated as a ringfenced trading account, meaning it is fully funded from tolls income and dedicated tunnel reserves, with no impact on the levy. The position to the year-end has improved significantly, from a projected deficit to a surplus of £197k.

	<b>2014/15 Budget £000</b>	<b>2014/15 Actual £000</b>	<b>Variance £000</b>
Employees	35	35	-
Pensions	50	54	4
Supplies and Services and Other Expenses	50	39	(11)
Support Services	130	98	(32)
Community Fund	10	1	(9)
Financing Charges	6,812	6,447	(365)
Toll Income	(25,315)	(26,116)	(801)
Usage Payments	19,040	19,643	603
Other Income	(240)	(243)	(3)
Interest on Investments and Tunnel Balances	(150)	(155)	(5)
<b>Total Tunnels Operating Costs</b>	<b>422</b>	<b>(197)</b>	<b>(619)</b>

Traffic volumes increased by around 8% compared with the previous year, resulting in an improved toll income outturn of £26,116k compared with the budget of £25,315k. The contract payment to the Concessionaire, TT2 Ltd. is based on traffic volumes. The payment to TT2 has therefore increased as the toll income has increased (outturn of £19,643k compared to budget of £19,040k), but with a resulting net improvement against the budget of £198k.

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The other significant saving was on financing charges, where work to reduce interest charges by repaying debt early and using cash balances in place of external borrowing has resulted in a reduction of £365k against the budget.

### 2.2 Capital Expenditure

Capital Expenditure of £3.891m has been incurred in 2014/15 in relation to the New Tyne Crossing and the refurbishment of the Tyne Pedestrian and Cycle Tunnels. There has been £24.056m further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus, and making Regional Growth Fund and Growing Places Fund loans to organisations as part of the North East Investment Fund.

In addition to the £27.947m capital expenditure shown within the NECA single entity accounts, Nexus have also invested £30.936m in the Metro Asset Renewal Plan (ARP) resulting in total transport capital investment of £58.883m. A summary of expenditure against the transport capital programme is set out in the table below:

	<b>2014/15 Budget £000</b>	<b>2014/15 Outturn £000</b>	<b>Variance £000</b>
Metro Asset Renewal Plan	34,650	30,936	(3,714)
Tyne Tunnels	4,500	3,891	(609)
Transport Grants	25,278	24,056	(1,222)
<b>Total</b>	<b>64,428</b>	<b>58,883</b>	<b>(5,545)</b>

The vast majority of the NECA capital programme was funded by government grant awarded by with some funding provided by contributions from Reserves. No additional borrowing has been incurred in 2014/15.

### 2.3 North East Local Enterprise Partnership

The North East Local Enterprise Partnership (NELEP) brings together business leaders, universities and elected members of the North East Leadership Board. It is the fourth largest local enterprise partnership in the UK, a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA is the accountable body for the public funding allocated to the NECA and NELEP area, where the use of funding is approved by NELEP. Figures for income and expenditure as a result of NELEP activity therefore appear within these accounts, the first year that this expenditure has been reported in public accounts.

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NELEP is responsible for the delivery of the North East Strategic Economic Plan (SEP), providing support for business growth, encouraging innovation, improving skills and employability and delivering better infrastructure across the North East. In July 2014, £290m funding was announced under the North East Growth Deal, with a further £40.6m in January 2015 and this funding will be attracted and spent over a five year period, with the majority of spend in the next two to three years.

### 2.3.1 North East Investment Fund

The 2014/15 financial year provided the continuation of North East Investment Fund activity, confirmation of the North East Growth Deal and significant work in preparation for the delivery of the SEP in 2015/16. The North East Investment Fund is a Capital Loan Fund supporting projects that specifically encourage local economic growth and creates jobs in the area. During 2014/2015 the North East Investment Fund provided capital investment of £19.9m to the region, bringing the total investment from the fund to £27.9m.

The £55m investment fund, made up of £25m Growing Places and £30m Regional Growth Funding is now fully allocated, with some projects supported through loan commencing their repayments. As money is repaid, it will provide the funds for new loans and investments.

Projects supported during the financial year included; development of light industrial units at Portobello Trade Park Birtley, test tank facilities on the North Bank of the Tyne to enhance the NE Enterprise Zone, Centre for Innovation and Growth at Durham University, site infrastructure works at the former Swan Hunters site and SME office accommodation in Jesmond. Further details of activity can be found in the information provided by NELEP on their website [www.nelep.co.uk](http://www.nelep.co.uk)

A summary of the NEIF position to the 31st March 2015 is shown below:

	<b>Growing Places Fund £m</b>	<b>Regional Growth Fund £m</b>	<b>NEIF Total £m</b>
Capital Allocation	24.75	29.30 *	54.05
Prior Year Drawdown	(6.12)	(1.90)	(8.02)
2014/15 Drawdown	(7.95)	(11.92)	(19.87)
<b>Balance to Drawdown by Approved Projects</b>	<b>10.68</b>	<b>15.48 *</b>	<b>26.16</b>



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Repayments Received	1.88	1.15	3.03
Interest on Balances	0.35	0.04	0.39
<b>Total</b>	<b>12.91</b>	<b>16.67 *</b>	<b>29.58</b>

\* £8m of the Regional Growth Fund allocation is to be received in 2015/2016.

To date four fund beneficiaries have commenced repayments; these are Mecaplast (Peterlee) Ltd, Durham County Cricket Club, Sunderland City Council and Hellens Developments, the latter repaying in full on their Teal Farm Park Starter Units development. Repayments to 31<sup>st</sup> March 2015 totalled £3.03m comprising £2.778 principal and £0.248m interest. In addition interest generated from the holding of cash balances in 2014/2015 totalled £0.107m, bringing the total to £0.39m.

### 2.3.2 NELEP Revenue Budgets

The LEP core budget covers mainstream LEP operational activity and activity in preparation for the Strategic Economic plan delivery phase, which began in April 2015. The table below provides a summary of the budget against actual spend.

Area	Budget £	Actual £	Variance £
<b>Expenditure</b>			
- Employees	506,074	398,702	(107,372)
- Supplies and Expenses	75,071	126,798	51,727
- External Support	194,455	268,962	74,507
<b>Gross Expenditure Budget</b>	<b>775,600</b>	<b>794,462</b>	<b>18,862</b>
<b>Income</b>			
- Local Authority Contributions	(250,000)	(250,000)	0
- DCLG LEP Grant Funding	(250,000)	(250,000)	0
- DCLG SEP Grant	(250,000)	(250,000)	0
- BIS Capacity Grant Funding	(25,600)	(25,600)	0
- Other Misc. Income	0	(9,784)	(9,784)
<b>Gross Income Budget</b>	<b>(775,600)</b>	<b>(785,384)</b>	<b>(9,784)</b>
<b>2014/15 Net Budget (Surplus) / Deficit</b>	<b>0</b>	<b>9,078</b>	<b>9,078</b>

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Prior Years Balances	(249,299)	9,078	(240,221)
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### 2.3.3 North East Investment Fund (NEIF) - Programme Delivery Budget

The NEIF comprises the NELEP Growing Places Fund (GPF) allocation and also the Regional Growth Fund (RGF). This revenue delivery budget provides the resource to support the NEIF programme.

Budget Area	Budget £	Actual £	Variance £
<b>Expenditure</b>			
- Employees	47,025	47,209	184
- Accountable Body Costs	78,031	67,793	(10,238)
- External Support	237,108	270,545	33,437
- Appropriation to Capital Fund	21,710	107,303	85,593
<b>Gross Expenditure Budget</b>	<b>383,874</b>	<b>492,850</b>	<b>108,976</b>
<b>Income</b>			
- GPF Programme Management	(68,306)	(62,783)	5,523
- RGF Programme Management	(293,858)	(322,764)	(28,906)
- Interest on GPF Balances	(21,710)	(82,679)	(60,969)
- Interest on RGF Balances	0	(24,624)	(24,624)
<b>Gross Income Budget</b>	<b>(383,874)</b>	<b>(492,850)</b>	<b>(108,976)</b>
<b>Net Budget (Surplus) / Deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>

The expenditure budget provides for an additional full time post within the core LEP team to support and develop NEIF activity. Accountable budget support provided through Sunderland City Council includes, programme coordination, finance, legal, audit, procurement and meeting minuting services.

Due to the diverse and sometimes specialist nature of the projects applying for support from the NEIF the appraisal, due diligence and loan documentation has been supported by extensive external support from property, assurance and legal external advisors. In addition, a project to develop a NELEP investment appraisal and prioritising model tool and also an North East Ex-ante evaluation are funded from this budget area.

All NEIF expenditure is externally funded through the revenue grant allocations provided with the Growing Places and Regional Growth Fund.

### 2.3.4 North East Enterprise Zone

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The NE Low Carbon Enterprise Zone is located across four local authority areas; Newcastle, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the NELEP for a 25 year period, 2014/2015 was the second year of the zones life.

Analysis of the business rates generated to date is shown in the table below. This funding is available to support future NELEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

Local Authority Area	2013/2014 Business Rate Growth £	2014/2015 Business Rates Growth £	TOTAL to Date £
Newcastle	311,765	330,041	641,806
North Tyneside	14,316	54,942	69,258
Northumberland	11,913	26,307	38,220
Sunderland	695,693	652,913	1,348,606
<b>Sub Total</b>	<b>1,033,687</b>	<b>1,064,203</b>	<b>2,097,890</b>
EZ Costs	-	(8,950)	(8,950)
Interest on Bal.	n/a	3,425	3,425
<b>TOTAL</b>	<b>1,033,687</b>	<b>1,058,678</b>	<b>2,092,365</b>

### 2.4 Other NECA Costs

NECA also holds a small central budget to fund the operations of the authority which are not specific to transport or economic development.

A one-off contribution from each local authority of £50k was put in place to set up a corporate reserve of £350k. Additional costs incurred in year resulting from increased levels of NECA activity in its first year have resulted in around £80k of these reserves being drawn down to meet expenditure in year. For 2015/16, a corporate budget of £300k has been established to meet the costs of this work.

### 2.5 Reserves

The Authority has a total of £57.4m Usable Reserves, as shown on the Balance Sheet at Appendix 3. The vast majority of these are ringfenced for specific purposes, with an unallocated NECA Corporate Reserve of £269k.

The majority of the General Fund balance is made up of the Tyne Tunnels reserves (£28m) and the Tyne and Wear Transport Reserve (£0.574m) with balances of contributions in relation to Inward Investment and other Transport

# North East Combined Authority

## Governance Committee

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activity which have been carried forward to fund expenditure previously agreed. There are also balances held in relation to NELEP activity.

Further Earmarked reserves include £10m in relation to the Metro Asset Renewal programme, where funds are committed for future local contribution requirements to match DfT grant provided directly to Nexus.

The Capital Receipts Reserve of £1.05m holds repayments of loans which will be recycled of part of the NEIF. Capital Grants Unapplied represents grant funding held by the Authority without conditions attached, which has not yet been used to finance capital expenditure.

### 2.6 Treasury Management

The Balance Sheet at Appendix 3 shows external borrowing of £198.824m at the end of the year which is split between short term borrowing (due to be repaid in less than one year - £28.824m) and long term borrowing (£170m). This compares to £204.907m for 2013/14 for TWITA, with the decrease due to repayment of Public Works Loans Board (PWLB) loans which had reached maturity and regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.28%.

The Balance Sheet also shows short term external investments of £28m at the end of the year. These are investments which the Authority holds on behalf of Nexus, for whom it provides Treasury Management services, and are matched by a corresponding creditor on the Balance Sheet to represent the fact that these investments must be repaid to Nexus on request. The average rate of interest income on investments and cash balances for the year was 0.45%.

### 2.7 Pensions Costs

The Authority is a member of the Tyne and Wear Pension Fund (the pension fund) which is part of the Local Government Pension Scheme, which provides defined benefits based on members' salary and years of service. In accordance with IAS19, the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting of:

- Pension benefits that are being paid out to former employees who have retired
- Pension benefits earned to date by current employees but not yet paid out.

The standard also requires all investment (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates on a day-to-day basis, but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension

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payments and the value of investments at 31 March results in an overall surplus or deficit for the Pension Fund, called the IAS 19 surplus or deficit.

All pension liabilities of NECA relate to former TWITA employees. In December 2013, the TWITA took the decision to make a payment to the Tyne and Wear Pension Fund to clear the vast majority of the deficit in its scheme. The purpose of this strategy was to reduce the historic deficit before the pension liabilities were transferred to NECA, and also to give a saving on the regular deficit contribution payments which was far in excess of the lost potential investment income that would have been achieved by holding the cash in reserves.

As a result, the deficit decreased from £8.25m in March 2013 to £0.96m at 31 March 2014. This has slightly increased to £1.02m at 31 March 2015, which entirely relates to unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made, however there are no investment assets built up to meet these and cash has to be generated to meet actual payments as they eventually fall due. These liabilities relate to former Tyne Tunnels employees and as such the payments are charged against the Tyne Tunnels account (approximately £54k in 2014/15).

### 2.8 Looking ahead to 2015/16 and beyond

Local government as a sector is facing significant government funding cuts as well as cost pressures arising from increased demand for services and the economic downturn. Given this pressure on the constituent councils which make up the North East Combined Authority, it is likely that further savings in the transport levy will be required and work is underway to identify additional savings for 2016/17 over and above those already identified for 2015/16.

The Authority's net revenue budget for 2015/16 has been set at £90.095m, which includes an increase in the levels of budget for economic development and inward investment activity.

The Authority's agreed capital programme for 2015/16 is in excess £119m – a significant increase on 2014/15, due to the inclusion of capital schemes making up the Local Growth Deal.

A significant area of focus for the North East Combined Authority during 2015/16 will be the devolution agenda. NECA has outlined initial proposals to secure a significant programme of devolution of power, funding and responsibilities to the North East to meet the needs of our diverse communities.

### 2.9 Key Financial Statements

#### 2.9.1 Movement in Reserves Statement (MiRS) (Appendix 1)

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This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those that can be applied to fund expenditure) and Unusable Reserves. The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NECA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

The Movement in Reserves Statement shows a total movement in usable reserves of £8.064m. The main reason for this decrease is the use of Capital Grants Unapplied £7.951m – where grants have been credited to the CIES in previous years as they had no conditions attached, but only used to fund up expenditure during 2014/15.

### 2.9.2 Comprehensive Income and Expenditure Statement (CIES) (Appendix 2)

The CIES shows the accounting costs in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy and tolls which is set out in the MiRS, as described above.

The CIES shows a Surplus on the Provision of Services of £3.616m and a Total Comprehensive Income and Expenditure (equal to the movement between years on the Balance Sheet) of a £2.467m surplus.

### 2.9.3 Balance Sheet (Appendix 3)

The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories: Usable Reserves i.e. those that the Authority may use to provide services, subject to the need to retain a prudent balance and any statutory limitations on their use; and Unusable Reserves, i.e. those that the Authority is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line "adjustments between accounting basis and funding basis under regulations".

The total net assets of the Authority at £148.709 is consistent with the opening net assets of £146.242m. There has been a slight decrease in Property, Plant and Equipment, (largely made up of the Tyne Tunnels) due to

# North East Combined Authority

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depreciation and impairment. Long Term Debtors relate to loans made to Nexus and NEIF loans to organisations in the region, and this figure has increased as more loans have been given out as described in 2.3.1. Short Term Investments represents investments placed on behalf of Nexus, and a corresponding figure is included within the Short Term Creditors balance to represent the fact that this total must be repaid to Nexus on their request. Total Cash has decreased quite significantly, as discussed in paragraph 2.9.4 below.

Short Term borrowing is considerably higher than the prior year, due to the fact that the decision was taken to use cash balances repay two PWLB loans during April 2015, generating a saving on interest charges in excess of the cost of the premium on early repayment and the loss of any investment income associated with those balances. Long Term borrowing has also reduced significantly, from £197m to £170m, as principal has been repaid without additional borrowing taken out.

Grants and Contributions Receipts in Advance is shown split between Long Term and Short Term liabilities, representing grants which are still to be used to finance expenditure. The total has decreased by £5.46m in year as conditions have been met and grants used to deliver various programmes.

'Other Long Term Liabilities' on the Balance Sheet represents the outstanding pension liability. This has increased from £0.960m to £1.020m at the year end, as described at section 2.7 above.

### 2.9.4 Cash Flow Statement (Appendix 4)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

Under IAS7, NECA must show separately cash flows relating to business combinations. In this case, this is in relation to the establishment of NECA. Since NECA came into existence during April 2014, the cash balances at the beginning of the period are shown as nil.

NECA's total cash balances at 31 March 2015 have reduced by around £10m when compared to the opening balances, from £78.388m to £68.531m. This is mainly due to lower overall borrowing as loans are repaid without additional external borrowing being carried out – i.e. cash balances have been used to meet capital expenditure; and the use of grants held on balance sheet in previous year to meet expenditure in 2014/15.

# North East Combined Authority

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NECA's cash balances were invested at the year end with Newcastle City Council and Sunderland City Council, providing an extremely low-risk return to the Authority. Work will take place during 2015/16 on the Treasury Management and Investment strategy for the NECA, which will include consideration of how best to use balances to support the Authority's objectives while achieving interest returns at a low risk.

### 2.10 External Audit Plan

Attached to this report is the External Audit Plan from Deloitte, which sets out their plan for audit activity over the summer, an explanation of the approach they will take and the particular areas of risk they will focus on.

## 3 Next Steps

- 3.1 The accounts are subject to audit by the Authority's external auditors, Deloitte, and the final accounts will be presented to the Governance Committee at its meeting on 11 September, prior to approval by the North East Leadership Board on 15 September.

## 4 Potential Impact on Objectives

- 4.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

## 5 Finance and Other Resources

- 5.1 The views of the Chief Finance Officer are reflected in the body of the report.

## 6 Legal

- 6.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 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 from this report. Governance Committee are consulted on the accounting policies prior to their use in the preparation of the 2014/15 accounts.



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### 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

8.1 Code of Practice on Local Authority Accounting 2014/15

8.2 Accounts and Audit (England) Regulations 2011

8.3 Draft Statement of Accounts 2014/15 – published at [www.northeastca.gov.uk](http://www.northeastca.gov.uk) or available from the contact officer

## 9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework

## 10 Appendices

10.1 Appendices 1-4 contain the draft NECA financial statements for 2014/15. The External Audit Plan is attached as Appendix 5.

## 11 Contact Officers

11.1 Eleanor Goodman, Senior Accountant, [eleanor.goodman@newcastle.gov.uk](mailto:eleanor.goodman@newcastle.gov.uk),  
Tel: 0191 277 7518

## 12 Sign off

- Head of Paid Service

# North East Combined Authority

## Governance Committee

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- Monitoring Officer ✓
- Chief Finance Officer ✓

## Appendix 1A - Movement in Reserves Statement

	General Fund	Earmarked Reserves	Capital Grants Unapplied	Capital Receipts	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2014</b>	(34,946)	(11,753)	(18,639)	(150)	(65,488)	(80,754)	(146,242)
Movement in reserves during 2014/15:							
(Surplus)/Deficit on Provision of Services	(3,616)	-	-	-	(3,616)		(3,616)
Other	-	-	-	-	-	1,149	1,149
Comprehensive Income and Expenditure							
<b>Total</b>	<b>(3,616)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,616)</b>	<b>1,149</b>	<b>(2,467)</b>
<b>Comprehensive Income and Expenditure Adjustments</b>	<b>6,257</b>	<b>-</b>	<b>7,951</b>	<b>(2,528)</b>	<b>11,680</b>	<b>(11,680)</b>	<b>-</b>
between Accounting Basis and Funding Basis under Regulations							
<b>Net (Increase) / Decrease before transfers to Earmarked Reserves</b>	<b>2,641</b>	<b>-</b>	<b>7,951</b>	<b>(2,528)</b>	<b>8,064</b>	<b>(10,531)</b>	<b>(2,467)</b>
Transfers (to)/from Earmarked Reserves	(397)	(1,231)	-	1,628	-	-	-
(Increase) / Decrease in 2014/15	2,244	(1,231)	7,951	(900)	8,064	(10,531)	(2,467)
<b>Balance at 31 March 2015 Carried Forward</b>	<b>(32,702)</b>	<b>(12,984)</b>	<b>(10,688)</b>	<b>(1,050)</b>	<b>(57,424)</b>	<b>(91,285)</b>	<b>(148,709)</b>

## Appendix 1B - Breakdown of Usable Reserves

	<b>31 March 2015</b>
	<b>£000</b>
General Fund	
- Tyne and Wear Transport	(590)
- Tyne Tunnels	(28,173)
- NECA Corporate	(269)
- NECA Inward Investment	(63)
- NECA Transport	(207)
- NELEP General Fund	(3,400)
Other Earmarked NECA Reserves	(10,988)
Other Earmarked NELEP Reserves	(1,996)
Capital Receipts Reserve	(1,050)
Capital Grants Unapplied Reserve	(10,688)
<b>Total Usable Reserves at 31 March 2015</b>	<b><u>(57,424)</u></b>

## Appendix 2 - Comprehensive Income and Expenditure Statement

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Corporate and Democratic Core	209	(490)	(281)
Highways and Transport	115,558	(55,929)	59,629
Planning and Development	13,746	(13,128)	618
<b>Cost of Services</b>	<b>129,513</b>	<b>(69,547)</b>	<b>59,966</b>
Financing and Investment	8,528	(2,839)	5,689
Income and Expenditure			
Taxation and Non-Specific Grant Income	-	(69,271)	(69,271)
<b>(Surplus)/Deficit on Provision of Services</b>			<b>(3,616)</b>
Re-measurements of the defined benefit liability			70
(Surplus)/Deficit on Revaluation of Non-Current Assets			1,079
<b>Other Comprehensive Income and Expenditure</b>			<b>1,149</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>(2,467)</b>

### Appendix 3 - Balance Sheet

	<b>1 April 2014 £000</b>	<b>31 March 2015 £000</b>
Property, Plant and Equipment	363,916	361,625
Long Term Debtors	50,284	52,669
<b>Long Term Assets</b>	<b>414,200</b>	<b>414,294</b>
Short Term Investments	20,500	28,000
Short Term Debtors	18,274	11,243
Cash and Cash Equivalents	78,388	68,531
<b>Current Assets</b>	<b>117,162</b>	<b>107,774</b>
Short Term Borrowing	(7,941)	(28,824)
Short Term Creditors	(38,881)	(43,697)
New Tyne Crossing - Deferred Income	(5,092)	(5,092)
Grants and Contributions Receipts in Advance	(14,811)	(10,898)
<b>Current Liabilities</b>	<b>(66,725)</b>	<b>(88,511)</b>
New Tyne Crossing - Deferred Income	(117,122)	(112,030)
Grants and Contributions Receipts in Advance	(3,347)	(1,798)
Long Term Borrowing	(196,966)	(170,000)
Other Long Term Liabilities	(960)	(1,020)
<b>Long Term Liabilities</b>	<b>(318,395)</b>	<b>(284,848)</b>
<b>Net Assets</b>	<b>146,242</b>	<b>148,709</b>
Usable Reserves	(65,488)	(57,424)
Unusable Reserves	(80,754)	(91,285)
	<b>(146,242)</b>	<b>(148,709)</b>

**Appendix 4 - Cash Flow Statement**

	<b>31 March 2015 £000</b>
Net surplus/(deficit) on the provision of services	3,616
Adjustments to the net surplus or deficit on the provision of services for non-cash movements	4,128
Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	(18,669)
Net cash flows from Operating Activities	<u>(10,925)</u>
Investing Activities	16,288
Cash flows relating to business combinations (establishment of NECA)	78,388
Net Investing Activities	<u>94,676</u>
Financing Activities	<u>(15,220)</u>
<b>Net increase in cash and cash equivalents</b>	<b><u>68,531</u></b>
Cash and cash equivalents at the beginning of the reporting period	-
Cash and cash equivalents at the end of the reporting period	<b><u>68,531</u></b>

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# Planning Report to the Governance Committee for year ending 31 March 2015

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*I am delighted to present this planning report for the 2014/15 audit of the North East Combined Authority. This report sets out our audit approach and the more significant areas where we will focus our attention this year.*

**Paul Thomson, Audit Partner**



# The big picture

# The big picture

We have set out below an overview of the key developments at the North East Combined Authority (“the Authority”) and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

## Relevant developments

- The North East Combined Authority was officially formed on 15<sup>th</sup> March 2014, with a mandate to meet the Strategic Transport needs of its constituent authorities and to drive Economic Development and Regeneration across the North East.
- It replaced the previous Passenger Transport Authority, the Tyne and Wear Integrated Transport Authority (TWITA) and inherited its responsibilities and liabilities.
- As well as the 5 local authorities which were represented by TWITA: Newcastle City Council, Sunderland City Council, Gateshead Council, South Tyneside Council, North Tyneside Council, an additional two local authorities, Durham County Council and Northumberland County Council, have joined the Combined Authority.
- However, while Nexus acts as the Passenger Transport Executive (PTE) for the original five Local Authorities, Durham and Northumberland have continued to act as their own PTEs for the current year.
- The NECA also became the responsible body for the Local Enterprise Partnership on 29<sup>th</sup> April 2014 when it transferred from Sunderland City Council, and with it brought the funding and means to drive Economic Development and Regeneration across the North East through the strategic allocation of funding to local business.

## Significant audit risks

- Revenue Recognition
- Management Override of Controls
- Transfer of the Local Enterprise Partnership
- Recoverability of Loans

## Materiality

For the Group and NECA we have calculated materiality and the threshold above which we will report any misstatements to the Governance Committee based on net assets per the draft financial statements as follows:

- Group: materiality £17,090k, reporting threshold £855k.
- NECA: materiality £4,460k, reporting threshold £223k.

# Our audit quality promise

# Our audit quality promise

## Our new quality standard



The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and our experience with other local authority bodies, we know that you value an integrated audit approach which encompasses the main financial statements audit, value for money conclusion and Whole of Government Accounts return. Our Audit Quality promise takes this into account. Our audit team for 2014/15 includes individuals with good knowledge of the entity from their experience with the predecessor organisation and we have supplemented them as necessary with skilled, experienced and knowledgeable individuals to ensure timely and effective delivery of our audit.

### **Closure of the Audit Commission**

The Audit Commission ceased to exist on 31 March 2015. An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) is now responsible for overseeing the external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification. The National Audit Office is now responsible for issuing guidance to auditors and has confirmed that the Commission's guidance for 2014/15 audits remains in place and is unchanged. We will ensure we comply with that guidance in the delivery of the audit.

# Our commitment to you

## Communication



We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

### Year round communication

We will be in regular contact with Eleanor Goodman, Senior Accountant, to ensure we remain up to date with the developing issues at the NECA through the year, and will discuss in advance, any papers we wish to present to a meeting of the Governance Committee.

Senior members of the audit team will attend meetings of the Governance Committee as scheduled and meet privately with the Chair of the Governance Committee. In these meetings we will discuss key developments and report in-year findings from our work. We will also provide any relevant regulatory / technical updates.

We will attend regular meetings with the Chief Finance Officer. We will also make ourselves available through the year for ongoing discussions as necessary.

### During the main audit period

During the audit period we will work closely with Eleanor Goodman and Paul Dixon. We will ensure we summarise our findings and discuss any emerging issues on the financial statement audit.

We will also work with Eleanor as our key point of contact for the Value for Money conclusion.

We will hold weekly meetings with Eleanor to discuss progress on the audit and will hold a close meeting with management to discuss the contents of our report to the Governance Committee.

### Open feedback process

We will carry out debrief meetings with the Governance Committee Chair and with Paul Woods and Eleanor Goodman to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

We will also seek direct feedback through regular meetings during the year.

### Responding to queries and requests

We will always endeavour to respond to queries promptly and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Authority, as soon as we become aware.

We will make ourselves available to discuss issues as they arise, in advance of the year end to smooth the closedown and accounts production processes.

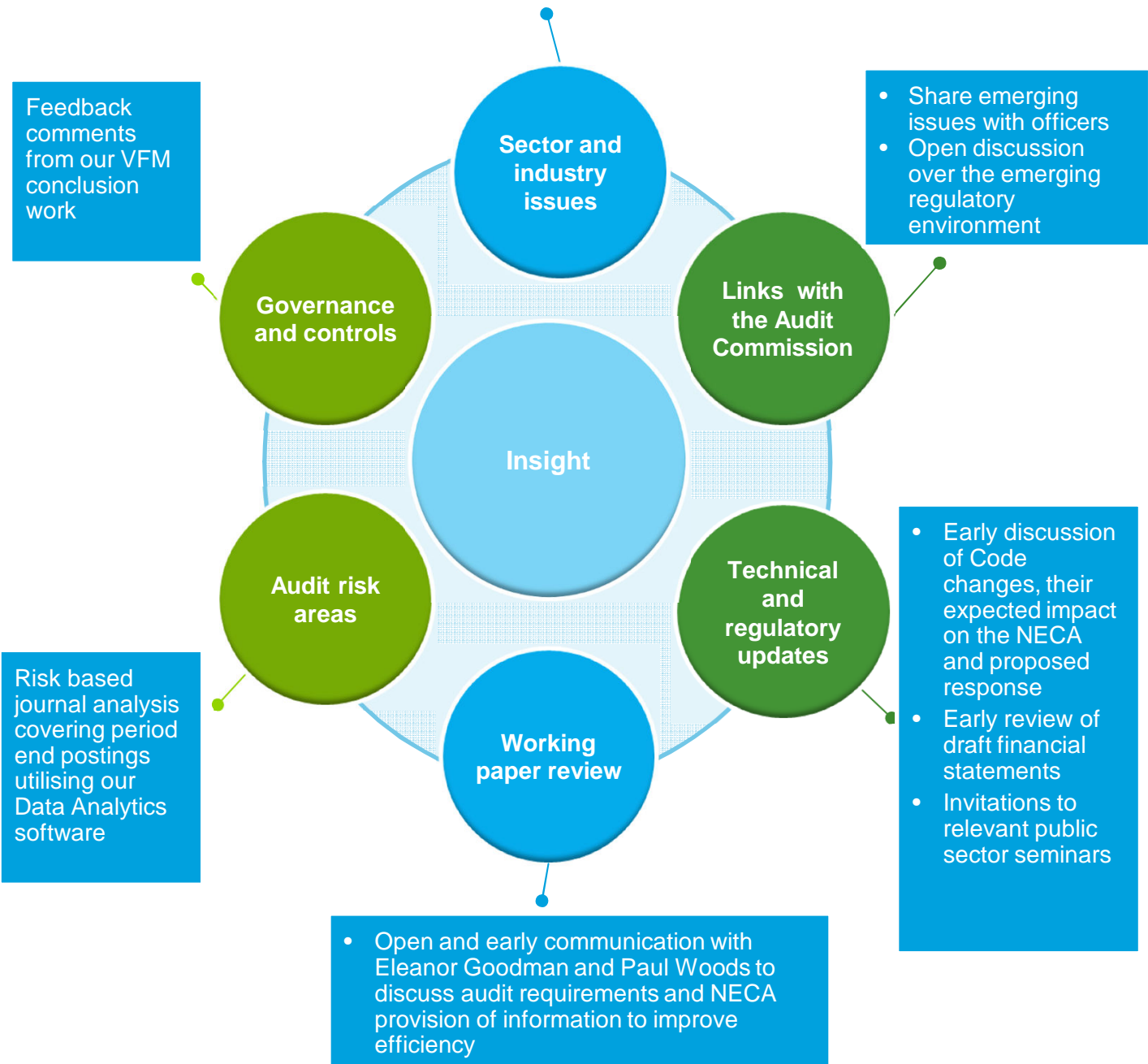
# Bringing you insight



We have summarised below some of the ways we will provide NECA with insight during 2015

Sharing knowledge of sector developments, for example:

- We have attached at Appendix 5 a summary of our research into the state of local public services
- We will discuss relevant Deloitte publications with officers to raise awareness of sector issues





# Changes in your Statement of Accounts



# Changes in your Statement of Accounts

## New reporting requirements

We welcome this opportunity to set out for the Governance Committee a summary of the latest developments in financial reporting which will impact this year end.

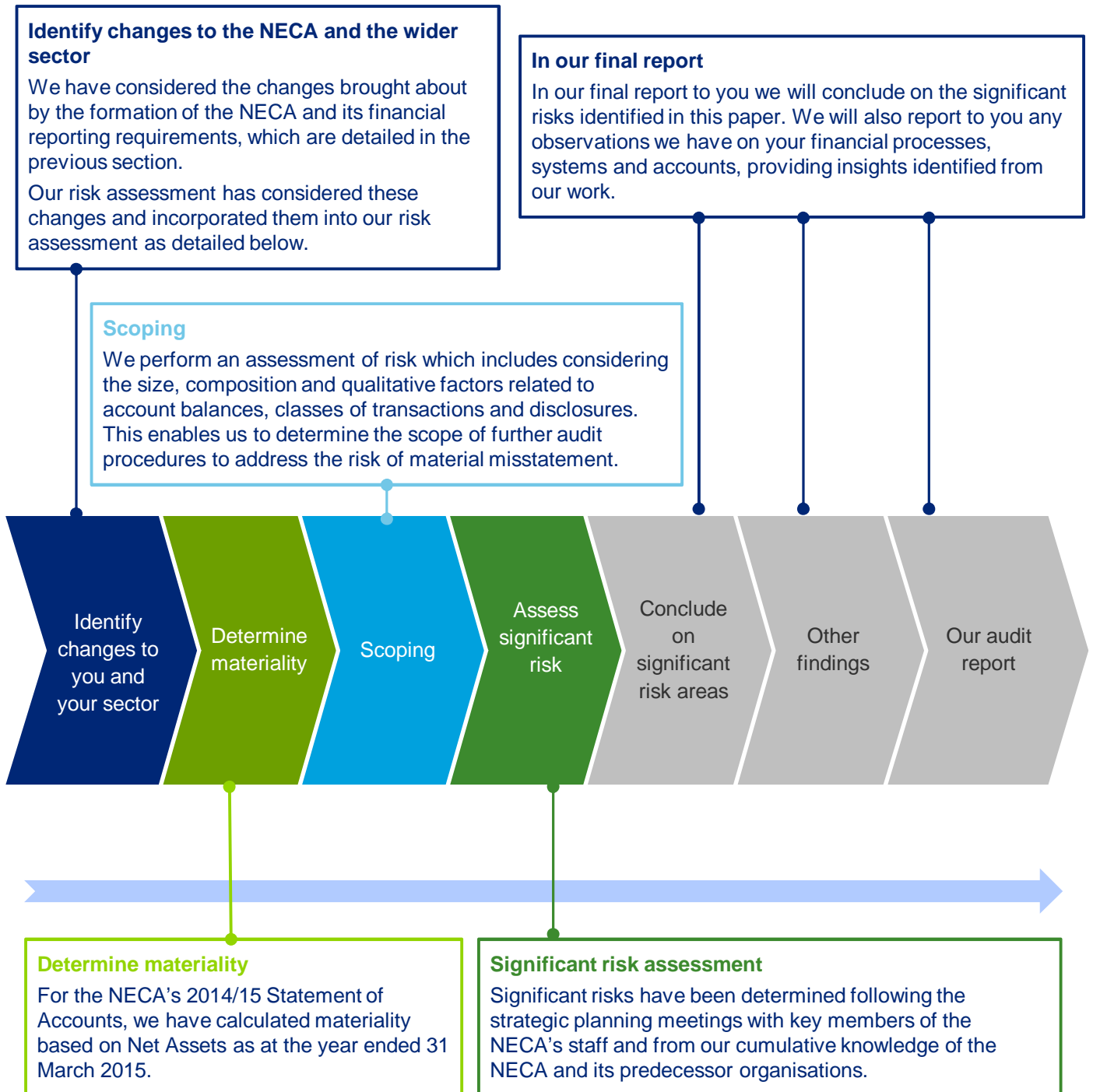
Change in Code of Practice on Local Authority Accounting requirements	Impact on the North East Combined Authority
<ul style="list-style-type: none"> <li>The revised Code includes extensive revisions for Group Accounts to reflect the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011.</li> </ul>	<ul style="list-style-type: none"> <li>IFRS 10 <i>Consolidated Financial Statements</i> is relevant to the North East Combined Authority in respect of Nexus and should be considered when preparing the Group accounts.</li> </ul>
<ul style="list-style-type: none"> <li>The Code incorporates amendments to IAS 1 in respect of clarification regarding the complete list of financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>The NECA should consider the changes in the Code when preparing the statement of accounts.</li> </ul>
<ul style="list-style-type: none"> <li>The Code now incorporates CIPFA's updated How to Tell the Story, which is intended to help CFOs and other senior staff present the financial statements to members and other key stakeholders, by explaining how the formats can be used to convey key information in these areas, and covers the main financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>The NECA should consider the guidance within the Code when preparing the Statement of Accounts to be ensure financial information is best presented to the users of the accounts.</li> </ul>
<ul style="list-style-type: none"> <li>The Code adopts amendments made to IAS 32 <i>Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities)</i>, December 2011. This includes amended disclosures for certain types of specific financial instruments.</li> </ul>	<ul style="list-style-type: none"> <li>The NECA has a number of financial instruments and the amended disclosures should be considered when preparing the statement of accounts.</li> </ul>
<ul style="list-style-type: none"> <li>The 2014/15 Code Guidance Notes have been updated to reflect the provisions of section 2.5 of the Code, which have been clarified and augmented, including a new definition of a function, clarification of the requirements for a transfer by absorption or a transfer by merger and relevant disclosure requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Given the absorption of the functions of the TWITA and the merger of the LEP, these requirements will be important when preparing the statement of accounts.</li> </ul>

# Scope of work and approach

This section sets out our planned scoping for the audit of the NECA's financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

# Our audit explained

## We tailor our audit to the NECA and your strategy



# Scope of work and approach

We have four key areas of responsibility under the Audit Commission's Code of Audit Practice in relation to the NECA.

## Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The NECA will prepare its accounts under the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

## Assurance report on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering the whole of the public sector and include some 1,700 separate bodies. We expect to perform similar procedures on the NECA's consolidation pack as we have in prior years for TWITA, to confirm the pack is consistent with the accounts and that intra-government balances have been accurately identified.

## Value for Money conclusion

We are required to satisfy ourselves that the NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We meet our VFM duty by:

- reviewing the AGS;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

## Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

We will also review reports from regulatory bodies and any related action plans developed by the NECA.

# Scope of work and approach (continued)

## Independence

We confirm we are independent of the NECA. We will reconfirm our independence and objectivity to the Governance Committee for the year ending 31 March 2015 in our final report to the Committee. Appendix 1 sets out proposed fees for the year.

## Approach to controls testing

As set out in "Briefing on audit matters" included as Appendix 6, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

We will consider the results of our procedures in respect of the NECA's controls and the extent of any impact our findings have on our substantive audit procedures.

Obtain an understanding of the NECA and its environment including the identification of relevant controls

Identify risks and any controls that address those risks

Carry out 'design and implementation' work on relevant controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

## Scoping of material account balances, classes of transactions and disclosures

We perform an assessment of risk which includes considering the size, composition and qualitative factors related to account balances, classes of transactions and disclosure. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

## Liaison with internal audit

We continue to rely on the work of the Internal Audit function to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

We plan to hold discussions with Internal Audit to understand the work they have performed in the year and any weaknesses identified in the control environment so we can assess their impact and plan our audit response. We will arrange further meetings and review relevant internal audit reports prior to, and during, the main audit period.

## Whole of Government Accounts

Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the NECA's Whole of Government Accounts (WGA) return. We will consider the requirement to review the WGA return and undertake appropriate procedures accordingly.



# Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

# 1. Revenue recognition

## We identified a significant risk in relation to Tyne Tunnel toll income and grant income

### ISA240 requirements

International Standards of Auditing (UK and Ireland) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to presume that there is a risk of fraud with respect to the recognition of revenue.

We have identified recognition of Tyne Tunnel Income as a significant risk due to:

- Cut-off considerations resulting from the cash nature of the receipts and the fraud risk factors related to this.

We have identified recognition of grant income as a significant risk due to:

- Grant income being recognised only once any conditions attached to the grants have been met;
- Significant management judgement around determining if there are any conditions attached to a grant, and if so whether the conditions have been met.
- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

### Our approach

- We will test the design and implementation of controls management has put in place to ensure income is recognised in the correct period.
- We will perform detailed testing around the cut-off of Tyne Tunnel income and the reconciliations between information received from TT2, cash banked, and revenue recognised.
- We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the interim or final grant claim and that the grant control account balance has been properly reconciled.
- We will review correspondence attached to specific grants and compare to the Authority's accounting treatment.



## 2. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of management override of controls.

Management occupy a unique position within the NECA in that their financial success, standing among their peers, and future careers prospects can be heavily influenced by the financial results achieved by the NECA. They are able, through the exercise of management judgement, bias and posting of journals, to override the normal operational controls within the NECA and fraudulently manipulate the financial results.

### Our Approach

- We will gain an understanding of the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.
- We will use our 'Audit Analytics' software to test a sample of journals to assess the appropriateness of the entries and adjustments made.
- We will review accounting estimates for bias that could result in material misstatement due to fraud.
- We will be vigilant for related party transactions whilst performing our audit testing.

Data Analytics can be used for financial and analytical review. Through identifying trends and profiling data, we will highlight and review high risk journals.

Following discussion with management to understand the journal entry process, we will use Data Analytics to identify trends such as the number of journals posted, the dates on which the journals are posted and the individuals posting the journals. This analysis will allow us to identify any unusual characteristics and provide insight to management.

Data Analytics will help us to deliver audits in a faster, better way.

### 3. Transfer of the Local Enterprise Partnership

We consider a significant risk exists in relation to the transfer of the opening balances of the LEP to the NECA.

We conclude that there is a significant risk in relation to the accounting of the transfer of opening balances of the LEP to the NECA, and the completeness of the balances transferred.

This is the first year of integration of the LEP and thus there are consolidation considerations that are associated with this.

Moreover, as the LEP has not been subject to a focussed audit in prior years, by either ourselves or the previous auditors, we do not have assurance over the opening balances.

An added complication is the timing difference between the prior year end and the date of the transfer of the LEP.

#### Our approach

- We will test the design and implementation of controls put in place to ensure that the LEP balances are appropriately consolidated into the accounts of the NECA.
- We will performed detailed testing on the opening balances transferred with the LEP.
- We will review the display of the new LEP entries against the CIPFA Code to verify that they are being appropriately presented.

## 4. Recoverability of Loans

We consider there to be a significant risk around the recoverability of loans.

The LEP provides funding to local business' through the North East Investment Fund.

The following factors have influenced our assessment:

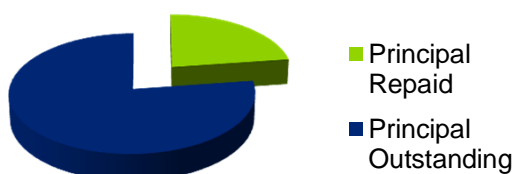
- These operations are relatively new, with a significant amount of loans in their early stages.
- The LEP lacks significant historical data to use as a basis for calculating a general provision.
- The LEP will often be approached due to the applicants inability to gain funding from other sources.
- The LEP will always sit behind commercial banks in any Deed of Priorities in the case of a default.
- The loans are cumulatively high in value.

As such, we consider that the recoverability of these loans to be a significant risk. Set out below is an analysis of the two main funds held by the LEP.

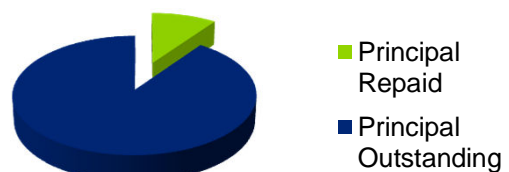
### Our approach

- We will test the design and implementation of controls put in place to ensure that the process for evaluating and granting loans is sufficiently robust, and provides adequate assurance over the likelihood of recovery.
- We will review NECAs arrangements for monitoring and reporting compliance with loan terms.
- We will perform detailed testing on a sample of loans including assessing the security provided against the loan, repayments made and interest charged.

### Going Places Fund



### Regional Growth Fund



# Value for money conclusion

# Value for money conclusion

Our work will focus on the extent to which the NECA has proper arrangements in place to secure value for money

## Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether NECA has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

As set out in the 2014/15 Work Programme, the approach to local VFM audit work at bodies such as the NECA is not based on criteria specified by the Commission. For 2014/15, auditors of these bodies will continue to meet their VFM duty by:

- reviewing the Annual Governance Statement;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor’s responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

## Approach to our work

We will:

- Review the Annual Government Statement for any indicators of concern around the implementation of proper arrangements. Where matters come to our attention, we will consider whether we require any additional evidence or explanation from the NECA to address our concerns;
- Review any work undertaken by other regulatory bodies, as notified through the Audit Commission Weekly Auditor Communications, and consider its impact on our responsibilities in respect of VFM at the NECA; and
- Consider the need for any local risk-based work. No work has been mandated by the Audit Commission as of the date of this report.

# Responsibility statement

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. We enhance this reporting with observations arising from our audit work and our Insight Plan performed to date which are designed to help the Governance Committee discharge its governance duties. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Governance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

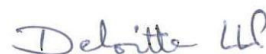
### Other relevant communications

This report should be read alongside the supplementary "Briefing on audit matters" included at Appendix 6.

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



### Deloitte LLP

Chartered Accountants

Newcastle

1 July 2015

This report has been prepared for the Governance Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# Appendices



# Appendix 1: Independence and fees

## We confirm we are independent of the North East Combined Authority.

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below:

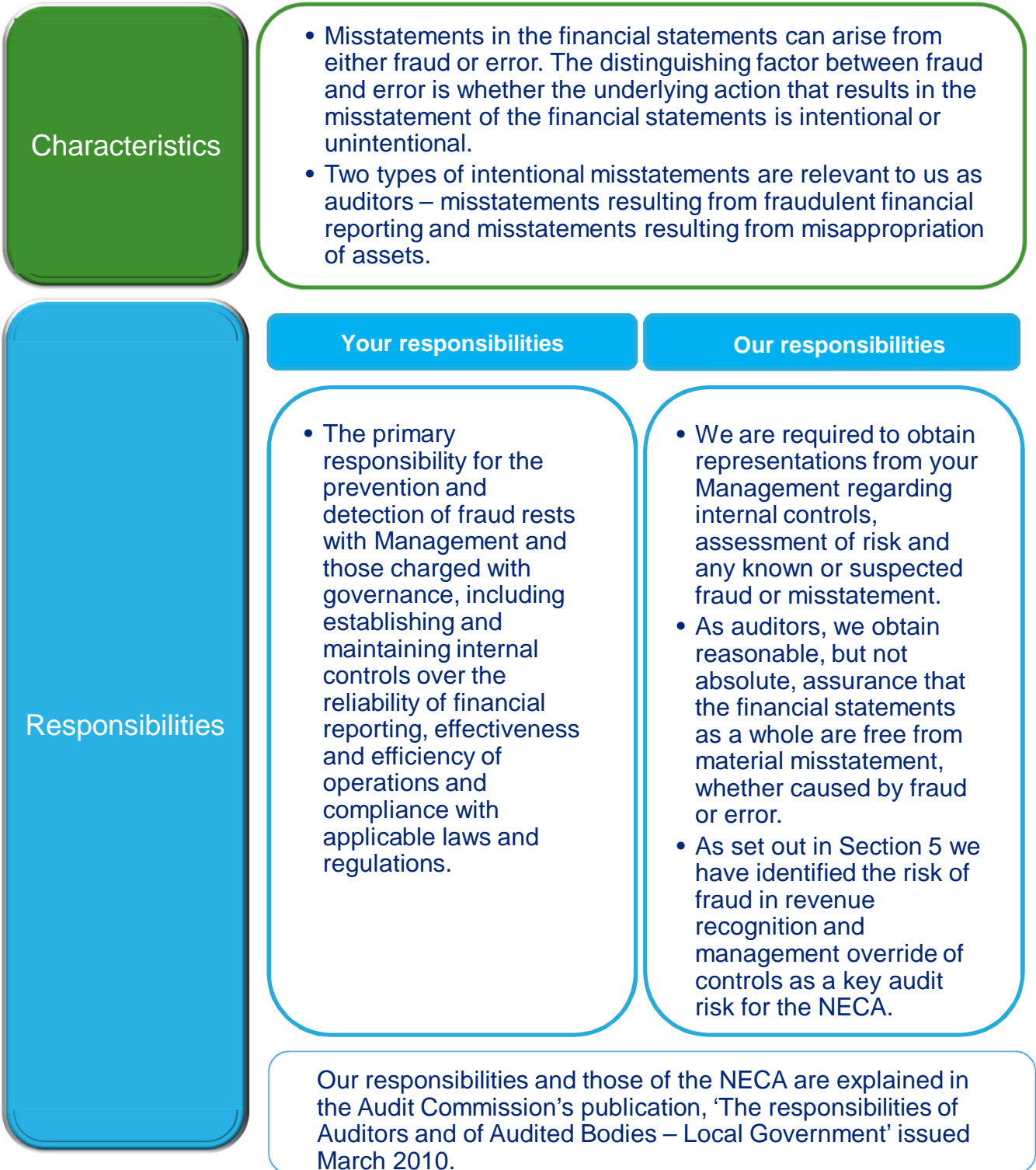
<b>Independence confirmation</b>	We confirm we are independent of the North East Combined Authority and will reconfirm our independence and objectivity to the Governance Committee for the year ending 31 March 2015 in our final report to the Committee.
<b>Fees</b>	Our audit fees are set by the Audit Commission in line with national scale fees. There are no non-audit services fees proposed in relation to the current or prior year.
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the organisation's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

The table below details our proposed audit fees for the year ending 31 March 2015 for those services for which we have been engaged or proposed for as at the date of this report.

	2014-2015 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the North East Combined Authority's annual accounts, assurance report on the Whole of Government Accounts and the value for money conclusion	32
<b>Total fees payable in respect of our role as Appointed Auditor</b>	<b>32</b>

# Appendix 2: Fraud: responsibilities and representations

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



## Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of Management, Internal Audit and the Governance Committee regarding fraud.

We will make the following inquiries regarding fraud:

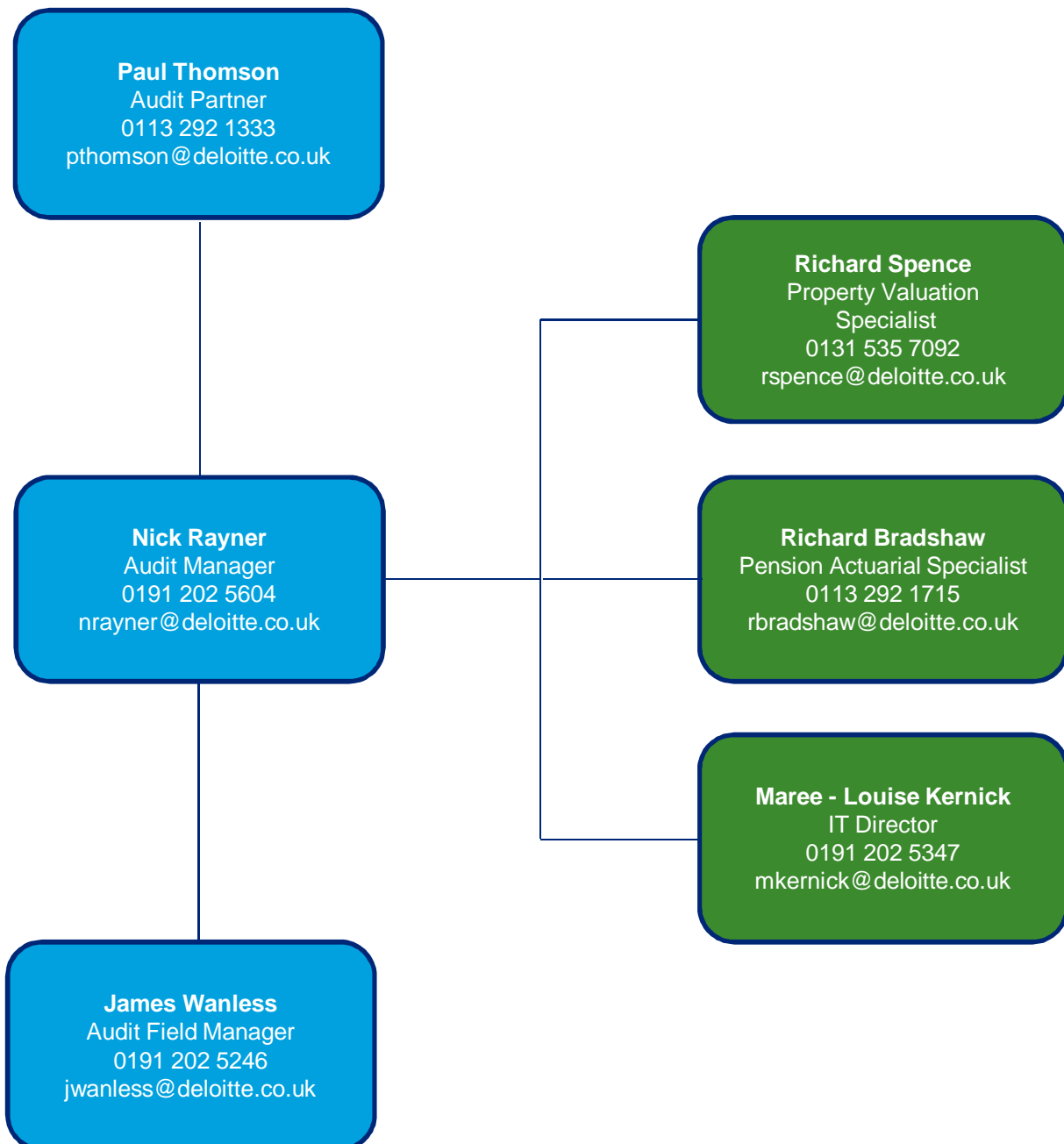
Management	Internal Audit	The Governance Committee
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether Management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, to obtain their views about the risks of fraud, and to obtain status reports on fraud cases during 2014/15.</p>	<p>How the Governance Committee exercises oversight of Management's processes for identifying and responding to the risks of fraud in the entity and the internal control that Management has established to mitigate these risks.</p> <p>Whether the Governance Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>

We will request the following to be stated in the representation letter signed on behalf of the Governance Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:
  - (i) Management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

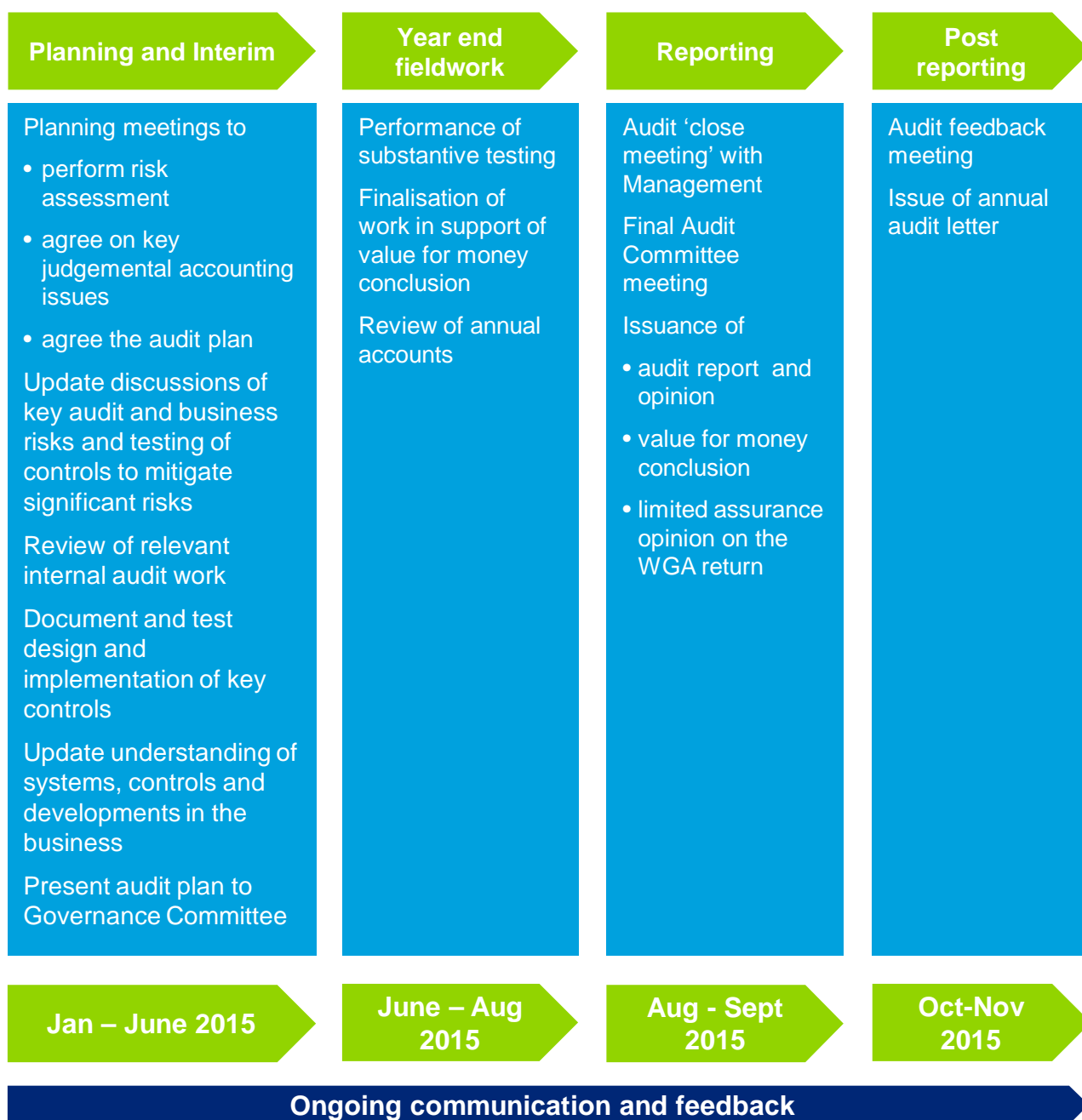
## Appendix 3: Your audit team

A core team, with continuity from last year, that incorporates specialists to perform audit work over IT and valuations and also provide insight and add value to the NECA.



# Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with Management and those charged with governance.





## Appendix 5: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2014, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

### **Pride and pragmatism**

Faced with unprecedented budget reductions, public sector organisations have adapted significantly since 2010. Many Executives confirmed they had managed to maintain standards in service delivery and in some cases make improvements.

Interviewees told us the most common changes in recent years included cutting headcount numbers, reducing lower priority services and collaborating more effectively with other sectors.

A significant number spoke about pushing accountability down, which they felt improved efficiency but made management roles more challenging.

### **Risk, uncertainty and crises**

A number of executives expressed concerns over the ability of public sector services to cope with future austerity measures.

Most recognised that the cuts to come would be more challenging than those already achieved and that the changes they expect to make will have increasingly profound implications for their organisations.

Many interviewees also spoke about increased demand for services due to cuts in other areas of public sector including welfare reform. A significant number also commented that local politics or economics presented additional barriers to initiatives for dealing with budget cuts.

### **Constructive political narrative**

Our research suggests that those running our public services believe that national politicians could do more to lead a national debate on what citizens should expect from public services and local politicians could do more to engage citizens in that they should expect locally. There is a current perception that politicians often criticise public services but rarely help citizens appreciate that spending reductions may lead to reduced levels of service. As a result, citizens have unrealistic expectations about state provision. In addition, public sector employees feel exposed and unsupported by political leadership, exacerbating recruitment and retention challenges.



## Appendix 5: State of local public services (continued)

### Talent management

Our interviews found that people issues have begun to preoccupy many public sector Chief Executives. They told us about difficulties in attracting, recruiting and retaining people for a range of key jobs.

Some interviewees described specific recruitment difficulties for nurses, teachers, social workers and public health analysts. The most-often cited causes were that the area struggles to attract people, that some professionals are in limited supply and the public sector cannot compete with the private sector on pay and conditions.

Many Chief Executives told us that workforce reductions had lowered staff churn and they were beginning to feel the effects of not having new staff to bring new perspectives and ideas. Others commented that morale had been affected by cuts and continued criticism of the public sector. A further specific issue raised by many interviewees was the need for more training in change-management for middle managers.

The three most commonly-cited factors influencing retention were stress, weak career progression opportunities and pay and conditions.

### Technology, estates and ways of working

Our interviews suggest that attitudes to technology, ways of working and estate management differ across local public services.

Most executives felt their organisations had started to make progress with technology and that technology which enabled front line delivery, such as mobile working for social workers tends to have been prioritised. Budgets, inflexible IT contracts and concerns over data security were cited as barriers to effective use of technology.

Some said they were reticent to introduce flexible working patterns while others recognised they could have a role to play in attracting and retaining talented staff.

A number of chief executives felt they had reduced their organisation's estate as far as they could, but others felt there was more they could do. Typical activities undertaken in recent years include the closure of unviable schools, consolidation of office space and sale of unused buildings. Some told us that the potential for cost reductions were more limited in their areas, where land and property is less expensive. Political issues were also cited as barriers to change, noting that closing police stations and hospitals is invariably unpopular.

The full report, *The State of the State 2014-15* is available on our website at [www.deloitte.co.uk](http://www.deloitte.co.uk). We would be happy to discuss the report in more detail, including how the major themes identified affect the NECA.

# Appendix 6: Briefing on Audit matters

## Published for Those Charged With Governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

## Approach and scope of the audit

<p><b>Primary audit objectives</b></p>	<p>We conduct our audit in accordance with International Standards on Auditing (UK &amp; Ireland) as adopted by the UK Financial Reporting Council ("FRC") and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are:</p> <ul style="list-style-type: none"> <li>• to express an opinion in true and fair view terms to the members on the financial statements;</li> <li>• to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting;</li> <li>• To express an opinion as to whether the entity has put in place appropriate systems and processes to secure value for money in its use of resources; and</li> <li>• to express an opinion as to whether the Annual Governance Statement, is consistent with the financial statements and our knowledge of the NECA.</li> </ul>
<p><b>Other reporting objectives</b></p>	<p>Our reporting objectives are to:</p> <ul style="list-style-type: none"> <li>• present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and</li> <li>• provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.</li> </ul>



# Appendix 6: Briefing on Audit matters (continued)

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

## Appendix 6: Briefing on Audit matters (continued)

### Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of ‘clearly trivial’. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for ‘clearly trivial’. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

### Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Board whilst minimising a “box ticking” approach.

Our audit methodology is designed to give members the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

## Appendix 6: Briefing on Audit matters (continued)

### Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities related to other information in documents containing audited financial statements

## Appendix 6: Briefing on Audit matters (continued)

### Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

### Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the Auditing Practices Board (“APB”), there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

In the UK, statutory oversight and regulation of auditors is carried out by the FRC. The Firm’s policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC’s Conduct Division, and the ICAEW’s Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW’s Audit Registration Committee.

## Appendix 6: Briefing on Audit matters (continued)

### Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

### Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

### APB Ethical Standards

The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.



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**Member of Deloitte Touche Tohmatsu Limited**

## North East Combined Authority

### Governance Committee

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**DATE:** 10 July 2015

**SUBJECT:** Internal Audit Plan 2015/16 – 2017/18

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

#### **EXECUTIVE SUMMARY**

Public Sector Internal Audit Standards, which sets out standards for Internal Audit, require the Chief Audit Executive (Audit, Risk and Insurance Service Manager) to:

- Establish risk-based plans to determine the priorities of the internal audit activity, which are consistent with the organisation's goals
- Take into account the requirement to produce an annual internal audit opinion and assurance framework.
- Base the activity plan of engagement on a documented risk assessment undertaken at least annually. The input of senior management and the Audit Committee (Governance Committee) must be considered.
- Ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

The purpose of this report is to provide members with a draft Internal Audit Annual Plan for the Combined Authority for 2015/16 to 2017/18. A proposed plan is attached at Appendix I.

#### **RECOMMENDATIONS**

It is recommended that the Committee approve the Annual Internal Audit Plan for 2015/16 and consider proposed audits for 2016/17 – 2017/18. Also that they agree to receive regular reports on activity undertaken against the audit plan during the year.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

- 1.1 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.
- 1.2 The Audit, Risk and Assurance Service Manager will co-ordinate the planning and reporting of Internal Audit activity to the Governance Committee.
- 1.3 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 supporting the organisations.
- 1.4 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:
    - Chief Finance Officer
    - Monitoring Officer
    - Governance Committee (at July 2015 meeting)
    - Heads of Audit in other LA7 local authorities
    - Staff within the Internal Audit Service
  - Consideration of evidence for the 2014/15 Annual Governance Statement
  - Outcomes of audits undertaken in 2014/15
  - Known national developments and changes in legislation

### 2 Proposals

- 2.1 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.

### 3 Next Steps

- 3.1 Governance Committee have the following options:



# North East Combined Authority

## Governance Committee

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a) Propose changes to the Internal Audit Plan attached at Appendix I

b) Approve the Internal Audit Plan attached at Appendix I.

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

4.1 No direct impact on objectives.

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

5.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement. Sunderland has developed an SLA with the North East Local Enterprise Partnership and Durham and Northumberland's internal audit work will be covered through devolved funding.

### **6 Legal**

6.1 No direct legal implications specially arising from this report.

### **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**

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

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

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

# North East Combined Authority

## Governance Committee

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### 7.6 Environment and Sustainability

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

### 8 Background Documents

8.1 N/A

### 9 Links to Plans in the Policy Framework

9.1 No direct link to the Policy Framework.

### 10 Appendices

10.1 Appendix I – Internal Audit Plan 2015/16 – 2017/18

### 11 Contact Officers

11.1 Philip Slater, Audit, Risk and Insurance Service Manager  
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Tel: 0191 2776511

### 12 Sign off

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

# North East Combined Authority

## Appendix I – Draft Internal Audit Annual Plan 2015/16 – 2017/18

### Governance Committee

Audit	Delivered by	Audit scope and coverage	Days	Date to report to Governance Committee
<b>2015/16</b>				
Page 73 Governance of Major projects	Newcastle City Council	To review a sample of major projects across themes to ensure adequate governance is in place, particularly in the following areas: <ul style="list-style-type: none"> <li>• Reporting to officers and members</li> <li>• Risk assessment</li> <li>• Remedial action</li> <li>• Assessment of value for money</li> <li>• Achievement of outcomes</li> </ul>	8	December 2015
Treasury Management	Newcastle City Council	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cashflows and investment / borrowing activity.	5	September 2015
Tyne Tunnels	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.	4	December 2015
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.	5	July 2016
Budget Setting and Monitoring	Newcastle City Council	To assess the adequacy and effectiveness of budget setting and budgetary control arrangements.	4	February 2016

# North East Combined Authority

## Appendix I – Draft Internal Audit Annual Plan 2015/16 – 2017/18

### Governance Committee

Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	July 2016
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	July 2016
<b>2016/17</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 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.		
Partnerships	Newcastle City Council	To assess whether 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>		
Tyne Tunnel	Newcastle City Council	Assess the adequacy and effectiveness of contract monitoring including toll income.		
Strategic Planning	Newcastle City Council	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in		

# North East Combined Authority

## Appendix I – Draft Internal Audit Annual Plan 2015/16 – 2017/18

### Governance Committee

		light potential risks and opportunities as identified ion the Combined Authority's risk register.	
Concessionary Travel	Nexus	As above	
Metro Re-Invigoration	Nexus	As above	
<b>2017/18</b>			
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.	To be determined following annual review early in 2017
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>	
Risk Management	Newcastle City Council	To review risk management arrangements for the Combined Authority.	
Human Resources, Training etc.	Newcastle City Council	To review human resources 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	

# North East Combined Authority

## Appendix I – Draft Internal Audit Annual Plan 2015/16 – 2017/18

### Governance Committee

Allocation in each year of the audit plan				
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>	4	As required

## North East Combined Authority

### Governance Committee

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**DATE:** 10 July 2015

**SUBJECT:** Annual Governance Statement 2014/15

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

#### **EXECUTIVE SUMMARY**

The purpose of this report is to bring the draft Annual Governance Statement to Members to consider its inclusion in the accounts.

#### **RECOMMENDATION**

It is recommended that the Committee agree the Annual Governance Statement although this will be subject to review in September 2015 before it is signed by the Head of Paid Service and Leader of the Combined Authority.

# 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 2011 to do the following on an annual basis:
- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
  - Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
  - Report these to the public in the Annual Governance Statement which is part of the Accounts.
- 1.2 An assurance framework was discussed at the December 2014 Governance Committee and evidence has been gathered against this to assess the effectiveness of governance and the internal control environment operating during 2014/15.

### 2 Evidence

- 2.1 The agreed assurance framework for the Combined Authority is set out below. This table shows the elements making up the framework. 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 2014/15 final accounts.

Element of Assurance
Governance Arrangements
Statutory Officers
Members
Internal Audit Activity
Risk Management
Performance Management
External auditor and other external inspectorates
Key Partnerships

- 2.2 **Governance Arrangements** - The Combined Authority has in place a Constitution which has been reviewed by the Leadership Board during the course of the year and this defines the roles and responsibilities of those charged with Governance within the Authority. There are also a number of other key documents including the NECA Order and Operating Agreement in place. This evidence and information below provides assurance that governance arrangements have been defined.
- 2.3 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective



# North East Combined Authority

## Governance Committee

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controls are in place. In addition to this the Monitoring Officer, acting as Senior Information Risk Owner (SIRO) has identified that the NECA operates a dispersed model of support throughout the LA7, with no centralised repository for information, the security of the NECA information is provided through the systems of control in the Authorities providing that support. Any issues would be reported at the Statutory Officers meetings held regularly and during 2014/15 and no issues have been raised.

- 2.4 **Members** – the Governance Committee have reviewed evidence throughout 2014/15 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.
- 2.5 **Internal Audit Activity** – This is considered in more detail in the internal audit annual report elsewhere on this agenda. The opinion based on the internal audit work for 2014/15 is that the control environment is adequate and effective.
- 2.6 **Risk Management** – During 2014/15 work has been undertaken to develop a risk strategy and policy for the Combined Authority and to develop a strategic risk register. The risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.11 **Performance Management** – performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weaknesses in the control environment.
- 2.12 **External auditor** – This is the first set of accounts for the Combined Authority and the audit of the 2014/15 is in progress. This element of assurance will be considered further in September 2015, towards the end of the audit work.
- 2.13 **Key Partnerships** – A list of significant partnerships to the Combined Authority was agreed during 2014/15 and this has been used to identify those partnerships where the Authority needs assurance on their control environment to feed into its Annual Governance Statement. Based on evidence from the returned assurance statements partnerships have stated that they have effective control environments in place.
- 3 Next Steps**
- 3.1 The final Annual Governance Statement will be considered once more by the Governance Committee again in September 2015. This is to take account of

# North East Combined Authority

## Governance Committee

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any significant weaknesses which arise before it is included in the 2014/15 final accounts.

- 3.2 The final Annual Governance Statement will then be signed by the Leader of the Combined Authority and the interim Head of Paid Service.

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

- 4.1 No direct impact on objectives.

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

- 5.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council under the SLA for 2014/15.

### **6 Legal**

- 6.1 No direct legal implications arising specially from this report.

### **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.

# North East Combined Authority

## Governance Committee

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### **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

### **10 Appendices**

10.1 Appendix 1 - Annual Governance Statement

### **11 Contact Officers**

11.1 Philip Slater, Audit, Risk and Insurance Service Manager  
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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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Appendix 1

### Annual Governance Statement 2014/15

<b>Section 1</b>	Scope of Responsibility
<b>Section 2</b>	The Purpose of the Governance Framework
<b>Section 3</b>	The Governance Framework
<b>Section 4</b>	Annual Review of Effectiveness of Governance Framework
<b>Section 5</b>	Significant Weaknesses in Governance and Internal Control
<b>Section 6</b>	Conclusion

#### Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. We are able to bring together a democratic mandate with a strong business voice which will enable us to plan for growth in the long-term in a global context

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

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

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

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims

# North East Combined Authority

## Governance Committee

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and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

### **Section 2: Purpose Of The Governance Framework**

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, and lead the community. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2015 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 which requires all relevant public bodies to prepare an annual governance statement.

### **Section 3: The Governance Framework**

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014, and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives. In this early stage of the development of the organisation there continues to be a challenge to understand the resources available and therefore to fully utilise them to support the Leadership Board.

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

#### Focusing on our objectives and outcomes

1.1 We ensure that we are clear on our objectives and the intended outcomes for residents and service users, ensuring these are effectively communicated internally and externally.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

#### Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the

# North East Combined Authority

## Governance Committee

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Leadership Board, Members and officers have been agreed by the Combined Authority.

### We promote high standards of conduct and behavior

3.1 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for members and officers working on behalf of the Authority. Governance Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board.

### Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The interim Monitoring Officer (Head of Law and Governance and Technical Support, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public.

### Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

### Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

## **Section 4: Annual Review Of Effectiveness Of Governance Framework**

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by officers and Members of Governance Committee who provide independence and challenge. The outcomes of the review are considered by the Governance Committee.

The review is informed by

# North East Combined Authority

## Governance Committee

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- (a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.
- (b) An annual review of the effectiveness of internal audit (as required by Regulation 6(3) of the Accounts and Audit Regulations (England) 2011).
- (c) The views of our external auditors, regularly reported to Audit Committee through regular progress reports, and the Annual Governance Report.
- (d) The activities and operations of the themes (economic development and regeneration, employability and inclusion, and transport) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner.
- (f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee providing independent assurance on the effectiveness of the governance and internal control environment and a Standards Committee which ensures that effective arrangements are in place to maintain high standards of conduct and behaviour).
- (g) The Risk Management Process, particularly the Strategic Risk Register
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.

### **Section 5: Significant Weaknesses In Governance and Internal Control**

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

The review highlighted no significant weaknesses in governance or internal control during 2014/15.

### **Section 6: Conclusion**

We consider the governance and internal control environment operating during 2014/15 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

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

# North East Combined Authority

## Governance Committee

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We have been advised on the implications of the review by the Governance Committee. We propose over the coming year to continue to improve our governance and internal control arrangements. We will monitor the implementation and operation of the improvements, as part of our next annual review.

**Interim Head of Paid  
Service**

**Leader of the Authority**

**Date:**

**Date:**



## North East Combined Authority

### Governance Committee

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**DATE:** 10 July 2015

**SUBJECT:** Internal Audit Annual Report including Quarter 4 Progress

**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 2014/15 internal audit plan
- Information on the implementation of audit recommendations
- An opinion on the effectiveness of NECA's control environment during 2014/15 as required by the Public Sector Internal Audit Standard (PSIAS) 2013.

Two audits have been completed since the last Governance Committee in February 2015 covering Financial Management and Risk Management. Financial Management concluded that substantial assurance was in place and for Risk Management Moderate Assurance was in place. These audits are summarised in this report.

Based on the evidence from internal audit activity during 2014/15 the Audit, Risk and Insurance Service Manager's opinion is that the North East Combined Authority had in place an effective governance and control environment.

#### **RECOMMENDATIONS**

It is recommended that the Committee note the internal audit activity to date.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

#### Progress with Delivery of the Plan

- 1.1 The table below details the audit work completed since the last committee in February 2015 and Appendix 1 provides an executive summary for each of the audits.

Audit	Level of Assurance
Financial Systems	Substantial
Risk Management	Moderate
Northumberland County - LTP Grant	Withdrawn

- 1.2 Time was included in the 2014/15 plan to cover transport in Northumberland however the actual audit delivered did not cover areas relevant to the Combined Authority as it related to transport infrastructure schemes funded through Local Transport Grant.
- 1.3 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.
- 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 recommendations raised in 2014/15 is detailed below:

Audit and Recommendation	Implementation due date	Progress update
<b>Tyne Tunnel Toll Income</b>		
The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)	September 2014	Implemented
<b>Governance and Performance Arrangements</b>		
An appointment to the post of Senior Information Risk Owner (SIRO) for the	31 January 2015	Implemented

# North East Combined Authority

## Governance Committee

Combined Authority has not been made. (Medium)		
Service Level Agreements covering the support services provided to the Combined Authority have not been finalised or agreed. (Medium)	April 2015	See Financial Management Audit below.
A Register of the Combined Authority's Partnerships does not exist. (Medium)	Original date - 31 January 2015  Revised date – 30 March 2015	Implemented
<b>Financial Management</b>		
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).	September 2015	The Chief Finance Officer is actively looking into this and will raise it with the new Head of Paid Service Executive.
Formal SLA's were not in place for 2015/16 services provided to the Combined Authority by member authorities (Medium)	September 2015	The Chief Finance Officer will review these and discuss with the Head of Paid Service
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)	September 2015	The Chief Finance Officer is considering options to mitigate this position and is to discuss it with the Head of Paid Service
<b>Risk Management</b>		
The risk section of reports to Leadership Board and other committees are not always completed fully. (Medium)	October 2015	Guidance will be prepared for Democratic Services to provide for report authors

# North East Combined Authority

## Governance Committee

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Theme leads are unaware of the agreed risk classification criteria for Combined Authority. (Medium)	October 2015	Guidance will be issued to theme leaders to develop this area.
Theme leads are unfamiliar with the agreed risk reporting and escalation routes. (Medium)	October 2015	Guidance will be issued to theme leaders to develop this area.

### Opinion of the Head of Internal Audit

- 1.5 This report meets the requirements of Public Sector Internal Audit Standards 2013 to produce an annual report, which are as follows:-
- “The Chief Audit Executive (Audit, Risk and Insurance Service Manager) must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.
- 1.6 The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control.”
- 1.7 The Audit, Risk and Insurance Service Manager’s Opinion on the overall adequacy and effectiveness of NECA’s governance, risk and control framework during 2014/15 was that it was adequate and effective. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance.
- 1.8 Set out in Appendix 2 are the Internal Audit reports which have been issued and reported to the Governance Committee during the year. The above opinion is based on evidence on this internal audit work. The audits have not identified any significant weaknesses which need to be considered in the Annual Governance Statement.
- 1.9 Internal Audit’s performance in completing audit work in the 2014/15 Plan has been reported to the Governance Committee throughout the year and final performance shows the plan is now complete. Experience gathered in delivering the plan during the year has fed back into each Council’s internal audit service through its Quality Assurance and Improvement Programme

### Assessment of the Effectiveness of Internal Audit

- 1.10 To comply with the Accounts and Audit Regulations 2011, and Public Sector Internal Audit Standards (PSIAS), authorities need to undertake an annual review of the effectiveness of Internal Audit and the outcomes of this review should be reported to an appropriate Committee of the Authority, such as the

# North East Combined Authority

## Governance Committee

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Governance Committee, and feed into the assurance to support the Annual Governance Statement. Each local authority that has fed into the completion of the 2014/15 plan has completed a similar assessment and been found to be effective. As an organisation the Combined Authority is not fully complying with the PSIAS as it does not have an Audit Charter setting out its detailed terms of reference and responsibilities. This will be developed during 2015/16

### **2 Next Steps**

- 2.1 This work feeds into the Internal Audit Annual Report and Annual Governance Statement for 2014/15.

### **3 Potential Impact on Objectives**

- 3.1 No direct impact on objectives.

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

- 4.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement. Sunderland has developed an SLA with the North East Local Enterprise Partnership and Durham and Northumberland's internal audit work will be covered through devolved funding.

### **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.

# North East Combined Authority

## Governance Committee

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### 6.4 Risk Management

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if 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.

## 9 Appendices

- 9.1 Appendix 1 – Audit Activity since February 2015
- Appendix 2 – Summary of 2014/15 internal audit activity
- Appendix 3 - Definitions

## 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

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Audit Activity since February 2015

Appendix 1

Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations			
			High	Medium	Low	
Newcastle City Council	Financial Management	Substantial	0	3	1	
<p>The review was to assess whether significant risks in relation to Financial Management arrangements are adequately and effectively controlled, specifically ensure to:</p> <ul style="list-style-type: none"> <li>• There is an adequate set of financial arrangements for the overall Combined Authority which meet statutory requirements and recommended practice.</li> <li>• Adequate processes are in place within Newcastle City Council in relation to Tyne and Wear Transport's financial systems are effective.</li> </ul>						
<p>Internal Audit work reviewed the following</p> <ul style="list-style-type: none"> <li>• Financial Regulations and Financial Procedure Notes</li> <li>• Leadership Board minutes, including discussions relating to the approval of the 2015/16 budget</li> <li>• Quarterly revenue budget monitoring reports presented to the North East Transport Committee and supporting documentation were examined.</li> <li>• A sample of 8 purchase ledger transactions, 5 journals and employee costs to December 2014 was tested. Journal testing included allocation of levies.</li> </ul>						

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Effective controls and good practice	High or medium priority findings
<ul style="list-style-type: none"><li>Financial Regulations and Financial Procedure Notes are in place setting out the high level financial control arrangements.</li><li>The 2015/16 overarching Combined Authority budget was formally approved by the Leadership Board within required timescales.</li><li>The Leadership Board monitors the overall Combined Authority budget on a regular basis.</li><li>Quarterly budget monitoring reports, detailing transport related activity across all districts, are produced and presented to the North East Transport Committee.</li><li>Tyne and Wear Transport transactions processes through Newcastle City Council's financial system were appropriately authorised and supported by relevant documents</li></ul>	<ul style="list-style-type: none"><li>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).</li><li>Formal SLA's were not in place for 2015/16 services provided to the Combined Authority by member authorities (medium).</li><li>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)</li></ul>



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Audit	Nexus Audit coverage	Nexus Assessment	Recommendations			Status
			High	Medium	Low	
Concessionary Travel	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.	Good	0	0	0	Audit complete, sample of payments checked in the year no problems noted-Audit file 3 2014/15 refers
<b>Areas of good practice</b>			<b>Areas for further development</b>			
<ul style="list-style-type: none"> <li>• Mazars (External Auditor) review procedures on an annual basis and update a control flowchart</li> <li>• Independent audit certificates are received from major operators to confirm the accuracy of the four weekly returns.</li> <li>• Fixed payments are agreed with the 3 major operators.               <ul style="list-style-type: none"> <li>○ Budget certainty on both sides and assists to promote a stable network for our customers in Tyne and Wear;</li> <li>○ 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</li> </ul> </li> </ul>			<ul style="list-style-type: none"> <li>• Continuous Monitoring; surveys can be extended to include additional questions on journeys and possible increased passenger profiling which would give greater travel information and act as a further deterrent to reduce fraudulent travel</li> <li>• Smart Card technology; these will give further electronic data on passenger journeys frequency of travel to assist in data to support quality contracts, voluntary contracts with operators and secured services (Concessionary Travel , Gold Cards, Under 16 and 16-18 smartcards)</li> <li>• Ticketing &amp; Gating. This will assist in the reduction of</li> </ul>			

# North East Combined Authority

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and commercial services, again affecting our customers;

- Nexus ensure that ridership targets are met and if this goes below the 5% of the agreed target then a clawback payment is enforced.
- 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 is used to correlate survey results with the four weekly returns from operators on revenue, mileage and total ridership.

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

# North East Combined Authority

## Governance Committee

Audit	Nexus Audit Coverage	Nexus Assessment	Recommendations			Status
			High	Medium	Low	
Metro Reinvigoration	<p>To ensure appropriate levels of controls 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</li> <li>• Facilitate the delivery of the Automatic Fare Collection project (“the</li> </ul>	Good	0	0	0	<p>Good progress made to date on both Metro Reinvigoration and the Concession. Nexus have met DFT spend target for 2012/2013, 2013/2014 and have spent £30m to date for 2014/15 so have satisfied DFT conditions Review of the ¾ Life refurbishment of the Metro cars was undertaken in the year by Internal Audit payments were in accordance with agreement. Project reviews in the year carried out by audit have identified strong controls. The following projects were reviewed :</p> <p>Carville Road bridge and Wallsend St Road bridge            South Gosforth Switches and crossings            Benton Switches and crossing and double junction</p>

# North East Combined Authority

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	<p>AFC project”) by working in partnership with Nexus and its appointed contractors;</p> <ul style="list-style-type: none"> <li>Facilitate the delivery of the Asset Renewal Programme (ARP) to programme by working in partnership with Nexus and its appointed contractors</li> </ul>					<p>Walkergate Station Critical Point Motors Diverse cable installation</p>
<p><b>Areas of good practice</b></p>			<p><b>Areas for further development</b></p>			
<p>Page 98</p> <ul style="list-style-type: none"> <li>Capital programme was submitted to and approved by the ITA for 2014/15 in future this will be the Combined Authorities responsibility.</li> <li>All expenditure (committed and actual) charged to capital projects was appropriate, monitored on a regular basis and reported to management.</li> <li>Capital funding reclaims were correct.</li> <li>Project slippage is monitored and reported to the Combined Authority on a quarterly basis.</li> <li>Correct approvals for the individual schemes obtained.</li> <li>Competitive tenders were sought and appropriate contracts made.</li> <li>Adequate levels of supervision and control had been exercised during the contract period.</li> <li>Overall financial standing of the Metro ARP is understood and communicated to those charged with governance.</li> </ul>	<ul style="list-style-type: none"> <li>Constant dialogue with DfT on funding and budget virement.</li> <li>Stage Gate procedures continue to improve through the Project Management Office involvement who are now under the Finance and Resources Directorate and now control Non Metro Projects. The creation of the Capital Delivery Team will achieve an effective resource in the delivery as certain track improvement throughout the system and result in financial savings and has worked well in 2014/15</li> </ul>					

# North East Combined Authority

## Governance Committee

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Forecast overspends are identified, challenged and managed down.

- Payments are correctly allocated and adequate records exist to support payments made.
- 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.
- 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.

Audit work on the concession is under the following:

1) Audit File 22 Maintenance of Assets

2) Audit File 59 Fixed payments

No problems were encountered and the payments were in accordance with the contract agreement

# North East Combined Authority

## Governance Committee

Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations			
			High	Medium	Low	
Newcastle City Council	Risk Management	Moderate	0	3	0	
<p>The review was to assess whether significant risks in relation to Risk Management arrangements are adequately and effectively controlled, specifically ensure to:</p> <ul style="list-style-type: none"> <li>• Delivery Agencies have identified their risks and opportunities and each is reporting them to an appropriate committee or body for monitoring and challenge</li> <li>• The classification of risk and the risk management process being followed aligns itself to the Combined Authority’s overall risk management strategy and policy</li> </ul>						
<p>Internal Audit work reviewed the following</p> <ul style="list-style-type: none"> <li>• Discussions were held with the Regional Transport Principle Advisor Newcastle City Council, NELEP Chief Operating Officer, and Head of Transport &amp; Contract Services for Durham</li> <li>• E-mail correspondence from the Economic and Inclusion Policy Manager Northumberland and the Policy Officer Sunderland City Council)</li> <li>• The NECA Leadership Board Agenda and Reports, Transport Assurance Framework , NELEP theme update report (Transport) and Local Authority Risk Management Policies and Strategies were reviewed</li> </ul>						

# North East Combined Authority

## Governance Committee

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Effective controls and good practice	High or medium priority findings
<ul style="list-style-type: none"><li>• Thematic update reports to the Leadership Board and Local Enterprise Partnership highlight risks and opportunities within report narrative</li><li>• A Transport Assurance Framework has been developed which each transport scheme is risk assessed against</li><li>• Nexus Business Plan and Strategic Risks have been acknowledged by the Leadership Board</li><li>• Project risk registers are in place and are monitored by the Local Enterprise Partnership</li><li>• There are good governance structures in place to support each delivery agency</li><li>• NECA Risk Management Policy and Strategy agreed by Governance Committee</li><li>• NECA strategic risks and opportunities have been endorsed by Economic Directors Group</li></ul>	<ul style="list-style-type: none"><li>• The risk section of reports to Leadership Board and other committees are not always completed fully. (Medium)</li><li>• Theme leads are unaware of the agreed risk classification criteria for NECA. (Medium)</li><li>• Theme leads are unfamiliar with the agreed risk reporting and escalation routes. (Medium)</li></ul>

# North East Combined Authority

## Governance Committee

2014/15 Internal Audit Plan					Appendix 2
Audit	Delivered by	Audit scope and coverage	Audit Assessment	Status	Date to Report to Governance Committee
Governance and Performance	Newcastle City Council	Review of the operation of governance and performance arrangements in place and being developed for the Combined Authority and provide appropriate advice to officers establishing processes for reporting and monitoring.	Moderate Assurance	Complete	December 2014
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> <li>• The development and design of new arrangements.</li> </ul>	Substantial Assurance	Complete	July 2015
Tyne Tunnels Contract Monitoring	Newcastle City Council	Assess the adequacy and effectiveness of arrangements for receipt of Tyne Tunnels toll income.	Substantial Assurance	Complete	September 2014
Risk Management	Newcastle City Council	To review and assist in the development risk management arrangements for the Combined Authority. The work in March 2015 will audit progress in the development of the risk management approach.	Moderate Assurance	Complete	July 2015



# North East Combined Authority

## Governance Committee

Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	Good	Complete	July 2015
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	Good	Complete	July 2015
North East Local Enterprise Partnership	Sunderland City Council	Accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	Substantial Assurance	Complete	December 2014
Strategic Transport - Durham	Durham County Council	Review of spend and governance relating to the Local Transport Capital Block Funding	Substantial Assurance	Complete	February 2015
Strategic Transport - Northumberland	Northumberland County Council	Review of schemes funded through the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance).	Withdrawn from plan		

\* Nexus – this work is undertaken as part of Nexus's internal audit plan delivered by their Internal Audit Service but the outcomes of the work are provided to Newcastle City Council for the Combined Authority.

### Appendix 3 - Definitions

#### 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

**DATE:** 10 July 2015

**SUBJECT:** Strategic Risks and Opportunities – Development of a Strategic Risk Register and Next Steps

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

#### **EXECUTIVE SUMMARY**

The Combined Authority's most significant risks and opportunities were endorsed by Economic Directors Group at their meeting on 1 May 2015. The Group agreed the biggest risk was around the delivery of projects and schemes, however it was agreed that the establishment of the Partnership will bring real opportunities to secure devolution of power, funding and responsibilities.

Statutory Officers have also endorsed the risks and opportunities, however they have raised an additional risk, which will monitor the resources available to support the Authority deliver its objectives. A summary of the risks and opportunities are attached at Appendix A.

#### **RECOMMENDATIONS**

Governance Committee are asked to:

- Acknowledge and agree the strategic risks and opportunity areas that have been identified
- Agree to a summary of the Combined Authority risks and opportunities being circulated to Chief Executives and Leadership Board
- Instruct Newcastle City Council's Audit, Risk and Insurance Service Manager to engage with lead officers to ensure mitigation plans (next steps) are delivered

# North East Combined Authority

## Governance Committee

### 1 Background Information

- 1.1 Economic Directors Group and Statutory Officers have endorsed the Combined Authority's strategic risk and opportunity areas and agreed the next steps required to manage the risk or enhance the opportunity. A copy of the strategic risks and opportunities are attached at Appendix A.
- 1.2 Each local authority will continue to manage risks and opportunities within their own organisations however, there will be continued collaboration to ensure there is an awareness of the most significant risks which may influence the Committees' decision making.
- 1.3 Committee members are asked to review and where necessary challenge the risks and opportunities in Appendix A, to determine if they reflect the risks as they see them. The risks and opportunities are in the following areas:

#### **Operational** – *Risk to support structures*

There is a lack of clarity and cohesiveness around the resources available and being utilised to effectively support the Combined Authority/Leadership Board

#### **Resources** – *Risk to the delivery of proposed projects and schemes*

Following receipt of the North East Growth Deal funding, the Combined Authority are unable to demonstrate to government and partners their ability to successfully deliver the agreed projects and schemes within funding allocation, timeframes and satisfy key criteria

#### **Devolution** – *Opportunity to secure devolved funding and responsibilities*

There is an opportunity for the Combined Authority to work in partnership to secure substantial devolution of power, funding and responsibilities, which will stimulate economic growth, job creation, skills development and improve transport links across the North East

#### **Partnerships** – *Opportunity to strengthen partnerships*

The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change and successfully deliver the Strategic Economic Plan

### 2 Proposals

- 2.1 NECA will develop a strategic risk register to record, monitor and report the strategic risks and opportunities to the Governance Committee at 6 monthly intervals, utilising support from officers. This work continues to be co-ordinated by the Audit, Risk and

# North East Combined Authority

## Governance Committee

Insurance Service Manager from Newcastle City Council, who provides the internal audit function for NECA.

### 3 Next Steps

- 3.1 Nominated lead officers will further develop the strategic risk register and ensure mitigation activity is delivered.

### 4 Potential Impact on Objectives

- 4.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

### 5 Finance and Other Resources

- 5.1 There are no direct financial implications for the North East Leadership Board regarding the development of the Strategic Risk Register.

### 6 Legal

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

### 7 Other Considerations

#### 7.1 Consultation/Community Engagement

Following development of the strategic risk register, a risk management agenda item will be added to the Governance Committee's forward plan and the risks and opportunities will be reviewed every 6 months.

#### 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 direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

#### 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

# North East Combined Authority

## Governance Committee

8.1 There are no background documents

### 9 Links to Plans in the Policy Framework

9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan and Local Transport Plans, by acknowledging the biggest threats to their delivery.

### 10 Appendices

10.1 There are no supporting appendices

### 11 Contact Officers

11.1 Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.  
[Philip.slater@newcastle.gov.uk](mailto:Philip.slater@newcastle.gov.uk).  
Telephone - 0191 2116511

### 12 Sign off

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

# North East Combined Authority

## Governance Committee

### Appendix A

<p>(New risk raised by Statutory Officers)</p> <p><b><u>Operational</u></b> – <i>Risk to support structures</i></p> <p><b>There is a lack of clarity and cohesiveness around the resources available and being utilised to effectively support the Combined Authority/Leadership Board</b></p>	<p><b><u>Risk Owner</u></b> North East Leadership Board</p> <p><b><u>Risk Score</u></b> Mitigating the risk will secure future funding opportunities and strengthen autonomy</p> <p><b>Amber 9</b></p>
<p><b>Cause(s):</b></p> <ul style="list-style-type: none"><li>• For staff responsible for Combined Authority functions agreed staffing structures have not been formalised and/or communicated, therefore resource plans have not been developed which recognise individual officer disciplines, main responsibilities and resource requirements e.g. budgets. Informal arrangements are continuing but need to be formalised</li><li>• Lack of understanding of roles and interdependencies between officers supporting the Combined Authority</li></ul>	
<p><b>Impact/Consequence(s):</b></p> <ul style="list-style-type: none"><li>• The lack of clarity or shared understanding of key support functions may impair the Authority's ability to operate effectively and efficiently</li><li>• The lack of effective resource plans may result in reduced capacity to effectively support Statutory Officers discharge their duties confidently</li><li>• Duplication of effort between officers within individual Local Authorities</li></ul>	
<p><b><u>Controls:</u></b></p> <ul style="list-style-type: none"><li>• Service Level Agreements (SLAs) are in place to satisfy some HR requirements</li><li>• There is a regional pool of officers with the required knowledge and skills set to support the Leadership Board, however their responsibilities need to be formalised</li></ul>	
<p><b><u>Next Steps:</u></b></p> <ul style="list-style-type: none"><li>• Develop and communicate organisation chart for NECA support officers</li><li>• Formalise the draft SLA arrangements for the current year</li><li>• Develop resource map and plans which identify resources available such as people, finance and potential gaps in service delivery. This will help identify business continuity issues.</li></ul>	

# North East Combined Authority

## Governance Committee

<p><b><u>Resources</u></b> – <i>Risk to the delivery of proposed projects and schemes</i></p> <p><b>Following receipt of the North East Growth Deal funding, the Combined Authority are unable to demonstrate to government and partners their ability to successfully deliver the agreed projects and schemes within funding allocation, timeframes and satisfy key criteria</b></p>	<p><b><u>Risk Owner</u></b> North East Leadership Board</p>
	<p><b><u>Risk Score</u></b> Mitigating the risk will secure future funding opportunities and strengthen autonomy</p>
	<p><b>Amber 9</b></p>
<p><b>Cause(s):</b></p> <ul style="list-style-type: none"><li>• Delays in receipt of formal Growth Deal grant funding notification from Central Government, particularly for future years</li><li>• Uncertainty of availability of 2014-2020 European funding leading to potential delays in project delivery</li><li>• Local Authorities inability to secure match funding</li><li>• Unanimous agreement of the Combined Authority’s budget is not achieved</li><li>• Projects/Schemes do not spend in line with Local Growth Fund criteria</li><li>• Projects/Schemes are not in a position to progress to meet timeline</li><li>• Insufficient HR to support project delivery</li></ul>	
<p><b>Impact/Consequence(s):</b></p> <ul style="list-style-type: none"><li>• If the Combined Authority/NELEP are unable to demonstrate their ability to deliver agreed projects and schemes which fully satisfy the Governments funding criteria, it may result in difficulty securing future funding opportunities and our ability to strengthen further autonomy/devolution going forward</li><li>• Possible delays in major projects</li><li>• Possibility of projects across all themes competing against each other for funding</li><li>• Reputational impact as the Combined Authority is the accountable body (along with the NELEP)</li></ul>	
<p><b><u>Controls:</u></b></p> <ul style="list-style-type: none"><li>• The North East Combined Authority Constitution (Budget and Policy Framework Rules of Procedure) sets out how the Combined Authority operates, how decisions are made, and the procedures that are followed to ensure that the Combined Authority operates efficiently, effectively and is both transparent and accountable (reviewed annually)</li><li>• Nexus Executive Transport Operator – Developing and delivering passenger transport services in line with NECA policies</li><li>• Additional £40.6m Growth Deal Funding invested between 2016-2021 (originally £289.3m)</li><li>• Partners continued engagement through the formal meetings of the Combined Authority, including Leader, Chief Executive, Economic Director and Finance Director levels</li><li>• Prioritisation model is applied to the Strategic Economic Plan (SEP) to identify key projects across each SEP theme</li><li>• NELEP Board have agreed a protocol to support reallocation of funding to allow flexibility around projects which may incur slippage or delay</li><li>• Service Level Agreements (SLAs) are in place to satisfy current HR requirements. There is a regional pool of officers with the required knowledge and skills set to support to NELEP and Leadership Board</li><li>• Project Board monitor the Quality Contracts Scheme (QCS) – improving bus services across North East</li><li>• Committees/Sub Committees (Transport, Governance, Overview &amp; Scrutiny)</li><li>• Discussions have taken place with DCLG/BIS officials to secure early confirmation of funding arrangements for future years</li></ul>	



# North East Combined Authority

## Governance Committee

### Appendix A

<p><b><u>Devolution</u></b> – <i>Opportunity to secure devolved funding and responsibilities</i></p> <p><b>There is an opportunity for the Combined Authority to work in partnership to secure substantial devolution of power, funding and responsibilities, which will stimulate economic growth, job creation, skills development and improve transport links across the North East</b></p>	<p><b><u>Opportunity Owner</u></b> North East Leadership Board</p>
<p><b><u>Benefits</u></b></p> <p>The Combined Authority will support the achievement of our ambitions for a strong and sustainable economic future enabling us to make decisions based on local knowledge. It will do this by:</p> <ul style="list-style-type: none"> <li>• Influencing regional approaches to growth</li> <li>• Provide the legal platform and governance framework to access more devolved powers</li> <li>• Enabling local leaders to speak with one voice about the future of our functional economic areas</li> <li>• Improving how we work with Government, business, investors and partners</li> <li>• Providing a legally constituted and democratically accountable body to channel the delivery of priority programmes and infrastructure projects for the region</li> </ul>	<p><b><u>Opportunity Score</u></b> The opportunity will bring significant benefits if we increase the likelihood of a successful partnership</p> <p style="text-align: center;"><b>Amber 9</b></p>
<p><b><u>Barriers</u></b></p> <ul style="list-style-type: none"> <li>• Delivery and Operational levels of the Combined Authority continue to be developed. We will need to ensure delivery arrangements are adequately resourced to prove our ability to successfully deliver all priorities, avoiding reputational risk</li> <li>• Success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and the working of the Authority with other partners in the region, including the North East Local Enterprise Partnership (NELEP)</li> <li>• Euro funding uncertainties</li> <li>• The transport schemes will be very visible to our partners and communities, however the economic development, skills and inclusion themes less so, therefore effective communication strategies must be developed to demonstrate the role of the Combined Authority and communicate the programmes and infrastructure projects underway in the region</li> </ul>	
<p><b><u>Next Steps</u></b></p> <ul style="list-style-type: none"> <li>• North East Devolution Prospectus – The North East Combined Authority has developed a prospectus to begin negotiations with Government ministers to secure substantial devolution of power, funding streams and responsibilities to the North East. A series of events have taken place across the Combined Authority area with business leaders, residents and partner agencies to further discuss and develop an outline of the proposals</li> <li>• One North – a strategic proposition for an interconnected transport system (northern cities working together to shape transport plans which would transform economic competitiveness of the north</li> <li>• Northern Futures – University Technology College (UTC) will offer the North East’s young people aged between 14-18 the technical skills in Information Technology (IT) and Healthcare Sciences, providing employers with advanced technical skills. The UTC will open in Newcastle 2017</li> <li>• Employability, Inclusion and Skills Steering Group – Operational plan to support delivery of the SEP:             <ul style="list-style-type: none"> <li>▪ Worklessness and low skills</li> <li>▪ Youth employment strategy</li> <li>▪ Collaboration with NELEP to provide demand led education &amp; skills to reflect needs of employers</li> </ul> </li> </ul>	

# North East Combined Authority

## Governance Committee

<p><b><u>Partnerships</u></b> – <i>Opportunity to strengthen partnerships</i></p> <p><b>The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change and successfully deliver the Strategic Economic Plan</b></p>	<p><b><u>Opportunity Owner</u></b> North East Leadership Board</p>
<p><b><u>Benefits</u></b></p> <ul style="list-style-type: none"><li>• Strengthening the synergy between the Leadership Board, North East Local Enterprise Partnership (NELEP) and Local Authorities</li><li>• Influencing regional approaches to growth</li><li>• Providing the legal platform and governance framework to access more devolved powers</li><li>• Enabling local leaders to speak with one voice about the future of our functional economic areas</li><li>• Improving how we work with Government, business, investors and partners</li><li>• Providing a legally constituted and democratically accountable body to channel the delivery of priority programmes and infrastructure projects for the region</li></ul>	<p><b><u>Opportunity Score</u></b> The opportunity will bring significant benefits if we increase the likelihood of a successful partnership</p> <p style="text-align: center;"><b>Amber 9</b></p>
<p><b><u>Barriers</u></b></p> <ul style="list-style-type: none"><li>• The success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and how NECA works with other partners in the region, including the private sector</li><li>• It is important that the Leadership Board share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned</li><li>• It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact</li><li>• The Leadership Board have the delegated powers to make strategic decisions, however they need to ensure support services are adequately resourced to inform and assist decision making</li></ul>	
<p><b><u>Next Steps</u></b></p> <ul style="list-style-type: none"><li>• Partners continue to engage through the formal meetings of the Combined Authority, including at Leader, Chief Executive, Economic Director and Finance Director levels</li><li>• Ensure the Combined Authority develops a clear communication strategy between all members and the NELEP to explain precisely what the Combined Authority is responsible for and what is not within its remit</li><li>• Develop communication strategy for private and public sector to help them understand the role of the Combined Authority and the areas of work it is involved with</li><li>• Establishment of the NECA/NELEP Integrated Team will ensure the creation of a streamlined/cost effective team, who will have the necessary skill set to support the NELEP and Combined Authority (Financial, Legal, HR, Project Management)</li><li>• Establishment of the Economic Development and Regeneration Advisory Board – to advise Leadership Board on economic strategy, project pipelines and funding future projects. The Board will oversee collaborative initiatives to promote inward investment</li></ul>	