

Audit and Standards Committee

Tuesday 9th July, 2024 at 10.00 am

Meeting to be held: Bridges Room, Gateshead Civic Centre, Regents Street, Gateshead, NE8 1HH

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AGENDA

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Subject: Work Programme 2024/25

Report of: Michael Robson, Senior Governance Officer

Report Summary

The purpose of this report is to present a proposed work programme for the year ahead.

Recommendations

The Audit and Standards Committee is recommended to:

- (a) Agree the proposed work programme for the 2024/25 municipal year as set out in Appendix A to this report;
- (b) Note that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year; and
- (c) Note that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its terms of reference.

1. The Audit Committee

- 1.1 The North East Combined Authority (North East CA) is required to appoint an audit committee and its role is:
 - a) At a strategic overview level, to review and scrutinise the Authority's financial affairs;
 - b) To review and assess the Authority's risk management, internal control and corporate governance arrangements;
 - c) To review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the Authority's functions;
 - d) To make reports and recommendations to the Authority in relation to reviews conducted under 1 to 3 above;
- 1.2 The Audit and Standards Committee also has responsibility to:
 - a) promote and maintain high standards of conduct by Authority members and co-opted members;
 - b) ensure the Authority's members and co-opted members observe the Members' Code of Conduct;
 - c) advise the Authority on the adoption or revision of the Members' Code of Conduct; and
 - d) monitor the operation of the Members' Code of Conduct.
- 1.3 To fulfil its role and responsibilities as set out above, a proposed work programme has been formulated in conjunction with the Chair of the Committee, the Director of Finance and Investment, the Chief Internal Auditor and the Authority's external auditors. This is attached as Appendix A.

2. The Work Programme

- 2.1 The proposed programme sets out details of known core business to be considered by the Committee and suggested timing and frequency of reports in the coming year. In addition to these core business items, it may also be necessary to update the Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Committee will receive additional reports on emerging issues and trends as appropriate.
- 2.2 The proposed work programme should be treated as a working document, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is

the case, the Chair of the Committee will be notified of any changes to the proposed reporting arrangements in determining the agenda for each meeting in conjunction with the Governance Team.

3. Potential Impact on Objectives

The North East CA Interim Corporate Plan sets out the strategic objectives of the Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's plans and priorities.

4. Key Risks

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

5. Financial and Other Resources Implications

There are no direct financial implications arising from the adoption of the work programme. The costs associated with the operation of the Audit and Standards Committee will be contained within existing budgets.

6. Legal Implications

The North East CA is required to appoint an audit committee in accordance with the terms of Schedule 5A of the Local Democracy, Economic Development and Construction Act 2009 and the North East Mayoral Combined Authority (Establishment and Functions) Order 2024.

The North East CA is required by the Localism Act 2011 to promote high standards of conduct, adopt a Code of Conduct for its members and to have in place arrangements for dealing with alleged breaches of the Code. The Committee will have a key role in ensuring that the Authority complies with these requirements.

7. Equalities Implications

There are no direct equalities implications arising out of the recommendations in this report. However the Audit and Standards Committee must be mindful of its Public Sector Equality Duty and consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee should also note that the North East CA has adopted equality objectives to reflect its different roles as an employer, a commissioner, deliverer of services and a civic leader.

8. Consultation and Engagement

The work programme has been prepared in consultation with the Director of Finance and Investment, Internal Auditors, external auditors and the Chair of the Committee.

9. Appendices

Appendix A – Proposed Work Programme 2024/25

10. Background Papers

The following documents have been used in the compilation of this report

[Constitution \(northeast-ca.gov.uk\)](http://northeast-ca.gov.uk)

11. Contact Officers

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12. Glossary

CA – Combined Authority

**North East Combined Authority
Audit and Standards Committee**

Outline Work Programme 2024/25

9 July 2024
Audit and Standards Committee – Work Programme 2024/25 To approve the Committee’s outline work programme for the 2024/25 municipal year.
Internal Audit Quarterly Report To note and consider the outcomes of outstanding work relating to the 2023/24 Internal Audit Plans of North of Tyne Combined Authority and the previous North East Combined Authority.
Internal Annual Report and Opinion on the Framework of Governance, Risk Management and Control 2023/24 To review and consider the Chief Internal Auditor’s Annual Report and Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control. There will be separate for North of Tyne Combined Authority and the previous North East Combined Authority.
Risk Management Framework To consider the Authority’s proposed risk management framework.
External Audit – Auditor’s Annual Reports 2022/23 To review the External Auditor’s Annual Reports which outlines how they have discharged their responsibilities (as defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice) and the findings from their work. There will be separate reports for North of Tyne Combined Authority and the previous North East Combined Authority.
17 September 2024
Internal Audit Strategic Audit Plan 2024/25 To consider and endorse the proposed Internal Strategic Audit Plan 2024/25.
Internal Audit Charter To consider the Internal Audit Charter which brings together internal audit’s purpose, authority and responsibility in relation to the Combined Authority.
Internal Audit Plan 2024/25 – Quarter Report To note and consider progress towards delivery of the 2024/25 Internal Audit Plan.
Strategic Risk Review To provide assurance that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to mitigate them.
Risk Management Policy and Strategy To consider and endorse the Risk Management Policy and Strategy which sets out NEMCA’s approach to the management of risks and opportunities.
Draft Statements of Accounts 2023/24 To present the draft unaudited Statements of Accounts for the 2023/24 financial year and an accompanying Narrative Report.
External Audit - Audit Progress Report To provide the Committee with an update on the 2023/24 external audit work and recent relevant national reports and publications for information.

<p>Draft Annual Governance Statement (2023/24) To review and assess the draft Annual Governance Statement for 2023/24. There will be separate statements for North of Tyne Combined Authority and the previous North East Combined Authority.</p>
<p>External Audit - Audit Strategy Memorandum 2023/24 To consider the memoranda which sets out the strategy for the external audit of the financial statements for the period ending 6 May 2024 and summarises the audit approach, highlights significant audit risks and areas of key judgement in addition to providing details of the independent external audit team. There will be separate memoranda for North of Tyne Combined Authority and the previous North East Combined Authority.</p>
<p>Standards Update (if required)</p>

<p>21 January 2025</p>
<p>Internal Audit Plan 2024/25 – Quarterly Report To note and consider progress towards delivery of the 2024/25 Internal Audit Plan.</p>
<p>Strategic Risk Review To provide assurance that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to mitigate them.</p>
<p>External Auditor - Audit Progress Report To provide the Committee with an update on the 2023/24 external audit work and recent relevant national reports and publications for information.</p>
<p>Standards Update (if required)</p>

<p>8 April 2025</p>
<p>Final Statement of Accounts 2023/24 To review the Audited Statement of Accounts for the year ended March 2023 including Narrative Report and Annual Governance Statement. There will be separate reports for North of Tyne Combined Authority and the previous North East Combined Authority.</p>
<p>External Audit - Auditor's Completion Reports 2023/24 To review and consider the Audit Certificate signed by the External Auditor to formally conclude the 2023/24 Audit and accompanying Completion Report and letter. There will be separate reports for North of Tyne Combined Authority and the previous North East Combined Authority.</p>
<p>Audit and Standards Committee – Work Programme 2025/26 To approve the Committee's outline work programme for the 2025/26 municipal year.</p>
<p>Accounting Policies to be used in Compilation of Annual Statement of Accounts (2024/25) To review the accounting policies to be applied in the preparation of the 2024/25 Statement of Accounts and to confirm that appropriate policies are being applied.</p>
<p>Internal Audit Plan 2024/25 – Quarterly Report To note and consider progress towards delivery of the 2024/25 Internal Audit Plan.</p>
<p>Internal Audit Strategic Audit Plan (2025/26) & Internal Audit Charter To consider and endorse the proposed Internal Strategic Audit Plan 2025/26 and to consider any changes to the Internal Audit Charter.</p>

Audit and Standards Committee Self-Assessment of Effectiveness

To endorse the self-assessment of Audit and Standards Committee arrangements against good practice.

Strategic Risk Review

To provide assurance that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to mitigate them.

Standards Update (if required)**June/July 2025****Draft Statement of Accounts 2024/25**

To present the draft unaudited Statements of Accounts for the 2023/24 financial year and an accompanying Narrative Report.

Annual Governance Statement 2024/25

To review and assess the draft Annual Governance Statement for 2024/25.

External Audit – Auditor’s Annual Reports 2023/24

To review the External Auditor’s Annual Reports which outlines how they have discharged their responsibilities (as defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice) and the findings from their work. There will be separate reports for North of Tyne Combined Authority and the previous North East Combined Authority.

Audit and Standards Committee

9 July 2024

Subject: Internal Audit Quarterly Update

Report of: Ian Pattison, Chief Internal Auditor

Report Summary

This report provides Audit and Standards Committee with an update on completion of the 2023/24 internal audit plans where progress was previously reported to the Audit and Standards Committee of the North of Tyne Combined Authority, the Audit and Standards Committee of the North East Combined Authority and the Audit Committee of the Joint Transport Committee. Additionally, this report also provides an update on the process and timescale for agreeing the internal audit plan for 2024/25.

Recommendations

The Audit and Standards Committee is recommended to:

- 1) Consider and note progress against internal audit plans for 2023/24.
- 2) Note the approach to development of the 2024/25 internal audit plan.

1. Completed internal audit assignments

- 1.1 Internal Audit plans for 2023/24 were approved by the relevant Committee for each of the predecessor organisations and delivery against these plans was reported to, and considered by, those committees during 2023/24. However, there were a number of assignments which were not completed prior to the final meeting of each Committee which have now been completed.
- 1.2 The overall position for 2023/24 is detailed within the Internal Audit Annual Opinion report which is a separate agenda item for this meeting. Those audits completed since the last Committee meeting and the assurance level achieved are shown in shown in the table below. More details about each of these assignments is provided at Appendix A.

Audit Assignment	Opinion
North of Tyne Combined Authority	
Risk Management	Substantial Assurance
Key Financial System – Budget Monitoring and Reporting	Reasonable Assurance
Key Financial System – Payroll	Reasonable Assurance
Key Financial System – Creditors Purchasing & Payments	Reasonable Assurance
Adult Education Budget Steering Group	N/A – programme assurance
Transition to new North-East Mayoral Combined Authority	N/A - consultancy
Joint Transport Committee	
Bus Services Improvement Plan	Substantial Assurance
Capped Bus Fare Scheme	Substantial Assurance
Bus Partnership Agreements	Substantial Assurance

2. Internal Audit Plan 2024/25

- 2.1 Public Sector Internal Audit Standards (PSIAS) requires the Chief Audit Executive (Chief Internal Auditor) to develop a risk-based plan which, amongst other things, explains how planned assurance delivery links to organisational objectives and priorities, explain how internal audit resource requirements have been assessed and the need to ensure resources are sufficient to support an annual evidence-based opinion. Furthermore, it requires consultation with senior management and Audit Committee to understand the organisation's strategies, key business objectives, associated risks and risk management processes.
- 2.2 As part of this planning process it is important that Internal Audit consider the strategic and key operational risks to ensure coverage and resources are aligned and focussed on key areas. The Authority are currently developing the strategic risk register and supporting risk registers at other levels within the organisation. As such, the detailed information to support an effective audit planning process is not yet available.
- 2.3 It is the Chief Internal Auditor's opinion that development of the internal audit plan for 2024/25 is deferred until the risk identification process is completed. The Authority are working towards Senior Leadership Team agreeing a strategic risk register by the end of July with Audit and Standards Committee receiving this at their meeting in September. It is proposed that Internal Audit Plan would also be presented to this meeting for consideration and approval.
- 2.4 Whilst the full plan will be presented in September it is acknowledged that there will be a requirement to conduct some work in advance of this, e.g. grant certification, and this work will be undertaken as required. It may also be the case that Internal Audit are requested to provide advice and guidance as the Authority establishes its systems of governance, risk management and internal control. Therefore, any such work will also be provided ahead of the audit plan being formally agreed. Should there be any significant work required that could potentially impact on overall delivery of the audit plan this will be discussed and agreed with the Director of Finance and Investment.

3. Potential Impact on Objectives

- 3.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 Audit and Standards Committee is a key component of the Authority's governance framework. It is an important source of assurance about the Authority's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 3.3 The work of Internal Audit and Audit Committee has a remit across the vision, policies and priorities of the Combined Authority.

4. Key Risks

- 4.1 There are no key risks associated with this report. The work undertaken reflects the risk-based internal audit plans agreed by relevant Committees and is conducted in conformance with Public Sector Internal Audit Standards (PSIAS). Committee receive details of conformance with PSIAS as part of the Chief Internal Auditor's annual opinion.
- 4.2 Internal Audit is a key strand in the governance arrangements of the Combined Authority and the outcomes of its work support effective risk management and provide assurances which can be taken into account as part of the annual governance statement.

5. Financial and Other Resources Implications

- 5.1 There are no financial implications arising from the recommendations set out in this report.

5.2 Effective internal audit and an effective Audit and Standards Committee are an essential part of the Authority's governance arrangements. The Internal Audit Plan examines the Authority's internal control environment and considers the economy, efficiency and effectiveness with which resources are deployed. This activity promotes good financial governance, value for money and reduces the potential for financial loss through fraud, waste and inefficiency.

6. Legal Implications

6.1 There are no direct legal implications arising from this report. However, the report supports conformance with Public Sector Internal Audit Standards which specifies the Chief Internal Auditor should report periodically to senior management and the board on Internal Audit matters, including "performance relating to its plan".

6.2 It also supports the Audit and Standards Committee to deliver the functions of an 'Audit Committee', as set out in The Cities and Local Government Devolution Act 2016, which include reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.

7. Equalities Implications

7.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it.

8. Consultation and Engagement

8.1 There has been no consultation or engagement undertaken directly in respect of this report.

8.2 Senior management and relevant Committee for each of the relevant organisations were consulted as part of agreeing Internal Audit plans for 2023/24. There are no requirements or expectations to undertake external consultation or engagement in relation to the matters in this report.

9. Appendices

Appendix A – Details of completed audits

10. Background Papers

Internal Audit Plan 2023/24 – North of Tyne Combined Authority

Internal Audit Plan 2023/24 – North East Combined Authority

Internal Audit Plan 2023/24 – Joint Transport Committee

Individual audit reports issued to management.

Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017

Cities and Local Government Devolution Act 2016

11. Contact Officers

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12. Glossary

PSIAS - Public Sector Internal Audit Standards.

Appendix A – Details of completed audits

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
1	Risk Management (NTCA)	Substantial Assurance	-	2	-
Audit Objective					
<p>The overall audit objective was to assess the effectiveness of risk management arrangements which was achieved through review of the following control objectives:</p> <ul style="list-style-type: none"> • There is an approved Risk Management strategy and framework. • There are processes in place to adequately identify and record risks at a Strategic, Operational and Service level. • There are arrangements to determine appropriate responses for identified risks, respond to any unanticipated events or changes, develop and agree effective mitigating actions and for controls to be implemented. • There are monitoring arrangements to actively review risks and report them at an appropriate level. 					
Positive Assurances and Matters Arising					
Positive Assurances					
<ul style="list-style-type: none"> • An up to date, approved Risk Management Policy and Strategy is in place and available to all officers. • Matrices to support evaluation and scoring of strategic, programme and project risks and opportunities are in place. • The Strategic Risk Register is reviewed, updated and regularly reported. • At operational, programme and project levels risk registers are maintained and reports to appropriate forums highlight the top rated risks to focus discussions. 					
Matters Arising					
<ul style="list-style-type: none"> • Whilst individual reports to the NTCA Cabinet reference risks and opportunities, neither the Cabinet as a whole, nor the Mayor and portfolio holders in their own right, receive and review the Strategic Risk and Opportunities Register. (Medium priority) • There has been no formal risk training provided to members and, whilst members may have undertaken risk management training at their own authorities, this may not be consistent with the arrangements and risk scoring operated for the Combined Authority which could lead to confusion when considering risks. (Medium priority) 					

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
2	Budget Monitoring and Reporting (NTCA)	Reasonable Assurance	-	3	1

Audit Objective

The overall audit objective was to assess the effectiveness of budget monitoring and reporting arrangements which was achieved through review of the following control objectives:

- There are appropriate procedures in place for budget setting and budget monitoring, and these adequately define responsibilities.
- Budgets are aligned with the Combined Authority's strategy and aims.
- Budgets are adequately monitored, controlled and reported.

Positive Assurances and Matters Arising

Positive Assurances

- There are appropriate procedures in place for both budget setting arrangements and reporting of performance against budget to Cabinet.
- There is regular budget monitoring reporting and reports contain sufficient, relevant information.
- Updates against the treasury management strategy are reported twice a year.

Matters Arising

- There was no reserves policy in place. (Medium priority)
- Whilst there are regular meetings between finance and budget managers to discuss the budgets, and there was evidence of budget performance being reported, there was no evidence retained to demonstrate budget monitoring meetings took place or record the outcome of discussions. (Medium priority)
- Whilst the debtors control account is reconciled as part of the year end process, there was no documentary evidence to demonstrate that this reconciliation incorporates information from the manual spreadsheet record of invoices raised. (Medium priority)

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
3	Payroll (NTCA)	Reasonable	-	4	-

Audit Objective

The overall audit objective was to assess the effectiveness of payroll processing arrangements which was achieved through review of the following control objectives:

- There are adequate arrangements in place to ensure compliance with Financial Regulations.
- There are effective policies, procedures and Service Level Agreements (SLAs) in place for payroll.
- There are effective processes in place to accurately process payments to staff including any changes to contract of employment and amendments.
- There are arrangements to reimburse allowances and expenses to staff in accordance with the appropriate agreements and legislation.

Positive Assurances and Matters Arising

Positive Assurances

- There are policies and procedures in place to cover matters relating to payroll which act as guidance documents for officers.
- No processing errors were found in the sample of payroll transactions examined.
- Payroll data was accurately posted to the general ledger.

Matters Arising

- Whilst there is statistical reporting around the type and number of payroll events from the payroll provider, the Service Level Agreement (SLA) does not formally set a comprehensive suite of performance indicators covering matter such as timeliness and accuracy of processing. It also does not make clear matters such as responsibility for error correction / negligence. (Medium priority)
- Whilst potential payroll exceptions are checked as part of processing the pay run by the provider, there were no formal reasonableness checks undertaken by NTCA prior to approving the BACS payment file, e.g. confirmation back to expected number of payments / value per the payroll file, check again the establishment structure, confirmation of high value payments etc. (Medium priority)
- Whilst the vast majority of payroll records are held centrally against individual records on the document management system, there were some records, e.g. leavers forms, expenses and mileage claims etc which were retained by individual managers. (Medium priority)
- Audit testing of expenses identified there is a discord between the mileage rates being paid and the rates within the expenses policy. The expenses policy indicates 46.9p per mile is to be paid but the HMRC rate of 45p per mile was paid. The payroll provider has indicated that employees were issued with a Statement of Particulars confirming HMRC rates would apply, however, if this is not the case, NTCA may be liable for backdated claims. (Medium priority)

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
4	Creditors Purchasing & Payments (NTCA)	Reasonable Assurance	-	3	2
Audit Objective					
<p>The overall audit objective was to assess the effectiveness of the framework of management control in operation for Creditor Purchasing and Payments, which was achieved through review of the following control objectives:</p> <ul style="list-style-type: none"> • There are clear, unambiguous policies and procedures, including Financial Regulations, which comply with legislation and provide appropriate direction to officers. • There are adequate arrangements in place to ensure compliance with Financial Regulations. • There is sufficient, relevant and reliable management information and / or performance information produced regularly and appropriately reported to allow management to obtain assurances around performance and compliance. 					
Positive Assurances and Matters Arising					
<p>Positive Assurances</p> <ul style="list-style-type: none"> • Detailed policies and regulations set out the expected control framework. • Roles and responsibilities are defined with a scheme of delegation showing approval limits. <p>Matters Arising</p> <ul style="list-style-type: none"> • The main procedural guidance, 'How to Spend Money', is out of date with references to former employees and purchase card processes no longer used. (Medium) • Official purchase orders (PO) were not always raised in advance of committing expenditure, i.e. for four of ten payments sampled the PO was raised after the invoice had been received. (Medium) • Payment of invoices within 30 days has decreased from 94% (2019/20) to 76.3% (2022/23) with potential late payment interest of circa £27k for 2022/23. Whilst statistics for 2023/24 have not been calculated in year, testing of transactions indicate similar performance, i.e. three of ten sampled payments were late and in all three instances the official PO was also raised after the invoice date. (Medium) 					

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
5	Bus Services Improvement Plan (JTC)	Substantial Assurance	-	-	-

Audit Objective

The overall audit objective was to assess the effectiveness of arrangements in place to manage delivery of the Bus Service Improvement Plan. This was achieved through review of the following:

- Roles and responsibilities.
- Performance management.
- Reporting arrangements.
- Escalation of issues/concerns.

Summary of findings

There were no remedial actions suggested with the following in place:

- The Bus Services Improvement Plan was refreshed in October 2023 and meets Department for Transport guidance.
- There are SMART performance indicators with the plan and these were reported to North East Bus Partnership Board as required.
- Joint transport Committee receive regular updates on the BSIP capital funding programmes and necessary approvals have been sought and documented through decision notices.
- Capital funding schemes are fully aligned to the objectives of the DfT's BSIP requirements.

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
6	Capped Bus Fare Scheme (JTC)	Substantial Assurance	-	-	-

Audit Objective

The overall audit objective was to assess the effectiveness of arrangements in place to administer the Capped Bus Fare Scheme. This was achieved through review of the following:

- Roles and responsibilities.
- Management of records.
- Data quality.
- Submission of returns in line with agreed timeframes.
- Reporting.

Summary of findings

There were no remedial actions suggested with the following in place:

- There is appropriate overall management and administration of the Scheme by the Joint Transport Committee.
- The Statutory Officers Oversight Group meets monthly with appropriate updates and reports relating to the Scheme discussed and monitored.
- For the sample of transactions from the Fares Summary Document, the central record used to hold performance information regarding sales of each ticket type and the accompanying analysis, these matched source documentation confirming the information was accurately included.
- For the sample of payments made to providers these were traced back to source documents and payment information had been accurately recorded within the central invoice record and processed in line with the agreed timescales.
- Capped Fares Scheme dashboards have been introduced to assist in tracking and monitoring performance of the scheme and for a sample of recent dashboards the detailed breakdown of performance of ticket sales, including the breakdown for each region, was confirmed as accurate.

Ref	Audit Title	Assurance Opinion	Recommendations		
			High	Medium	Low
7	Bus Partnership Agreements (JTC)	Substantial Assurance	-	1	-

Audit Objective

The overall audit objective was to assess the effectiveness of arrangements in place to manage the arrangements within bus providers. This was achieved through review of the following:

- Roles and responsibilities.
- Approval of agreements.
- Variations.
- Monitoring and Reporting.

Summary of findings and remedial actions

Summary of findings

The following were in place:

- The Joint Transport Committee operates effectively in the overall management of partnership arrangements, including authorising entering into agreements with bus operators, oversight of the partnerships (including monitoring arrangements) and authorisation of variations of partnership arrangements where necessary.
- The Partnership Board provide updates in relation to partnerships, including performance against key performance indicators (KPIs), to the Joint Transport Committee and make recommendations relating to current / proposed partnerships for the Committee's consideration/approval.
- KPIs are being effectively monitored and reported upon.

Remedial action

- The Joint Transport Committee to continue to develop and support the establishment and operation of local authority bus boards, including the establishment of the Newcastle City Council local bus board. (Medium priority)

Subject: Internal Audit Annual Opinion 2023/24

Report of: Ian Pattison, Chief Internal Auditor

Report Summary

This report provides Audit Committee with the Chief Internal Auditor’s annual opinion on the overall adequacy and effectiveness of the Authority’s framework of governance, risk management and control as required by Public Sector Internal Audit Standards.

Recommendations

Audit and Standards Committee is recommended to consider and note the following:

- North of Tyne Combined Authority – Internal Audit Annual Opinion (Appendix A)
- North East Combined Authority and Joint Transport Committee – Internal Audit Annual Report (Appendix B)

1. Background Information

- 1.1 Public Sector Internal Audit Standards requires the Chief Internal Auditor to deliver an annual Internal Audit Opinion which concludes on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.
- 1.2 Internal Audit activity has been delivered in line with the Internal Audit plans approved by the relevant Committee for each of the predecessor organisations and delivery against these plans was reported to, and considered by, those committees during 2023/24. For those assignments which were not completed prior to the final meeting of each Committee, the outcomes of this work have been reported to Audit and Standards Committee today.
- 1.3 The Chief Internal Auditor for each organisation has produced their annual report detailing the opinion and relevant supporting information. These detailed reports are attached at Appendix A and Appendix B with the opinions shown in the table below.

Organisation	Annual Opinion
North of Tyne Combined Authority	Satisfactory
North East Combined Authority and Joint Transport Committee	Sound system of internal control

- 1.4 The annual opinion for both organisations are positive about the overall adequacy and effectiveness of the Authority’s framework of governance, risk management and control. There are no significant matter arising from the work completed in 2023/24 and no matters to be considered for the annual governance statements.

2. Potential Impact on Objectives

- 2.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority’s operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 2.2 Audit and Standards Committee is a key component of the Authority's governance framework. It is an important source of assurance about the Authority's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 2.3 The work of Internal Audit and Audit Committee has a remit across all ambitions / priorities / objectives of the Combined Authority.
- 3. Key Risks**
- 3.1 There are no key risks associated with this report. The work undertaken reflects the risk-based internal audit plans agreed by relevant Committees and is conducted in conformance with Public Sector Internal Audit Standards (PSIAS).
- 3.2 Internal Audit is a key strand in the governance arrangements of the Combined Authority and the outcomes of its work support effective risk management and provide assurances which can be taken into account as part of the annual governance statement.
- 4. Financial and Other Resources Implications**
- 4.1 There are no financial implications arising from the recommendations set out in this report.
- 4.2 Effective internal audit and an effective Audit and Standards Committee are an essential part of the Authority's governance arrangements. The Internal Audit Plan examines the Authority's internal control environment and considers the economy, efficiency and effectiveness with which resources are deployed. This activity promotes good financial governance, value for money and reduces the potential for financial loss through fraud, waste and inefficiency.
- 5. Legal Implications**
- 5.1 There are no direct legal implications arising from this report. However, the report supports conformance with Public Sector Internal Audit Standards which requires the Chief Internal Auditor to deliver an annual Internal Audit Opinion which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 5.2 It also supports the Audit and Standards Committee to deliver the functions of an 'Audit Committee', as set out in The Cities and Local Government Devolution Act 2016, which include reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.
- 6. Equalities Implications**
- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7. Consultation and Engagement**
- 7.1 There has been no consultation or engagement undertaken directly in respect of this report.
- 7.2 Senior management and relevant Committee for each of the organisations were consulted as part of agreeing Internal Audit plans for 2023/24. Reporting on performance throughout the year has also been reported to the respective Committees. There are no requirements or expectations to undertake external consultation or engagement in relation to the matters in this report.

8. Appendices

Appendix A - North of Tyne Combined Authority – Internal Audit Annual Opinion

Appendix B - North East Combined Authority and Joint Transport Committee – Internal Audit Annual Report

9. Background Papers

Internal Audit Plan 2023/24 – North of Tyne Combined Authority

Internal Audit Plan 2023/24 – North East Combined Authority

Internal Audit Plan 2023/24 – Joint Transport Committee

Individual audit reports issued to management.

Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy /

Institute of Internal Auditors, April 2017

Cities and Local Government Devolution Act 2016

10. Contact Officers


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11. Glossary

PSIAS - Public Sector Internal Audit Standards.

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NORTH OF TYNE  COMBINED AUTHORITY	<h1>2023/24 Internal Audit Annual Opinion</h1>
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1. Internal Audit Annual Opinion

- 1.1 The opinion of the Chief Internal Auditor is that Authority's framework and systems of governance, risk management and control were satisfactory. No system of control can give absolute assurance against material misstatement, error or loss and, accordingly, this opinion does not provide such absolute assurance.
- 1.2 This is a positive opinion and is consistent with the opinion provided in recent years.
- 1.3 This annual opinion is a source of assurance to the Authority when preparing the Annual Governance Statement. This is prepared separately and presented to Audit and Standards Committee by the Director of Finance and Investment (Chief Finance Officer).

2. Internal Audit Independence

- 2.1 Internal Audit is sufficiently independent of the activities it reviews and maintain the ability to make unbiased judgements and decisions based on its activities and facts. The service is free from any internal or external interference or obstruction which may impair its independence or objectivity.
- 2.2 Internal Auditors do not have any operational responsibilities and consider potential conflicts of interest which may affect, or could be perceived to affect, independence at the planning stage for each individual assignment.

3. Internal Audit work supporting the Opinion

- 3.1 The internal audit activity undertaken in relation to 2023/24 which has been considered when determining the Opinion is summarised in the table below. More detailed information about each completed assignment has been reported to Audit and Standards Committee throughout the year.

Audit Assignment	Opinion
Net Zero Transition	Reasonable assurance
Information Governance	Reasonable assurance
Risk Management	Substantial assurance
Creditors Purchasing & Payments	Reasonable assurance
Payroll	Reasonable assurance
Budget Monitoring and Reporting	Reasonable assurance
Performance Management	N/A - programme assurance
Adult Education Budget Steering Group	N/A - programme assurance
Transition to new North-East Mayoral Combined Authority	N/A - consultancy

3.2 Where appropriate, Internal Audit has agreed recommendations with management to strengthen governance risk management and internal control arrangements. It is management's responsibility to implement agreed recommendations and Internal Audit do follow up on the implementation actions taken by management. There are no issues identified in respect of implementing recommendations.

4. Quality Assurance and Improvement Programme & Conformance with Public Sector Internal Audit Standards

4.1 Internal Audit are required to conform with the Public Sector Internal Audit Standards (PSIAS). The Chief Internal Auditor has undertaken a self-assessment of conformance with PSIAS across the year which includes both external and internal assessments.

4.2 PSIAS requires that an external assessment is conducted once every five years. North Tyneside Internal Audit services were last subject to external assessment in February 2018, and this identified the service was compliant with the requirements of PSIAS with a small number of areas which required action but did not significantly impact on the overall opinion.

4.3 As a new external assessment is yet to be completed Internal Audit do not conform with PSIAS in respect of this specific requirement. An external assessment was planned for 2023/24, as part of a peer review across a number of north east authorities, however, due to changes in staffing it could be perceived that this process would not be independent and did not progress. Additionally, the Chartered Institute of Internal Auditors have announced changes to PSIAS which will come into effect from January 2025. Taking these factors into consideration the Chief Internal Auditor and Director of Resources at North Tyneside Council determined that the next external assessment will be undertaken early in 2025 against the new Standards. There are no specific sanctions or risks arising from non-conformance with this specific element of PSIAS.

4.4 An annual self-assessment of conformance with PSIAS has been concluded in May 2024 and it is considered there is a high degree of conformance with one area of non-conformance in respect of external assessment. The table below summarises the self-assessment.

Outcome	Question Areas	Percentage
Conforms	128	97.71%
Partial Conformance	1	0.76%
Non-Conformance	1	0.76%
Not Applicable	1	0.76%
Total	131	100%

4.5 In addition to the annual self-assessment there is an established Quality Assurance and Improvement Programme (QAIP) which includes both ongoing and periodical activity. This assesses the efficiency and effectiveness of the internal audit activity and identifies areas for improvement / development.

4.6 Internal Audit seek client feedback following the issue of internal audit reports. The feedback received from respondents for 2023/24 remains very positive.

5. Issues relevant to the Annual Governance Statement

5.1 There were no limited or no assurance reports made during the year and no significant weaknesses in governance, risk management and internal controls were identified in the assignments completed. As such, there are no matters which are deemed to be relevant to influencing the Annual Governance Statement.



North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Internal Audit Annual Report 2023/24

1 Purpose of the Report

- 1.1 To consider the areas of work undertaken by Internal Audit for the North East Combined Authority (NECA) and the Joint Transport Committee (JTC) for 2023/24, and the internal audit opinion regarding the adequacy of the overall system of internal control. The report also provides information on the performance of Internal Audit for 2023/24.

2 Background Information

- 2.1 In April 2023 the NECA Audit and Standards Committee agreed the Internal Audit Plan for 2023/24, which included one audit for the Coordination of the Audit Certificate for the Local Transport Grant Claim.
- 2.2 In April 2023 the Joint Transport Committee Audit Committee agreed the Internal Audit Plan for 2023/24, which included four audits for completion during the year. The agreed audits were:
- a) Bus Services Improvement Plan.
 - b) Capped Bus Fare Scheme.
 - c) Bus Partnership Agreements.
 - d) Scheme Development Allocations.

- 2.3 All of the planned audits have been completed, each with an audit opinion of Substantial assurance.

3. Performance of Internal Audit

- 3.1 Appendix 1 shows Internal Audit's performance against the performance indicators, activity directly relevant to NECA/JTC is shown where it can be.

4. Compliance with the Public Sector Internal Audit Standards

- 4.1 Internal Audit continues to comply with the Public Sector Internal Audit Standards through the standards being built into audit working practices. This was confirmed in April 2024, following an independent review of the service by the Head of Internal Audit at Northumberland County Council.



4. Conclusion

4.1 From the Internal Audit work undertaken during the year it is considered that the North East Combined Authority continues to have a sound system of internal control in place.

Background Papers

NECA Internal Audit Plan 2023/24 – 11th April 2023

Joint Transport Committee Internal Audit Plan 2023/24 – 5th April 2023

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2023/24			
Efficiency and Effectiveness			
Objectives	KPI's	Targets	Progress
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) Complete sufficient audit work to provide an opinion on the organisational risk areas	Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	Ahead of Target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 85%	Ahead of Target – 100%
Quality			
Objectives	KPI's	Targets	Progress
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant risk. 90% for medium risk	High and significant risk – N/A Medium risk – ahead of target 93%
Client Satisfaction			
Objectives	KPI's	Targets	Progress
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	On target - 1
	2) Results of other Questionnaires	2) Results classed as 'Good'	N/A
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	None in year

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Audit and Standards Committee

9 July 2024

Subject: The North East Combined Authority Risk Management Framework

Report of: Janice Gillespie, Director of Finance and Investment

Report Summary

This report introduces the North East Combined Authority's (North East CA) Risk Management Framework.

Recommendations

The Audit and Standards Committee is recommended to review and make any comments on the proposed North East Combined Authority's Risk Management Framework.

1. Risk Management at the North East CA

- 1.1 Effective management of risk is an integral part of good corporate governance and control arrangements. To support effective risk management arrangements at the North East CA a Risk Management Framework has been developed, in collaboration with members of North Tyneside Council's Internal Audit and Risk Management team.
- 1.2 Risk is inherent in the type of activities the Combined Authority engages to deliver high quality services and it is acknowledged that that the Combined Authority cannot be wholly risk adverse and be successful. Effective and meaningful risk management is important therefore in taking a balanced approach to managing opportunity and risk.
- 1.3 The Risk Management Framework is designed to govern the way in which the North East CA identifies and manages its risks and opportunities, supporting the requirements of the Single Assurance Framework and delivery of our strategic objectives. The framework has taken into consideration the Government's Orange Book (Central Government Risk Management Framework) and good practice from similar risk management frameworks adopted by other Combined Authorities.
- 1.4 The framework documents the processes to be used in the identification and management of risks within the North East CA. It sets out key roles and responsibilities, the levels of risk (project, programme, corporate programme and project, directorate and strategic) and the relevant reporting lines.
- 1.5 The North East CA is committed to embedding risk management and will ensure it operates effectively, as part of our planning and decision making process, identifying and managing risks to support delivery.
- 1.6 Risk Management will be championed by the Senior Leadership Team, ensuring it is embedded into our ways of working. This includes all employees understanding their role in respect of risk, being familiar with risk management policies and clear on how to identify and manage risks in their work areas.
- 1.7 Our approach to managing risk will be subject to regular review, with a focus on continuous improvement through learning and experience.
- 1.8 The Risk Management Framework is attached at Appendix 1.

1.9 After review by the Audit and Standards Committee and its comments and reflections being taken into account, it is expected that the Risk Management Framework for the North East CA will be submitted to Cabinet for agreement.

2. Potential Impact on Objectives

2.1 The North East Mayoral CA is clear on its ambition to catalyse sustainable inclusive economic growth, making the North East one of the best places to live, work and invest. The Risk Management Framework will support delivery of our vision, policies and priorities.

3. Key Risks

3.1 The introduction of an effective approach to risk management will mitigate against potential risks which may impact on delivery.

4. Financial and Other Resources Implications

4.1 The introduction of an effective approach to risk management will support sound financial management of projects and programmes.

4.2 Work associated with embedding our risk management approach will be covered through current budgeted resources within the Combined Authority.

5. Legal Implications

5.1 The introduction of an effective approach to risk management will support the Combined Authority to meet its statutory obligations.

6. Equalities Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. However the introduction of an effective approach to risk management will support the Combined Authority to meet its obligations in respect of its Public Sector Equality Duty.

7. Consultation and Engagement

7.1 Senior Leadership Team and Heads of Service within the Combined Authority have reviewed the Risk Management Framework and their comments have been incorporated.

8. Appendices

Appendix 1: the North East Combined Authority Risk Management Framework

9. Background Papers

No background papers.

10. Contact Officers

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11. Glossary

Not applicable

North East Combined Authority Risk Management Framework

July 2024

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1.0 Introduction and Overview

- 1.1 The North East Mayoral Combined Authority (the Combined Authority) is clear on its ambition to catalyse sustainable inclusive economic growth, making the North East one of the best places to live, work and invest. The Risk Management Framework is designed to govern the way in which the Combined Authority identifies and manages its risk, supporting the requirements of the [Single Assurance Framework](#) and delivery of our strategic objectives.
- 1.2 Effective management of risk is an integral part of good corporate governance and control arrangements and forms a key component of the Combined Authority culture, supported at all levels through our values and behaviours.
- 1.3 Risk is inherent within the type of activities the Combined Authority engages to deliver high quality services. It is also acknowledged that the Combined Authority cannot be wholly risk adverse and be successful. Effective and meaningful risk management is important in taking a balanced approach to managing opportunity and risk.
- 1.4 The Combined Authority is committed to embedding risk management and ensuring it is operating effectively, as part of its planning and decision-making process, identifying and managing risks to support successful delivery.
- 1.5 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant operational and strategic risks to the Authority. This should include the proactive participation of all those associated with planning and delivering services.
- 1.6 The Senior Leadership Team (SLT), and individual directors, will champion the management of risk and ensure appropriate arrangements are in place, maintained and reported upon on a regular and ongoing basis.
- 1.7 All employees have a part to play in the effective management of the organisations risk. They will be familiar with risk management policies, understand how to identify and evaluate potential/actual risks and escalation / de-escalation processes.
- 1.8 The Combined Authority's approach to managing risk will be subject to regular review with a focus on continuous improvement through learning and experience.

2.0 Framework Purpose

- 2.1 The purpose the Risk Management Framework is to:
 - Set out clear standards of risk management to protect the Combined Authority and stakeholders.
 - Support the Cabinet, Chief Executive, Statutory Officers and Senior Leadership Team in the embedding of a robust but proportionate risk culture within the organisation by setting out clear risk management practices and requirements.
 - Support those with responsibilities to identify and document the risks faced by the organisation in a clear and consistent way.
 - Document the key roles and responsibilities of officers (the lines of defence)

- Specify risk management accountabilities and responsibilities for key roles.
 - Describe the governance of risk within the Combined Authority
- 2.2 The Risk Management Framework applies to the whole organisation and includes our partnerships and collaboration with other organisations. Risk management activity will be aligned to all corporate and business plan aims, objectives and priorities.
- 2.3 Political leaders and senior management within the Combined Authority are responsible for implementing this framework with their areas of responsibility and for the escalation of risk to the Strategic Risk Register as appropriate.
- 2.4 The Risk Management Framework implements section 6.3 of the Single Assurance Framework. It has been developed in line with the principles of [HMT Orange Book](#) and applies the three lines of defence model.

1 st Line	Management Control Internal Control Measures
2 nd Line	Functions that oversee or specialise in risk management
3 rd Line	Internal Audit

3.0 Management of Risk

- 3.1 There are many definitions of risk, which fundamentally have at their heart that risk is the effect of uncertainty on objectives. The technical recording of risk is expressed in terms of the cause(s), potential event(s) and the consequence(s).
- Cause - the underlying reason or condition that has the potential to lead to risk(s) or an event, i.e. the source and this can be structured as ‘due to’.
 - Event - what could go wrong, i.e. something planned that doesn’t happen or something unexpected which may happen, and this may be structured as ‘there is a risk that’ or ‘leads to’.
 - Consequence, the outcome of an event affecting objectives, and this may be structured as ‘results in’.

An example is included below to demonstrate how these definitions can be used in practice:

There is a risk that the project is not delivered on time due to difficulties recruiting sufficiently skilled individuals which results in not meeting statutory or contractual deadlines, increases financial costs and external criticism.

- *Risk (Event) – The project is not delivered on time*
 - *Cause - Difficulties exists recruiting sufficiently skilled individuals*
 - *Consequences - Increased costs, contractual dispute, criticism from regulator / funder.*
- 3.2 Management of risk is the co-ordinated activities designed and operated to manage risk and exercise internal control within an organisation.

- 3.3 It should be noted that a risk can be based on a threat or an opportunity.
- 3.4 The Combined Authority defines risk into five different levels / groups to effectively implement the risk management strategy. These risk groups are:
- **Project Risks:** those risks specifically related to delivering an individual project and impacting the outcome of the project or achievement of its objectives.
 - **Programme Risks:** those risks related to delivering a programme, which may consist of multiple projects, and impacting the overall outcome of the programme or achievement of its objectives.
 - **Corporate Project and Programme Risks:** those risks arising from change initiatives within the organisation.
 - **Directorate Risks:** those risks that are particular to the operations of directorates and would impact on the achievement of objectives within the various directorates. These may include both operational and project risks relevant to the directorate.
 - **Strategic Risks:** the most significant risks within / faced by the Combined Authority, which would have a significant impact on its ability to achieve strategic objectives, meet statutory obligations and commitments if they were to materialise, operate as a fit for purpose organisation etc.
- 3.5 Escalation is the promotion of risks through the different levels where the impact of the risk starts to have wider implications, e.g. where a project risk no longer impacts just the project but potentially delivery of a whole programme or where a directorate risks takes on wider significance to the whole organisation and becomes a strategic risk.

4.0 Roles and Responsibilities

- 4.1 The table below summarises roles and responsibilities in respect of the Risk Management Framework.

Table 1: Roles and responsibilities

Group	Responsibility/ Action
Cabinet	<ul style="list-style-type: none"> • Ensuring effective risk management arrangements are in place. • Approve, and keep under review, the Risk Management Framework. • Receive risk reports, at least twice a year, which enables oversight of strategic risks and review of the effectiveness of risk management arrangements. • Receive an annual report from the Chair of Audit and Standards Committee which provides commentary on its assessment of risk management arrangements. • Ensuring risk and opportunities are appropriately considered as part of all decision-making reports.

<p>Audit and Standards Committee</p>	<ul style="list-style-type: none"> • Review and assess the effectiveness of risk management arrangements and the risk profile of the organisation. • Receive and review risk reports, which include the Strategic Risk Register, on a quarterly basis and obtain assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations. • Consider the Risk Management Framework on an annual basis and make appropriate recommendations to Cabinet should it feel changes are required. • As required, initiate assurance reviews to consider the effectiveness of risk and issue management.
<p>Investment Board</p>	<ul style="list-style-type: none"> • Oversight, review and challenge of performance and management of strategic risk at an investment programme level. • Make appropriate recommendations to Senior Responsible Officers and Cabinet on risk tolerance and escalation.
<p>Senior Leadership Team (includes Statutory Officers)</p>	<ul style="list-style-type: none"> • Ensuring that risk management is an integral part of their management processes and activities within their respective areas of responsibility. • Assign clear roles and responsibilities for managing risk. • Ensuring that a register of significant risks is maintained, reported, and monitored. • Ensure that risk considerations are embedded into planning and decision-making processes. • Allocate risk management resources to areas of identified priority. • Maximise risk management opportunities that can impact positively on the Authority's reputation, aims and objectives. • Ensure managers and Officers are equipped with the necessary skills to manage risk effectively. • Ensure that strategic partners and service providers are aware of the importance of risk management. • Report the risk implications of recommended strategies, policies, and service delivery options to Members of the Authority. • Oversight and management of strategic risks and regular reporting of progress against mitigating actions and escalating / de-escalating matters as appropriate. • Individual directors - oversight, escalation and de-escalation as appropriate of directorate risks and corporate programme / project risks for which they are the assigned Senior Responsible Officer.

	<ul style="list-style-type: none"> • Make appropriate recommendations to Senior Responsible Officers, Investment Board and Cabinet in respect of risk management, the escalation/ de-escalation of risks.
Internal Audit	<ul style="list-style-type: none"> • Ensure that internal audit plans are risk-based and take into consideration the risk profile and identified risks of the Authority. • Consider the effectiveness of risk management arrangements within areas reviewed as part of the internal audit plan. • Provide an annual opinion on the adequacy and effectiveness of risk management, control and governance processes based upon the work they have undertaken.
Director of Operations	<ul style="list-style-type: none"> • Manages risks that impact on business performance and transition. • Monitors and reports on business performance issues that may require the attention of the programme during transition.
Director of Finance and Investment (Section 73 Officer)	<ul style="list-style-type: none"> • Works closely with the Chief Executive to ensure Risk Management is being completed to the appropriate standard in line with the Risk Management Framework. • Ensures risk reviews are effectively managed and coordinated, ensures risk information is available and reported to support effective decision making. • Manages and coordinates the resolutions of risks relating to operational performance and benefits achievements. • Identifies operational issues and ensures that they are managed by the programme. • Identifies opportunities from the business areas and raises them for inclusion in the programme. • Contributes to impact assessments and change control. • The S73 officer will review and sign off all funding decisions. • Ensure proper administration of the financial affairs of the Combined Authority, which includes risk management. • The risk management policy statement, which may be prepared by a nominated officer, promoting the risk management policy framework throughout the Combined Authority. • Providing or procuring independent assurance on the effectiveness of the risk management framework and the associated control environment. • Providing or procuring independent examination of the organisation's performance and how this

	<p>affects the Authority's control environment and its exposure to risk.</p> <ul style="list-style-type: none"> • Report, and provide assurance, to the Audit and Standards Committee in relation to the Combined Authority's risk management and assurance arrangements.
Risk Service provider	<ul style="list-style-type: none"> • Maintain the Risk Management Framework. • Maintain the Strategic Risk Register through liaison with officers. • Prepare and present Strategic Risk Update Reports to Audit and Standards Committee twice a year. • Prepare and present Strategic Risk Update Reports to Cabinet twice a year. • Provide advice and guidance to the Combined Authority as requested.
Risk Team	<ul style="list-style-type: none"> • Working to the Director of Finance and Investment (S73 Officer), manage and coordinate the Risk Framework and Risk Management System • Facilitate maintenance of the risk and issue registers for all Directorates and Programmes, supporting a consistent approach across the organisation. • Leads on risk reporting at a Directorate and Programme level to support Senior Leadership Team, Cabinet, Boards and Committees. • Provides support to the Risk Service provider in respect of the Strategic Risk register. • Provide support and guidance to officers within the Combined Authority responsible for the identification and management of risk.
Programme Assurance Team	<ul style="list-style-type: none"> • Provide second line of defence assurance through the appraisal of business cases, claims and monitoring processes.
Project Managers	<ul style="list-style-type: none"> • Oversight, escalation and de-escalation of project risks as appropriate. • Maintain risk and issue registers for their projects. • Provide risk reports to managers on project level risks. • Identify patterns and trend across projects within programmes of activity. • Ensure the Senior Responsible Officer is sighted on any significant risks which may require escalation to directorate or programme risk registers.

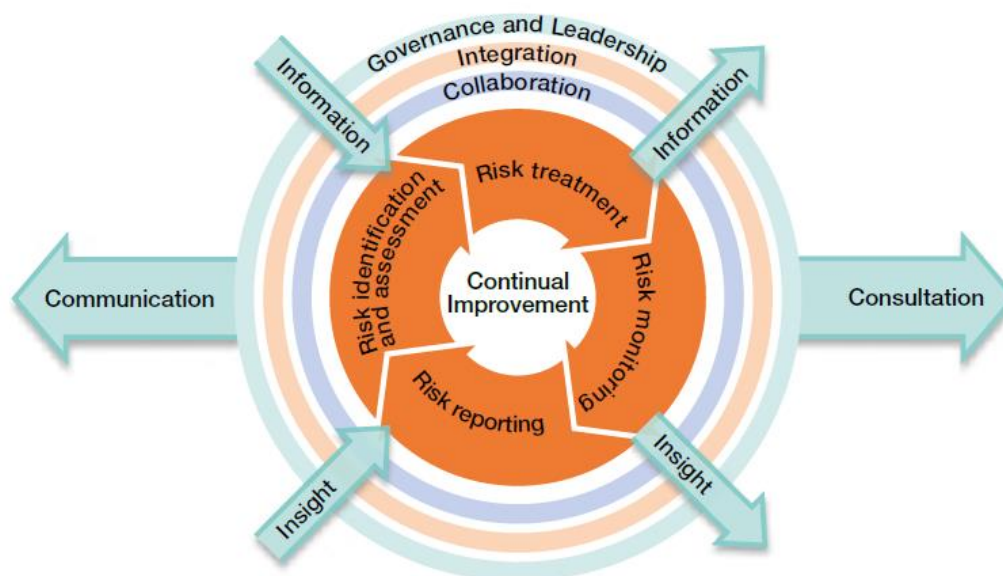
4.2 The Assurance Framework states that Senior Officers of the Combined Authority are responsible for the identification and management of risk. In NECA the Risk team within the Finance and Investment Directorate will support with this activity.

5.0 Risk Assessment

The Risk Management Framework ensure risks are assessed and effectively managed across the organisation at all levels and escalated as appropriate.

Diagram 1

Risk Management Framework



5.1 Risk Identification

5.1.1 Risk identification starts with consideration of risk causes and uncertain events arising from these being articulated as threats or opportunities. The Combined Authority will consider and categorise risks against the agreed level as defined in section 3.4.

5.1.2 Identification of risk draws on various sources of information and uses a variety of techniques, including:

- Risk Gap Analysis – using a list of common risks as a discussion point in risk reviews.
- Workshops and Brainstorming – collection and sharing of ideas that could impact on delivery of the objectives.
- Audits and Inspections – undertaken through our annual audit plans, agreed monitoring arrangements or on an adhoc basis.
- SWOT analysis – considering the strengths, weaknesses, opportunities and threats associated with delivery of the project/programme/ objectives. Opportunities and threats are usually external risks while strengths and weaknesses tend to be internal.
- PESTLE analysis – considers the potential risk sources across six areas: political, economic, social, technological, legal and environment (PESTLE).
- Lessons learnt – this could be from internal experience and/or external events.

- Root Cause Analysis – involves asking why five times to identify the cause to be addressed.
- Business planning and objectives setting – ensuring the management of risk is at the heart of all organisation activity.

5.2 Risk Assessment

5.2.1 Risk is assessed in terms of how likely it is that a risk or opportunity might materialise and what impact this would have. These are defined as likelihood and impact:

- **Likelihood** – the probability of an event occurring and when they might happen.
- **Impact** – the potential severity of the consequences (positive and negative) should such an event occur.

5.2.2 The following table sets out likelihood and impact descriptors to support this process.

Table 2: Likelihood vs Impact definitions

Likelihood	
A	Almost certain - this event is expected to occur soon (81-99%)
B	High likely - the event will probably occur in most circumstances (61-85%)
C	Likely – the event is likely to occur given time (31-60%)
D	Possible – the event may occur under certain circumstances (16-30%)
E	Unlikely – the event is not likely to occur under normal circumstances (6-15%)
F	Almost impossible – event may occur but only in exceptional circumstances (0-5%)

Impact	
1	Major – consequences result in extensive loss / gain and long-term effects
2	Significant – consequences result in significant loss / gain
3	Moderate – consequences result in considerable loss / gain
4	Minor – consequences result in minor loss / gain but have little overall effect

5.2.3 When discussing the impact (positive or negative) a risk can have the risk level, the Combined Authority will consider, but not be limited to the following criteria:

- Financial – impact on revenue and capital expenditure, income, budget, value for money etc.
- Regional economy – impact on businesses, economic growth and conditions, skills, inward investment, citizen finances etc
- Ambitions / Priorities – impact on ability to deliver ambitions and priorities.

- Health, Safety & Wellbeing – impact on health and wellbeing of citizens, safe working conditions, safeguarding etc.
- Operational impact – impact on day-to-day operations of the business, disruption to delivery, ability to meet statutory duties, ability to plan effectively etc.
- Reputational impact – impact on confidence of Government, partners and the public in the organisation etc.

5.2.4 At levels below the strategic level the Senior Responsible Officer will determine the specific criteria against which impacts will be assessed. Whilst assessing risks against these criteria they will also have regard to the strategic criteria to determine whether or not the risk they identify should be considered for escalation to the strategic level. In such circumstances, whilst the likelihood assessment should not change the impact assessment may change to reflect that a risk may, for example, be critical to a project’s outcome but that project may not be critical to the Combined Authority’s outcomes as a whole.

5.2.5 Once every risk has been given a score against likelihood and impact, it is given an overall score and corresponding RAG status (Red Amber Green Rating).

Table 3: Overall RAG Status

		Impact			
		4	3	2	1
Likelihood	A	A4	A3	A2	A1
	B	B4	B3	B2	B1
	C	C4	C3	C2	C1
	D	D4	D3	D2	D1
	E	E4	E3	E2	E1
	F	F4	F3	F2	F1

5.2.6 The RAG rating is used as an indicator of the severity of the risk and supports the Combined Authority to prioritise resources and actions as follows:

- Red – require action plan(s) to be developed immediately setting out actions to manage risk to an accepted level. These should be monitored closely and regularly by the SRO.
 - Amber – require action plan(s) to be developed setting out actions to manage risk to an acceptable level and/ or the risk is closely monitored as appropriate.
 - Green – can be “accepted” and may not require an action plan but still require appropriate monitoring.
- 5.2.7 When developing action plans and / or putting mitigations in place this is done with regard to the Risk Tolerance, i.e. the measure of the degree of uncertainty the Combined Authority is prepared to accept to achieve its objectives.
- 5.2.8 All risks will be regularly and appropriately monitored to consider if there are any changes which may affect likelihood or impact, to ensure controls remain in place to manage them, to identify any new controls or further actions and to determine if escalation is required.
- 5.2.9 Risks may also decrease over time with the right mitigation or change in circumstance.
- 5.2.10 Risks are recorded on the project/ programme risk register, Strategic risks are recorded on the Strategic risk register. At a programme and Directorate level these risk registers are owned by the SRO, regular review will be undertaken within the Finance and Investment Directorate who will have oversight of risk across the organisation and lead on the reporting of risk to Senior Leadership, Cabinet and/ or relevant Boards.

5.3 Mitigation and Risk Control

- 5.3.1 Once risks are identified and an initial risk assessment has been undertaken, mitigating controls and improvement actions will be determined. This includes:
- Determine what can be done to reduce the probability of the risk occurring (reducing the likelihood)
 - Determine a plan and set aside contingencies to manage the risk if it becomes realised (reducing the impact)
- 5.3.2 An example showing a risk event and planned response is shown below in Table 4:

Risk	Causes	Consequences (Impact)	Mitigating controls and improvement actions
Insufficient capacity in delivery organisations to manage timely delivery of capital project	Organisation facing resource pressures in terms of the quantity/quality of staff and skills, or ability to bring in third party support, to effectively deliver the project in line with contracted timeframe.	Project poorly managed and may not deliver to time, budget or contracted objectives.	<ol style="list-style-type: none"> 1. Regular communication with delivery organisations to identify challenges early. 2. Budget for the provision of additional funding to support delivery where necessary. 3. New projects – detailed

			assessment of management capability and project costings prior to approval of funds.
--	--	--	--

5.3.3 Each risk is assessed inherently, prior to any controls being applied, and again after the application of existing control to reach a residual risk score. The current or residual risk score enables risks to be ranked, identifying those which pose the greatest threat or opportunity to the organisation. This will form the basis for escalation and reporting.

5.3.4 All risks recorded will have an identified ‘risk owner’ responsible for the management and control of the risk assigned to them.

5.3.5 All improvement actions will have a named officer responsible for implementing the risk response actions (this can be a different person to the risk owner), and a deadline by when the action is to be completed. Risk owners, Directors and the Senior Leadership Team can monitor and review risk, controls and track actions through to completion.

5.3.6 Once the risk is recorded, controls are established, and a residual risk score defined a decision will be required on what to do next. The following risk treatment options will be considered:

- Treat – take action to further reduce the risk to an acceptable level, i.e. within our risk tolerance.
- Tolerate – accept the risk, taking no proactive action other than ensuring monitoring processes are in place.
- Transfer – pass responsibility for the risk outside of the organisation e.g. insurance.
- Terminate – change the project scope, approach or avoid activity altogether.
- Take up – to maximise an opportunity. This can include taking proactive steps to enhance the probability of the opportunity being available to exploit or changing the scope to achieve extra benefits.
- Together – Seek partners who can actively capitalise on the circumstances and share the risk e.g. public private initiatives/partnerships (PPI/PPP)

5.3.7 It is recognised that the response may have the potential to generate new risks, and these will need to be considered.

5.3.8 Where a risk can no longer be mitigated and is realised it becomes an “Issue”. This requires a different management strategy, refer to Appendix B.

5.4 Risk Appetite

5.4.1 The residual risk score will be related to the level of risk the Combined Authority has agreed it is willing to accept.

5.4.2 The expectation is that that a risk owner will manage each risk to the lowest practical level, where this is not possible it will be escalated through the organisational reporting structure.

- 5.4.3 Risk appetite is the level of risk that the Combined Authority is prepared to tolerate or accept in the pursuit of its objectives. Risk owners are required to consider the appetite for at the different levels at which risks are identified and managed and take practical, proportionate and reasonable steps to manage each risk accordingly. Where the ability to control a risk lies outside the Combined Authorities control then this may still be tolerated and should be recorded accordingly.
- 5.4.4 For each individual risk the risk owner will determine the relevant risk appetite which are as follows:
- Averse - not prepared to take any risks to achieve objectives and aim to avoid any uncertainty.
 - Cautious- prepared to accept a small amount of risk / take a small amount of risk to seize an opportunity but preference for the safe option(s) which limit exposure.
 - Open - prepared to consider all options, in a responsible and considered manner, where there is an acceptable level of benefit, reward, value for money etc.
- 5.4.5 The expectation is that that a risk owner will manage each individual risk to the lowest practical level in line with the risk appetite. Where this is not possible it will be escalated through the organisational reporting structure.

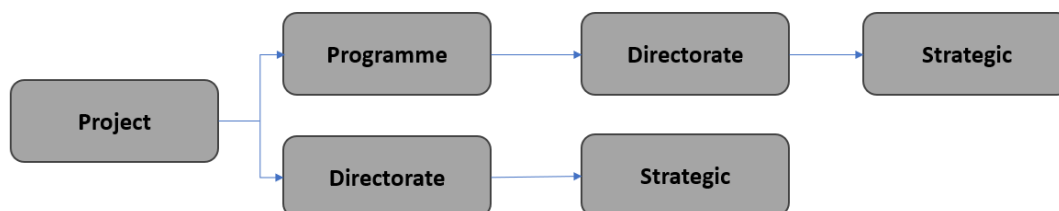
5.5 Risk Escalation

- 5.5.1 All risk registers will be subject to regular review.
- 5.5.2 At a project level risk the risk register will be owned by a nominated Project Manager.
- 5.5.3 For Programmes the Senior Responsible Officer (SRO), a Director within the Combined Authority, will be responsible for ownership of the risk register. Regular reviews will be undertaken by the SRO, with support provided from the Risk team based within the Finance and Investment Directorate.
- 5.5.4 The decision to escalate a risk from a project to a programme risk will be taken by the Programme SRO. A risk should be promoted from a project to a programme risk when the project risk is deemed to have an impact on the programme.
- 5.5.5 This could occur if delivery of an output/s in one projects impact on another project/s within that programme and their ability to successfully deliver their expected objectives. There may also be instances where at a risk at a project level has limited impact however when combined with other risks across projects in the programme it can produce a significant impact on the programme, wider programmes or the organisation.
- 5.5.6 Project, programme and directorate risks can:
- Accumulate to critical loss and/or damages.

- Grow, where the sum of the risks is bigger than the individual parts.
- Reduce, where the sum of risks is smaller than the individual parts.

5.5.7 As project risks move up the escalation process to programme, directorate and ultimately strategic risk, there is also opportunity for a project risk to go directly to directorate level.

Diagram 2: Risk Escalation Process



5.5.8 It is the decision of the Risk Owner to decide to promote the risk. All risks proposed for escalation to the strategic risk register will be discussed by the Senior Leadership Team and relevant Cabinet Member to ensure appropriate consideration across all business areas.

5.5.9 There may be instances where a risk is deemed to have project, programme, directorate and strategic significance therefore may stay on all four risk registers with different levels of action / mitigation and different risk owners.

5.5.10 No matter where the risk sits it is important that the risk is effectively managed and regularly reviewed to ensure no escalation.

6.0 Monitoring and Review

6.1 Monitoring and review activities are continuous and applied across all levels of risk management within the Combined Authority. This provides assurance that processes are working effectively and leads to improvements through the monitoring of risk activity, learning from experience and the incorporation of best practice.

6.2 The objectives of our monitoring and review process are as follows:

- Ensure the controls are effective in design and operation.
- Obtaining further information to improve risk assessment.
- Analysing and learning lessons from previous events
- Detecting changes in the external and internal context
- Identifying emerging risks.

6.3 The risk management framework will be subject to an annual review, which aligns with the Single Assurance Framework review. However, any identified opportunities for improvement can also be incorporated within year.

6.4 No significant changes will be made without prior approval of Cabinet following consultation with Senior Leadership Team, Cabinet and the Audit and Standards Committee. However, minor changes will be agreed by the Director of Finance and Investment (S73 Officer) and reported to Cabinet and Audit and Standards Committee within the next routine reporting cycle

7.0 Risk Reporting

7.1 Regular reporting is central to success, to demonstrate that action is being taken to identify and manage risks and that records remain relevant to the current context. It allows the Combined Authority to be responsive to events as they arise, implement mitigating action to avoid risks becoming issues.

7.2 This forms a key component of the Combined Authorities Governance arrangements; the Combined Authorities risk reporting schedule is included below.

Table 4: Risk Reporting Schedule

Group	Report Owner	Frequency	Risk Report
Cabinet	Director of Finance and Investment	Six Monthly	Report on Strategic Risks
Audit and Standards Committee	Director of Finance and Investment	Quarterly	Report on Strategic Risks
Investment Board	Director of Finance and Investment	Quarterly	Programme Risk as part of Performance Update Report
Senior Leadership Team (includes Statutory Officers)	Director of Finance and Investment	Quarterly	Report on Strategic Risks Programme level Risks as part of Performance Update Report
Programme/ Project Steering groups	Programme/ Project SRO	Quarterly as a minimum (may vary in line with ToR and meeting schedule)	Programme/ Project Risk Report

7.3 Project Level Risks will be reported to the Programme Assurance Team, second line defence, as part of the quarterly claims and monitoring process.

8.0 Issue Management Strategy

8.1 Introduction

8.1.1 An issue is a challenge or a problem that has already occurred or is currently happening and requires management actions. Issues can arise from identified risks

in the risk management strategy or from new challenges that weren't anticipated. Issues are different from risks in that it is only negative and is happening now, they need immediate action to reduce negative impact.

8.1.2 Issue management is the process of identifying and resolving issues. Examples of issues could include supply chain problems, technical failures or resourcing challenges, these would all have a negative impact on project and/or programme delivery if unresolved.

8.1.3 For strategic and directorate level risks, when a risk materialises and becomes an issue, it will be managed under business as usual with the relevant SLT officers responsible for taking action.

8.2 Issue register

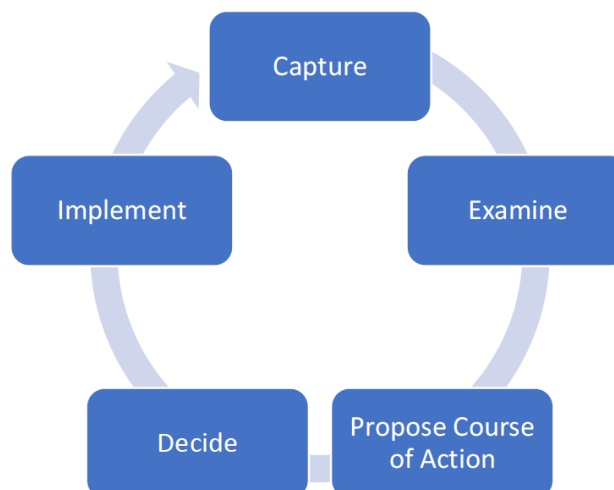
8.2.1 Issues are recorded in the Issue Register (Appendix B), a repository that focuses on all identified issues that have occurred. When identified risks become issues, they are recorded on the appropriate risk register as "realised". Once risks are realised, they are migrated to the Issues Register.

8.2.2 The Issues register ensures NECA:

- Has a safe and reliable method for the team to raise issues.
- Has clear lines of ownership for agreed actions.
- Can analyse and prioritise issues.
- Has a record of issue resolutions, incorporating lessons learnt into NECA processes?

8.3 Issue Management

8.3.1 The issue management is a cycle with five steps, shown below:



8.3.2 **Capture.** The first step is to undertake initial analysis to determine the type of issue that has been raised. When capturing the issue, it should be assessed by its

severity and impact on the project/programme and allocated to a nominated officer for examination.

- 8.3.3 When allocating an issue, the initial decision might be to direct the issue to where it can most appropriately be managed. Some issues will be managed by the programme, and major issues might need to be managed at Directorate Level when outside the authority of the programme. Smaller issues might need to be managed at project level.
- 8.3.4 **Examine.** As part of the examine stage impact analysis need to be undertaken. The analysis should consider the impact that the issue, and the options for its resolution, will have on:
- Performance of the project and/or programme e.g. how will benefits realisation be affected?
 - The project/ programme business case
 - The project/ programme risk profile – the impact on the overall risk exposure.
 - The operational performance of the organisation and existing plans
 - Supplier contracts or service level agreements.
- 8.3.5 Impact analysis must include a broad consideration of the issue, this may require looking wider than the effect on individual project including any impacts to the programme, the operations and strategic objectives of the Combined Authority. As a minimum an issue should always be assessed against the impact on the project/programme objectives and benefits.
- 8.3.6 **Propose course of action.** Options should be considered prior to proposing a course of action. Actions should provide an acceptable balance between the benefits and the impacts on costs, time and risk. Impacts on the programme or other operational areas should also be considered and considered prior to making a final decision on approach.
- 8.3.7 **Decide.** The roles and responsibilities in terms of risk and issue management are as described in section 4.0, table 1.
- 8.3.8 The programme/ project risk owner may be able to resolve or delegate minor issues without reference to the Director/SRO for a decision. Some issues, however, may need to be referred to the Strategic Risk Owner, Director/SRO or seek specialist advice e.g. from the Monitoring Officer or Section73 Officer.
- 8.3.9 Decisions made will require an identified issue owner, a nominated officer to lead on recorded actions and a response plan. The issue register will be updated.
- 8.3.10 **Implement.** The decision and response will need to be communicated to stakeholders, to ensure parties that may be affected are informed of the action and any related change. This also demonstrates effective management of the project/ programme. Again the issue register will need to be updated to reflect the current position.

8.3.11 Once the action is implemented the impact will be monitored and regularly reviewed. Lessons learnt will be captured and used to support future issues management.

8.3.12 This is a continuous cycle and should be subject to regular monitoring and review to ensure compliance.

9.0 Appendices

A	Risk Register Template
B	Issues Register Template

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9 July 2024

Subject: External Audit – Auditor’s Annual Reports 2022/23**Report of: External Auditor**

Report Summary

The purpose of this report is to review the External Auditor’s Annual Reports which outline how they have discharged their responsibilities (as defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice) and the findings from their work. There are separate reports for the former North East Combined Authority (NECA) and North of Tyne Combined Authority (NTCA).

Recommendations

The Audit and Standards Committee is recommended to note the reports from the External Auditor.

1. Background Information

1.1 The Auditor’s Annual Report (AAR) summarises the work undertaken as the auditor of the former NECA and NTCA for the year ended March 2023. The responsibilities of the External Auditors are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (NAO). The AAR outlines how the external auditor has discharged these responsibilities and the findings from their work. This is summarised in four key sections:

- Opinion on the financial statements
- Value for money arrangements
- Whole of Government Accounts (WGA)
- Wider reporting responsibilities

2. Potential Impact on Objectives

2.1 The production and publication of an audited Statement of Accounts is the statutory responsibility of the Combined Authority as per the Accounts and Audit Regulations 2015.

3. Key Risks

3.1 There are no key risk implications arising from this report.

4. Financial and Other Resources Implications

4.1 Final audit fees for the 2022/23 audits for the former NECA and NTCA are set out in the report. These have been accommodated within prior year budgets.

5. Legal Implications

5.1 There are no legal implications arising from this report.

6. Equalities Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them includes discrimination, harassment and

victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it.

7. Consultation and Engagement

- 7.1 The reports have been discussed with Combined Authority statutory officers (including the former NECA Chief Finance Officer) and the reports in draft form were considered by the former NECA Leadership Board and NTCA Cabinet.

8. Appendices

Appendix A – Former North East Combined Authority – Auditor’s Annual Report 2022-23
Appendix B – Former North of Tyne Combined Authority – Auditor’s Annual Report 2022-23

9. Background Papers

None

10. Contact Officers

Gavin Barker, Audit Director – Public Sector, gavin.barker@mazars.com
Eleanor Goodman, Finance Manager eleanor.goodman@northeast-ca.gov.uk

11. Glossary

None.



Auditor's Annual Report
North East Combined Authority – year ended 31 March 2023

11 June 2024

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- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04 Other reporting responsibilities

- A Appendix A: Further information on our audit of the financial statements

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Introduction

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Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North East Combined Authority ('NECA') for the year ended 31 March 2023. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

This report relates to the North East Combined Authority, the functions of which transferred on 7 May 2024 to its successor body, the North East Mayoral Combined Authority, operating as the North East Combined Authority. The 2022/23 audit was not concluded before the functions were transferred to the new entity in accordance with the North East Mayoral Combined Authority (Establishment and Functions) Order 2024.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

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Opinion on the financial statements

We issued our audit report on 11 June 2024. Our opinion on the financial statements was unqualified, and included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements that the functions of NECA transferred to the North East Mayoral Combined Authority on 7 May 2024, and that it was still appropriate that the financial statements have been prepared on a going concern basis.



Value for Money arrangements

In our audit report issued on 11 June 2024 we reported that we had completed our work on NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources. We can confirm that we have not identified any significant weaknesses or recommendations that require reporting. Section 3 provides our commentary on NECA's arrangements.



Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. We will issue our report in the next few days. As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

02

Audit of the financial statements

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Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to NECA and whether they give a true and fair view of NECA and the Group's financial position as at 31 March 2023 and of its financial performance for the year then ended.

Our audit report, issued on 11 June 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023, and included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements that the functions of NECA transferred to the North East Mayoral Combined Authority on 7 May 2024, and that it was still appropriate that the financial statements have been prepared on a going concern basis.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of NECA's accounting practices

We reviewed NECA's accounting policies and disclosures and concluded they comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to NECA's circumstances.

Significant matters discussed with management

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

During our audit we discussed the following significant matters with management:

- The need to determine whether an asset ceiling should be applied to the net defined benefit asset recognised within the draft accounts, as well as the need to ascertain the value of the asset ceiling to be applied, if any; and
- We made enquiries of officers in respect of Reinforced Autoclaved Aerated Concrete (RAAC) being present in any NECA buildings and infrastructure and obtained assurance that there was no indication of any material issues affecting NECA's assets.

We raised with officers the need to include a note to the accounts under the Narrative Statement, and in Accounting Policies and Events after the Balance Sheet Date (non-adjusting) explaining the impact of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024.

The additional disclosures referenced the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, that NECA ceased to exist on 7 May 2024 but that its functions were transferred to the North East Mayoral Combined Authority from that date, and that because services will continue to be provided by another public sector entity, the financial statements have been prepared on a going concern basis.

Reporting responsibility	Outcome
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022.

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary

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VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How NECA plans and manages its resources to ensure it can continue to deliver its services.



Governance - How NECA ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness - How NECA uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that NECA has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 10.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from NECA. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - We make these recommendations for improvement where we have identified a significant weakness in NECA's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	17	No	No	No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

How NECA identifies significant financial pressures that are relevant to its short and medium-term plans

The North East Combined Authority (the Authority) covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

The 2022/23 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2024/25 was approved by the Leadership Board on 1 February 2022 and is available on the Authority's website.

Due to Transport being of such a strategic importance to the North East, collaborative working of both Combined Authorities allows effective decision making across the region, which helps to ensure that the local needs and priorities are delivered. This resulted in the introduction of the North East Joint Transport Committee (JTC) which brings together all seven of the Constituent Authorities of the region, being the four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority (NTCA) in accordance with the Order that was created on the 2nd November 2018.

Regular budget monitoring reports are presented to the Authority's Leadership Board and JTC throughout the year. These reports monitor financial pressures and delivery of savings to help ensure that the Authority remains within budget. The Authority's Leadership Board (NELB) reports are agreed by the constituent authorities Chief Executives and are scrutinised by the Overview and Scrutiny Committee. In addition, JTC reports are agreed with the Transport North East Senior Officers Oversight Group, the Transport Strategy Board and are scrutinised by JTC Overview and Scrutiny Committee.

As at 31 March 2023, the Authority reported useable reserves of £145.5 million in the draft accounts.

A timetable for the production and consultation of the 2022/23 Revenue Budget/MTFS was in place and builds in financial information from JTC's delivery bodies (Nexus, Durham, Northumberland) as well as the Transport Strategy Unit and Tyne Tunnels.

How NECA plans to bridge its funding gaps and identifies achievable savings

The annual budget/MTFS process sets out the Authority's spending plans over the period and how any funding gaps will be met. This process is developed through working with key delivery partners for public transport services (the Authority, Durham and Northumberland) and the constituent local authorities of the Authority and the JTC.

Regular budget monitoring/forecast of outturn reports highlight any financial pressures developing, allowing action to be taken at an early stage.

How NECA plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget development process enables resources to be identified to support the delivery of services in accordance with the strategic priorities of the Authority and the JTC. This is developed through working with key delivery partners for public transport services (the Authority, Durham, Northumberland) and the constituent local authorities of the Authority and the JTC.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

How NECA ensures that its financial plan is consistent with other plans

Consultation on budget proposals is built into Part 4.4 (Budget and Policy Framework Rules of Procedure) of the Authority's Constitution (updated June 2022) and aims to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget.

In line with the Prudential Code, revenue implications of capital investment decisions are fully considered and form part of the budget setting process ensuring that investments are fully funded – e.g. agreement of Minimum Revenue Provision (MRP) strategy.

The annual budget/MTFS report considers relevant implications including resources, equality, legal, human rights and risks as part of the approval process.

How NECA identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

There is an established risk management framework for the Authority and the JTC with regular reviews and reporting to the Authority's Audit & Standards Committee and JTC Audit Committee. This includes risks to financial resilience. Support is provided to the Authority by Sunderland City Council through a service level agreement.

As set out in the Risk Management Policy and Strategy Framework, Designated Officers are responsible for ensuring that risk management is an integral part of their management processes and activities within their respective areas of responsibility.

Budget managers have direct access to the financial management system for up-to-date financial information but also get the support of the Authority's finance officers. The Authority uses Durham County Council's (DCC) financial systems. DCC has been streamlining its financial systems which are continuously being developed to meet the need of service users and to enable the Authority to meet internal deadlines and statutory reporting. Systems have been developed to enable more up-to-date budget information to be obtained from Service budget managers and finance staff.

Revenue Budget Monitoring/Forecast of Outturn reports are brought to the Leadership Board and JTC on a regular basis for challenge and comment before subsequently being reported to the relevant Overview &

Scrutiny Committee.

The Chief Finance Officer and Finance Manager are part of the Transport North East (TNE) Senior Officers Oversight Group which meets monthly to discuss TNE service and budget issues with the JTC Statutory Officers. There is a monthly meeting with all TNE budget managers and the Authority's Finance Manager to discuss any service and budget issues.

Financial Management Standards support the Authority's Financial Regulations set out in the Constitution. The Financial Regulations provide the overall high-level framework for managing the authority's financial affairs, and Financial Procedure Notes set out in more detail how these procedures are implemented to embed sound financial management across the authority.

The 2022/23 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2024/25 was approved by the Leadership Board on 1 February 2022 and is available on the Authority's website.

The Authority has a history of achieving financial targets as evidenced by financial and performance reports.

Relevant HR policies and procedures are in place.

North East Devolution

The leaders of County Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland councils have agreed to a devolution deal which the Government has confirmed.

This new combined authority will be led by a Mayor elected by residents across the area, and together with one representative from each of the seven constituent councils will form a Cabinet which will make decisions for the new combined authority.

The North East mayoral election is due to be held on 2 May 2024 to elect the mayor of the North East and the North East Mayoral Combined Authority is due to come into existence 4 days after the completion of this election. The authority will replace the North of Tyne and the North East Combined Authorities.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

How NECA monitors and assesses risk and how NECA gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority has an Anti-Fraud and Corruption Policy in place and seeks in the first instance to prevent fraud and corruption through staffing policies, making members aware of their responsibilities, internal control systems and liaison with outside agencies.

The Authority is a participant in the National Fraud Initiative, a data matching exercise that helps prevent and detect fraud across the public sector.

The Authority endeavours to deal effectively with fraud and corruption, misuse of power and breaches of legal and regulatory provisions. They also seek to align the risk management strategy and policies on internal control with achieving objectives, as well as evaluating and monitoring risk management and internal control on a regular basis.

The Authority uses an Internal Audit service provided by Sunderland City Council. They produce a risk-based Internal Audit plan to determine the priorities of the internal audit activity, consistent with the authority's goals.

Internal audit reviews highlight weaknesses and recommend action when required to strengthen process/procedures. These are regularly reported to Audit and Standards Committee.

How NECA approaches and carries out its annual budget setting process

The Constitution (updated June 2022) sets out the Authority's budget setting process, including in its role as accountable body for the JTC. This must be followed to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget and that it is agreed in accordance with the requirements of the Constitution and the JTC Standing Orders.

Outline proposals are developed in discussion with member and officer groups. In addition, Finance Directors across the Authority area will be involved throughout the process.

Proposals made by the JTC, in relation to levies and the distribution of those levies to the Constituted Authorities and Combined Authorities, will be considered by the Leadership Board. The Leadership Board also consider the funding necessary to discharge the functions of the Authority and make proposals for the funding of the Authority taking into account the JTC's proposals or decisions in relation to the levies and the wider transport budget.

Once the consultation process has been completed, details of the finalised proposals will be referred to the Overview and Scrutiny Committee together with the relevant background information on which the proposals have been based. It is the responsibilities of the Chair of the Leadership Board and relevant officers to ensure that the Overview and Scrutiny Committee has sufficient background information to enable it to evaluate the proposals against that background information.

The proposals will then be referred back to the Leadership Board, together with any recommendations and/or observations from the Overview and Scrutiny Committee.

The final proposals (including consideration of the final proposals and decision of the JTC) will then be considered by the Leadership Board, which may or may not include the recommendations and/or observations from the Overview and Scrutiny Committee. The Leadership Board must agree the final proposals in relation to the Authority's budget unanimously. The JTC must approve the final proposals in relation to the North East Transport Budget unanimously.

How NECA ensures effective processes and systems are in place to ensure budgetary control

Quarterly forecasts of outturn reports were presented to the Chief Officers' Group, Cabinet and Scrutiny Committees during the 2022/23 financial year. The reports included details of movements in the budget between quarters and remedial measures taken. These did not indicate a weakness in monitoring and reporting arrangements.

Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How NECA ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

There is an up-to-date Constitution (June 2023) in place which is available on the website.

Principles of decision making are set out in the Authority's constitution and all decisions are made in accordance with these. Report templates are set out to prompt consideration of each of the principles/implications of the decision under consideration.

The Authority has an Overview and Scrutiny Committee established to enable local councillors, on behalf of their communities, to scrutinise and challenge all matters within the remit of the Combined Authority. The Overview and Scrutiny Committee also investigates matters of significant importance to residents within the areas covered by the four councils with a view to influencing decisions made in respect of all matters within the remit of the Combined Authority.

There is also an established JTC Overview and Scrutiny Committee, which also enables local councillors to scrutinise and challenge the JTC, its committees and the Authority, and to investigate matters of strategic importance to residents within the LA7 Area (being the 5 Councils of Tyne and Wear along with Durham and Northumberland Counties) with a view to influencing and adding value to the decisions.

The North East Leadership Board is made up of the Leaders of the four constituent bodies and is supplemented by elected members who serve on a number of committees along with non-executives.

The Authority publishes a Forward Plan which lists all decisions that committees or officers of the Authority intend to take in the coming months. Details of each are usually included 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take, to review any related reports and background papers, and to submit comments to the decision maker in advance of the decision being made.

Briefings for members are held between key public meetings to discuss particular topics in depth and allow for challenge and informed decision making by members of committees such as the Joint Transport Committee and the Tyne and Wear Sub Committee.

The Authority's Leadership Board receive appropriate and regular reports on the financial position of the Authority.

The Head of Paid Service and Chief Executive leads a very experienced senior officer team at the Authority.

Risk management arrangements along with an up-to-date risk register are in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.

An annual governance statement is prepared, reviewed and approved before being included in the financial statements.

How NECA monitors and ensures appropriate standards are maintained

The Authority's constitution sets out the how the authority operates, how decisions are made and the procedures that are followed to ensure that the Authority operates efficiently, effectively and is both transparent and accountable.

The Authority has an agreed Code of Conduct for Members which sets out the conduct that is expected of elected members appointed to the Authority when they are acting in that capacity, and which is consistent with Nolan's Seven Principles of Public Life.

In addition, the Authority has a Code of Conduct for Officers which is intended to support officers in maintaining standards and to help protect officers from misunderstanding or criticism. The Code applies to all officers of the Authority.

A Member/Officer Relations Protocol is also in place to provide general guidance for Members and Officers in their relations with one another. It reflects the basic principles underlying the respective rules of conduct that apply to Members and Officers and is intended to offer guidance on some of the issues that commonly arise.

With the exception of co-opted Independent Members on the Audit & Standards and Overview & Scrutiny Committees, Members are elected councillors of constituent local authorities and also subject to their own Council's Codes of Conduct.

The Authority has an Audit and Standards Committee, which seeks to promote and maintain high standards of conduct by the Authority's members and co-opted members, and ensure the Authority's members and co-opted members observe the Members' Code of Conduct.

An Authority Register of Members Interests is in place which contains declarations of any Disclosable Pecuniary Interest and any other interest. These are published on the Authority website and must be registered within 28 days of appointment as a member of the Authority or any change taking place. Non-registerable interests in an item of business must be disclosed by members to the meeting before consideration of that item begins, and this is a standing item on the meeting agendas. Interests for Senior Officers are also recorded.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

How financial and performance information has been used to assess performance to identify areas for improvement

The Narrative Report accompanying the Statement of Accounts includes key financial performance information to help inform users of the accounts.

Financial Outturn reports build on the quarterly reporting during the year to set out financial performance against budget for the Authority and JTC for both revenue budgets and Capital Programme. The outturn is used to update the forecasts for the year as part of the regular forecast of outturn reports.

Treasury Management Prudential Indicators are set and updated through the Treasury Management Policy and Strategy, mid-year update and outturn update.

How NECA evaluates the services it provides to assess performance and identify areas for improvement

Durham County Council and Northumberland County Council report to the JTC on the Discharge of Transport Functions setting out performance against the Transport Functions delegated to them by the JTC.

The Authority report to the Tyne and Wear Sub Committee on its performance against its agreed Corporate Plan priorities.

The new Transport Plan for the whole JTC area sets out Key Performance Indicators that are designed to monitor the overall progress of the Transport Plan with respect to the 5 key objectives (Carbon neutral North East, Overcome inequality and grow our economy, Healthier North East, Sustainable transport choices and Safe, secure network).

How NECA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Authority's Constitution sets out that the Procurement Procedure Rules for the Constituent Authority designated as lead authority for the following exercises shall apply and be followed wherever the Combined Authority wishes to arrange for:

- The purchases of goods, materials and related services;
- The execution of works; or
- The provision of other services (including consultancy).

The Authority receives procurement services from Durham County Council via a Service Level Agreement. The service specification includes the undertaking of legally compliant procurement and production of procurement documentation and correspondence via competitive quote/tender process.

All Procurement staff are either fully qualified or studying for Chartered Institute of Procurement and Supply to ensure the highest performance standards are achieved and is the first Council team to achieve the CIPS Corporate Ethics Standard.

A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 Ltd which was introduced in 2008. The partnership with TT2 Ltd is governed by the Project Agreement which specifies levels of performance which must be met and roles and responsibilities of both partners, and is managed by the Tyne Tunnels Contract Manager.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How NECA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve (continued)

The Authority works very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.

The NELEP Board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven local authorities that are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.

There is a register which sets out associated partners to the Authority, the purpose of the partnerships, link officer and review dates for each one.

Nexus is not included in the significant partner register due to its status as an officer of the Combined Authority. The Authority reports regularly to the Joint Transport Committee and the Tyne and Wear Sub Committee on its financial performance, and performance against its Corporate Business Plan and Risk Register. The relationship between the Authority and Nexus is set out in the Constitution.

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We will issue our report in the next few days. As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

The NAO timetable for 2022/23 WGA is for completion by the end of November 2024, so we anticipate receiving the clearance which will enable us to issue our audit certificate by this date.

Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum dated 24 September 2023. Now we have completed the 2022/23 audit, we can confirm our final fees, which include additional fees relating to issues arising this year. All additional fees are subject to Public Sector Audit Appointments (PSAA approval). All fees are exclusive of VAT.

Area of work	2022/23 fees *	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£19,404	£18,709
Additional fees in respect of the new VFM approach (recurring)	£7,500	£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£2,500	£2,500
Additional fees in respect of resolving the national infrastructure issue 2021/22 only	£nil	£5,000
Additional fees in respect of the delays in Pension Fund auditor assurance and the need for revised pensions figures for the triennial revaluation 2021/22 only	£nil	£5,000
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time) – not recurring	£3,500	£nil
Consideration of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, emphasis of matter, including Consultant Partner Review	£1,500	£nil
Additional fee in respect of numerous adjustments to the Group accounts	£1,500	£nil
Total fees	£35,904	£38,709

* The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).

Other reporting responsibilities and our fees

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in 2022/23.

Services provided to other entities within the Group

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

We are also the external auditor for Nexus. We do not carry out the external audit of Tyneside Transport Services (TTS) as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies and its transactions are immaterial to the group accounts.

Appendices

A: Further information on our audit of the financial statements

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls (single entity and group accounts)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Audit conclusion</p> <p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention.</p>
<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and the Group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> cut off considerations for Tyne Tunnel toll income; and grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met. 	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> the design and implementation of controls management has in place to ensure income is recognised in the correct period; Tyne Tunnel toll income around the year end to ensure it has been recognised in the right year; the judgements made by management in determining when grant income is recognised; for Tyne Tunnel toll income, performing a substantive analytical review; and for major grant income, obtaining counterparty confirmation. <p>Audit conclusion</p> <p>There are no issues arising from our work that we are required to report to you.</p>

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Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings - continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Net defined benefit liability / asset valuation (single entity and group accounts)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>In 2022/23 there is a net pension asset, and the appropriate method of accounting for this is uncertain and complex.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the management controls in place to assess the reasonableness of the figures provided by the actuary; and considered the reasonableness of the actuary’s outputs, referring to an expert’s report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We also obtained an assurance letter from the auditor of Tyne & Wear Pension Fund. We also specifically reviewed the accounting treatment of the net pension asset against the latest technical guidance available. Officers obtained a pension asset ceiling calculation from the actuary which confirmed that the net pension asset of £11.890m did not need to be capped at a lower level.</p> <p>Audit conclusion</p> <p>There are no issues arising from our work that we are required to report to you.</p>

Appendix A: Further information on our audit of the financial statements

There are no misstatements that were identified during the course of our audit which management has assessed as being material either individually or in aggregate to the financial statements and the accounts have not been corrected for these misstatements.

Summary of Unadjusted misstatements – NECA

None.

Summary of Unadjusted misstatements – Group

Page 81		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	DR Net pension assets			818	
	CR Remeasurement of net defined pension liability		818		
<p>Our review of this report identified that the value of pension fund assets was higher than those originally reported, which is entirely due to timing issues compared to when the actuary prepares their report and the final valuations received during EY's audit.</p> <p>Application of this issue to the pension assets held by NECA & Nexus as a proportion of total pension errors resulted in an understatement of pension assets of ££817.704k Pension errors identified during overall procedures for NECA:£175.012k NECA share in Nexus understatement of pension assets is £1,168k*55.025%= £642.692k</p>					
Total adjusted misstatements		0	818	818	0

Appendix A: Further information on our audit of the financial statements

Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Those Charged With Governance any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We did not identify any internal recommendations in respect of 2022/23.

We did identify three internal control recommendations as part of our 2021/22 audit work and these are revisited in this section.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Appendix A: Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency – related party declarations

Related party declarations should be updated and obtained annually from senior officers and members.

In 2017/18 we identified this as a deficiency, which was rectified. However, our work in 2021/22 identified that not all declarations had been returned.

Potential effects

Related parties may not be identified which may potentially lead to fraud and error.

Recommendation

Ensure that related party declarations are completed and received annually.

2022/23 update

Related party declaration forms are sent out annually to senior officers and members for them to complete and return.

Appendix A: Further information on our audit of the financial statements

Follow-up on previous years recommendations - continued

Description of deficiency – related party declaration register

NECA does not have a centralised register which documents all current and historic declared member interests.

Potential effects

Related parties may not be identified which may potentially lead to fraud and error.

Recommendation

Ensure that there is a centralised register which documents all declared member interests.

2022/23 update

A register is now kept of all declarations and checked against the suppliers being paid by NECA.

Appendix A: Further information on our audit of the financial statements

Follow-up on previous years recommendations – continued

Description of deficiency – related party declaration register

NECA does not have a centralised register which documents all current and historic declared member interests.

Potential effects

Related parties may not be identified which may potentially lead to fraud and error.

Recommendation

Ensure that there is a centralised register which documents all declared member interests.

2022/23 update

A register is now kept of all declarations and checked against the suppliers being paid by NECA.

Group position - Nexus reporting issues

There were no internal control recommendations for 2022/23 in the audit of Nexus, a significant subsidiary in the NECA group.

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Auditor's Annual Report

North East Combined Authority
in respect of North of Tyne Combined
Authority – year ended 31 March 2023

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May 2024



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[Appendix A: Further information on our audit of the financial statements](#)

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the North East Mayoral Combined Authority (operating as the North East Combined Authority). No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North of Tyne Combined Authority (NTCA) for the year ended 31 March 2023. As NTCA ceased to exist on 7 May 2024, the report is addressed to its successor body, the North East Mayoral Combined Authority (operating as North East Combined Authority). The report is also designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



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Opinion on the financial statements

We issued our audit report on 15 May 2024. Our opinion on the financial statements was unqualified, and included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements that the functions of NTCA transferred to the North East Mayoral Combined Authority on 7 May 2024, and that it was still appropriate that the financial statements were prepared on a going concern basis.



Value for Money arrangements

In our audit report issued 15 May 2024 we reported that we had completed our work on NTCA's arrangements to secure economy, efficiency and effectiveness in its use of resources. We can confirm that we have not identified any significant weaknesses or recommendations that require reporting. Section 3 provides our commentary on NTCA's arrangements.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, we anticipate reporting our work on NTCA's Whole of Government Accounts return in the next few days. However, we will not be able to issue our audit certificate formally concluding the audit until National Audit Office (NAO) confirm that the Authority has not been selected for further WGA work as a sampled component. We expect to receive this clearance at or around the end of November 2024.

02

Section 02:

Audit of the financial statements

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2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to NTCA and whether they give a true and fair view of NTCA and Group's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 15 May 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023, and included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements that the functions of NTCA will transfer to the North East Mayoral Combined Authority on 7 May 2024, and that it is still appropriate that the financial statements have been prepared on a going concern basis.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the unexpected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of NTCA's accounting practices

We reviewed NTCA's accounting policies and disclosures and concluded they comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to NTCA's circumstances.

Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

During our audit we discussed the following significant matters with management:

- An adjustment was identified by officers to correct errors in accounting for capital loans on the balance sheet. This led to a material movement from usable reserves to unusable reserves. It also required the disclosure of a prior period adjustment in relation to the 2021/22 accounts. The error was just in relation to the balance sheet position and there was no impact on the outturn for the year.

- Whether an asset ceiling should be applied to the net defined benefit asset recognised within the draft accounts; we concluded that as the net pension asset was only £626k we did not require a calculation of the pension asset ceiling from the actuary as any adjustment that might be required from this exercise would be well below materiality levels;
- We made enquiries of officers in respect of Reinforced Autoclaved Aerated Concrete (RAAC) being present in any NECA buildings and infrastructure and obtained assurance that there was no indication of any material issues affecting NECA's assets.

We raised with officers the need to include a note to the accounts under the Narrative Statement, and in Accounting Policies and Events after the Balance Sheet Date (non-adjusting) explaining the impact of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024.

The additional disclosures referenced the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, that NECA will cease to exist on 7 May 2024 but that its functions will be transferred to the North East Mayoral Combined Authority from that date, and that because services will continue to be provided by another public sector entity, the financial statements have been prepared on a going concern basis.

Reporting responsibility	Outcome
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022.

03

Section 03:

Commentary on VFM arrangements

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3. Commentary on VFM arrangements

Overall summary

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3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the NTCA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How NTCA plans and manages its resources to ensure it can continue to deliver its services



Governance - How NTCA ensures that it makes informed decisions and properly manages its risks



Improving economy, efficiency and effectiveness - How NTCA uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that NTCA has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 10.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from NTCA. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
We make these recommendations for improvement where we have identified a significant weakness in NTCA's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

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3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

Page 97



3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Financial Sustainability reporting criteria

How NTCA identifies significant financial pressures that are relevant to its short and medium-term plans

NTCA covers the local authorities of Newcastle, North Tyneside and Northumberland.

The 2022/23 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2025/26 was approved by the Cabinet on 25 January 2022 and is available on the Authority's website.

Due to Transport being of such a strategic importance to the North East, collaborative working of both Combined Authorities allows effective decision making across the region, which helps to ensure that the local needs and priorities are delivered. This resulted in the introduction of the North East Joint Transport Committee (JTC) which brings together all seven of the constituent authorities of the region, being the three Members from NTCA and the four Members from the North East Combined Authority (NECA) in accordance with the Order that was created on the 2nd November 2018.

Regular budget monitoring/forecast of outturn reports are presented to the Cabinet, including updates on the North East Local Enterprise Partnership (LEP) and Invest North East budgets. The LEP Budget and Outturn is reported first to the LEP Board prior to appending the NTCA Cabinet Budget and Outturn report.

Budget monitoring is reported quarterly to Cabinet to monitor any financial pressures to help ensure that NTCA remains within budget. Cabinet membership includes the Lead Member and their Deputy of each of the three constituent authorities as well as the Mayor and the Head of Paid Service of NTCA. All budget monitoring, budget and outturn reports are approved by Cabinet and are then subsequently scrutinised by the Overview and Scrutiny Committee.

As at 31 March 2023, NTCA reported useable reserves of £233.2 million.

A timetable for the production and consultation of the 2022/23 Budget / Medium Term Financial Strategy (MTFS) was agreed by Cabinet on 29 September 2021. The budget and MTFS has a clear link to the Corporate

Plan which is taken to the NTCA Annual Meeting annually, in June.

How NTCA plans to bridge its funding gaps and identifies achievable savings

The annual Budget/MTFS sets out NTCA's spending plans over the period and how any funding gaps will be met. This is developed through and consulted with the constituent local authorities of NTCA.

Regular budget monitoring/forecast of outturn reports highlight any financial pressures developing, allowing action to be taken at an early stage.

How NTCA plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget development process enables resources to be identified to support the delivery of services in accordance with the strategic priorities of NTCA through its clear links with the Corporate Plan. This developed through working with key delivery partners and the constituent local authorities of NTCA.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How NTCA ensures that its financial plan is consistent with other plans

Consultation on budget proposals is built into Part 3.2 (Budget and Policy Framework) of the Authority's Constitution and aims to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget.

In line with the Prudential Code, revenue implications of capital investment decisions are fully considered and form part of the budget setting process ensuring that investments are fully funded –e.g. agreement of Minimum Revenue Provision (MRP) strategy.

The annual budget/MTFS report considers relevant implications including resources, equality, legal, human rights and risks as part of the approval process.

How NTCA identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

There is an established risk management framework for the Authority and the JTC with regular reviews and reporting to the Authority's Audit & Standards Committee and JTC Audit Committee. This includes risks to financial resilience. Support is provided to NTCA by Newcastle City Council through a service level agreement (SLA).

Designated Officers are responsible for ensuring that risk management is an integral part of their management processes and activities within their respective areas of responsibility.

Budget managers have direct access to the financial management system for up-to-date financial information but also get the support of the Authority's finance officers. The Authority uses North Tyneside Council's financial systems. Financial systems are being developed to meet the need of service users and to enable the Authority to meet internal deadlines and statutory reporting. Systems have been developed to enable more up-to-date budget information to be obtained from Service budget managers and finance staff.

Revenue Budget Monitoring/Forecast of Outturn reports are brought to the Cabinet and JTC on a regular basis for challenge and comment before subsequently being reported to the relevant Overview & Scrutiny Committee.

Financial Management Standards support the NTCA Financial Regulations set out in the Constitution. The Financial Regulations provide the overall high-level framework for managing the authority's financial affairs, and Financial Procedure Notes set out in more detail how these procedures are implemented to embed sound financial management across the authority.

The 2021/22 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2024/25 was approved by the Cabinet on 26 January 2021 and is available on the Authority's website.

The Authority has a history of achieving financial targets as evidenced by financial and performance reports.

Relevant HR policies and procedures are in place.

North East Devolution

The leaders of County Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland councils have agreed to a devolution deal which the Government has confirmed.

This new combined authority will be led by a Mayor elected by residents across the area, and together with one representative from each of the seven constituent councils will form a Cabinet which will make decisions for the new combined authority.

The North East mayoral election is due to be held on 2 May 2024 to elect the mayor of the North East and the North East Mayoral Combined Authority is due to come into existence 4 days after the completion of this election. The authority will replace the North of Tyne and the North East Combined Authorities.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

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3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Governance reporting criteria

How NTCA monitors and assesses risk and how NTCA gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

NTCA has an Anti-Fraud and Corruption Policy (Constitution Part 5.4) and seeks in the first instance to prevent fraud and corruption through staffing policies, making members aware of their responsibilities, internal control systems and liaison with outside agencies.

NTCA is a participant in the National Fraud Initiative, a data matching exercise that helps prevent and detect fraud across the public sector.

NTCA endeavours to deal effectively with fraud and corruption, misuse of power and breaches of legal and regulatory provisions.

NTCA seeks to align the risk management strategy and policies on internal control with achieving objectives, as well as evaluating and monitoring risk management and internal control on a regular basis.

Through the use of a risk-based Internal Audit plan, NTCA determines the priorities of the internal audit activity, consistent with the authority's goals.

Internal audit reviews highlight weaknesses and recommend action when required to strengthen process/procedures. These are regularly reported to Audit and Standards Committee.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control which was reported to the Audit and Standards Committee in April 2023. This stated that:

The opinion of the Chief Internal Auditor is that the Authority's framework of governance, risk management and control is satisfactory overall based upon the audit work undertaken in 2022/23. This is a positive assessment of the control environment of the organisation.

How NTCA approaches and carries out its annual budget setting process

The Constitution outlines NTCA's budget setting process, including in its role as accountable body for the North East LEP. This must be followed to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the budget and that it is agreed in accordance with the requirements of the Constitution and the JTC Standing Orders.

Outline proposals are developed in discussion with member and officer groups, including North of Tyne Chief Executives, Economic Development Directors, Voluntary and Community Sector and Business Community in addition to the Public consultation notice on the website. Finance Directors across the NTCA area and wider region, in relation to the North East LEP will be involved throughout the process.

After consideration and comment by the Overview and Scrutiny Committees (NTCA and JTC) and the results of consultation, the final proposals (including consideration of the final proposals and decision of the JTC) are then considered by the Cabinet, which may or may not include the recommendations and/or observations from the Overview and Scrutiny Committees. The Cabinet must agree the final proposals in relation to NTCA's budget unanimously. The JTC must approve the final proposals in relation to the North East Transport Budget unanimously.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How NTCA ensures effective processes and systems are in place to ensure budgetary control

We noted that regular reporting of the financial position took place throughout the 2022/23 financial year. Quarterly forecasts of outturn reports were presented to the Cabinet and Scrutiny Committees. The reports included details of movements in the budget between quarters and remedial measures taken. The positions reported did not indicate a weakness in the Council's monitoring and reporting arrangements.

Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

How NTCA ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

NTCA has a Constitution in place which is readily available on the website.

Principles of decision making are set out in the Authority's constitution and all decisions are made in accordance with these. Report templates are set out to prompt consideration of each of the principles/implications of the decision under consideration.

The Authority has an Overview and Scrutiny Committee established to enable local councillors, on behalf of their communities, to scrutinise and challenge all matters within the remit of the Combined Authority. The Overview and Scrutiny Committee also investigates matters of significant importance to residents within the areas covered by the four councils with a view to influencing decisions made in respect of all matters within the remit of the Combined Authority.

From a JTC perspective, there is also an established JTC Overview and Scrutiny Committee, which enables local councillors to scrutinise and challenge the JTC, its committees and Nexus, and to investigate matters of strategic importance to residents within the LA7 Area with a view to influencing and adding value to the decisions.

The Cabinet is made up of the Leaders of the three constituent bodies and is supplemented by elected members who serve on a number of committees along with non-executives.

The Authority publishes a Forward Plan which lists all decisions that committees or officers of the Authority intend to take in the coming months. Details of each are usually included 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take, to review any related reports and background papers, and to submit comments to the decision maker in advance of the decision being made.

Briefings for members are held between key public meetings to discuss particular topics in depth and allow for challenge and informed decision making by members of committees such as the Joint Transport Committee and the Tyne and Wear Sub Committee.

The Authority's Leadership Board receive appropriate and regular reports on the financial position of the Authority.

The Head of Paid Service and Chief Executive leads a very experienced senior officer team at the Authority.

Risk management arrangements along with an up to date risk register are in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.

An annual governance statement is prepared, reviewed and approved before being included in the financial statements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How NTCA monitors and ensures appropriate standards are maintained

The NTCA Constitution sets out the how the authority operates, how its decisions are made and the procedures that are followed to ensure that NTCA operates efficiently, effectively and is both transparent and accountable.

NTCA has an agreed Code of Conduct for Members which sets out the conduct that is expected of elected members appointed to NTCA when they are acting in that capacity, and which is consistent with Nolan's Seven Principles of Public Life.

NTCA has a Code of Conduct for Officers which is intended to support officers in maintaining standards and to help protect officers from misunderstanding or criticism. The Code applies to all officers of NTCA.

NTCA has a Member/Officer Relations Protocol to provide general guidance for Members and Officers in their relations with one another. It reflects the basic principles underlying the respective rules of conduct that apply to Members and Officers and is intended to offer guidance on some of the issues that commonly arise.

With the exception of co-opted Independent Members on the Audit & Standards and Overview & Scrutiny Committees, Members are elected councillors of constituent local authorities and also subject to their own Council's Codes of Conduct.

There is a NTCA Register of Members Interests which contains declarations of any Disclosable Pecuniary Interest and any other interest. These are published on the NTCA website Interests for Senior Officers are also recorded.

NTCA has an Audit and Standards Committee, which seeks to promote and maintain high standards of conduct by NTCA members and co-opted members, and ensure NTCA members and co-opted members observe the Members' Code of Conduct.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How financial and performance information has been used to assess performance to identify areas for improvement

The Narrative Report accompanying the Statement of Accounts includes key financial performance information to help inform users of the accounts.

Final Outturn reports build on the regular reporting during the year to set out financial performance against budget for the NTCA revenue budgets and Capital element of the NTCA Investment Programme. The outturn is used to update the forecasts for the year as part of the regular forecast of outturn reports.

Treasury Management Prudential Indicators are set and updated through the Treasury Management Policy and Strategy, mid-year update and outturn update.

How NTCA evaluates the services it provides to assess performance and identify areas for improvement

The new Transport Plan for the whole JTC area sets out Key Performance Indicators that are designed to monitor the overall progress of the Transport Plan with respect to the 5 key objectives (Carbon neutral North East, Overcome inequality and grow our economy, Healthier North East, Sustainable transport choices and Safe, secure network).

NTCA deliver against the Investment Plan, Adult Education Devolved Budget and the Brownfield Housing Fund. Regular updates are taken to Investment Panel which is attended by Senior Officers of the NTCA constituent authorities and to Cabinet to inform on performance against delivery.

There is a 5-year Gateway Review led by Central Government to determine delivery at 5 year intervals against the Investment Fund and ensure economic growth has been achieved, the first one of these for NTCA is end of 2022-23. The North East LEP report regularly to their LEP Board on delivery against their Economic Plan.

How NTCA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Authority's Constitution sets out that the Procurement Procedure Rules for the Constituent Authority designated as lead authority for the following exercises shall apply and be followed wherever the Combined Authority wishes to arrange for:

- The purchases of goods, materials and related services;
- The execution of works; or
- The provision of other services (including consultancy).

The Authority receives procurement services from North Tyneside Council via a Service Level Agreement. The service specification includes the undertaking of legally compliant procurement and production of procurement documentation and correspondence via competitive quote/tender process.

Newcastle City Council Legal Officers provide a Legal SLA, part of which is to sign off all contracts and provide legal advice on contracts NTCA and the North East LEP enter into.

A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 Ltd which was introduced in 2008. The partnership with TT2 Ltd is governed by the Project Agreement which specifies levels of performance which must be met and roles and responsibilities of both partners, and is managed by the Tyne Tunnels Contract Manager.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

How NTCA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve - continued

There is a register which sets out associated partners to NTCA, the purpose of the partnerships, link officer and review dates for each one.

The Authority works very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led strategic partnership responsible for promoting and developing economic growth in the area. The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.

The NELEP Chief Executive attends Cabinet and Overview and Scrutiny to provide an update on the LEP. The Chair of NELEP Board sits on the NTCA Cabinet.

NTCA provides the formal accountability arrangements for the enterprise partnership.

Organisational change took place on 1 April 2020 with the transfer of Accountable Body responsibility for North East LEP to North of Tyne Combined Authority and resulting TUPE of staff from NECA to NTCA

NTCA meets regularly and engages with the Voluntary and Community Sector and Business Community Sector.

There is a register which sets out associated partners to NTCA, the purpose of the partnerships, link officer and review dates for each one.

Nexus is not included in the significant partner register due to its status as an officer of the Combined Authority. NTCA reports regularly to the Joint Transport Committee and the Tyne and Wear Sub Committee on its financial performance, and performance against its Corporate Business Plan and Risk Register. The relationship between NTCA and Nexus is set out in the Constitution.

04

Section 04:

Other reporting responsibilities and our fees

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4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We anticipate reporting to NAO on WGA in the next few days.

As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

The NAO timetable for 2022/23 WGA is for completion by the end of November 2024, so we anticipate receiving the clearance which will enable us to issue our audit certificate by this date.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum dated 8 September 2023. Now we have completed the 2022/23 audit, we can confirm our final fees, which include additional fees relating to issues arising this year. All additional fees are subject to Public Sector Audit Appointments (PSAA approval). All fees are exclusive of VAT.

Area of work	2022/23 fees *	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£28,195	£27,500
Additional fees in respect of the new VFM approach (recurring)	£7,500	£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£2,500	£2,500
Additional fees in respect of resolving the national infrastructure issue 2021/22 only	£nil	£5,000
Additional fees in respect of the delays in Pension Fund auditor assurance and the need for revised pensions figures for the triennial revaluation 2021/22 only	£nil	£5,000
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time) – not recurring	£3,500	£nil
Consideration of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, emphasis of matter, including Consultant Partner Review.	£1,500	£nil
Additional fee in respect of numerous adjustments to the Group accounts, and review of late adjustment identified by officers in relation to capital loans.	£3,500	£nil
Total fees	£46,695	£47,500

* The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).

4. Other reporting responsibilities and our fees

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in 2022/23.

Services provided to other entities within the Group

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

We are also the external auditor for Nexus. We do not carry out the external audit of Tyneside Transport Services (TTS) as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies and its transactions are immaterial to the group accounts.



Appendix

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A. Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls (single entity and group accounts)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Audit conclusion</p> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</p>
<p>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and the Group accounts)</p> <p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"> cut off considerations for Tyne Tunnel toll income; and grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met. 	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> the design and implementation of controls management has in place to ensure income is recognised in the correct period; Tyne Tunnel toll income around the year end to ensure it has been recognised in the right year; the judgements made by management in determining when grant income is recognised; for Tyne Tunnel toll income, performing a substantive analytical review; and for major grant income, obtaining counterparty confirmation. <p>Audit conclusion</p> <p>There are no issues arising from our work that we are required to report to you.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings - continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Net defined benefit liability / asset valuation (single entity and group accounts)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>In 2022/23 there is a net pension asset, and the appropriate method of accounting for this is uncertain and complex.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the management controls in place to assess the reasonableness of the figures provided by the actuary; and considered the reasonableness of the actuary's outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We also obtained an assurance letter from the auditor of Tyne & Wear Pension Fund. We also specifically reviewed the accounting treatment of the net pension asset against the latest technical guidance available. As the net pension asset was only £626k we did not require a calculation of the pension asset ceiling from the actuary as any adjustment that might be required from this exercise would be well below materiality levels.</p> <p>Audit conclusion</p> <p>There are no issues arising from our work that we are required to report to you.</p>

A. Further information on our audit of the financial statements

Summary of unadjusted misstatements - NTCA

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Page 114	Dr: Revenue	552			
	CR Debtors				552
	Short term debtors were overstated by £37k in the residual sample where the income had been received in 22/23 but the amount was still treated as a debtor. This error has been extrapolated and the total known and projected misstatement is £552k. This is an immaterial error in total and has been treated as an unadjusted misstatement.				
	DR Creditors			468	
	CR Expenditure		468		
Short term creditors were overstated by £21k in the residual sample where the payment was made during 22/23 but the amount was still treated as a creditor. This error has been extrapolated and the total known and projected misstatement is £468k. This is an immaterial error in total and has been treated as an unadjusted misstatement.					
Total unadjusted misstatements		552	468	468	552

A. Further information on our audit of the financial statements

Summary of Unadjusted misstatements – Group

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	DR Net pension assets			578	
	CR Remeasurement of net defined pension liability		578		
	<p>Our review of this report identified that the value of pension fund assets was higher than those originally reported, which is entirely due to timing issues compared to when the actuary prepares their report and the final valuations received during EY's audit.</p> <p>Application of this issue to the pension assets held by NTCA & Nexus as a proportion of total pension errors resulted in an understatement of pension assets of £578.156k Pension errors identified during overall procedures for NTCA: £52.848k</p> <p>NTCA share in Nexus understatement of pension assets is £1,168k*44.975% = £525.308k</p>				
	Total adjusted misstatements	0	578	578	0

A. Further information on our audit of the financial statements

Internal control observations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Those Charged With Governance any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We did not identify any internal recommendations in respect of 2022/23.

We did identify one internal control recommendations as part of our 2021/22 audit work and this is revisited in this section.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency – related party declarations

Related party declarations should be updated and obtained annually for all members and available on the website.

Our work identified that, whilst the declaration forms were available to view on the website, they were not dated making it difficult to identify when the declarations had been made.

Potential effects

Related party declarations may be incomplete and/or out of date.

Recommendation

Ensure that related party declarations are completed annually, dated and made available on the website.

2022/23 update

The purpose of the Authority's register of interests is to meet the requirements in the Localism Act 2011 and secondary legislation as to the registration of interests. NTCA's requirements as to what interests should be recorded already go beyond what is set out in the legislation. The legal requirement is for the register to be up to date, not for the date of each registration to be logged. However, we appreciate that this is the approach taken at some other authorities and will consider this in the arrangements for the new MCA.

Gavin Barker

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9 July 2024

Subject: Code of Conduct for Members - Dispensations**Report of: John Softly, Monitoring Officer**

Report Summary

This report seeks the Committee's agreement to grant dispensations to the North East Combined Authority's Cabinet Members and Substitute Cabinet Members.

Recommendation

The Committee is recommended to grant dispensations to Cabinet Members and Substitute Cabinet Members as set out in section 1.3 of this report.

1. Background

- 1.1 The Authority's Code of Conduct for Members provides that a member's interest in a matter may preclude them from taking part in a decision of the Authority's Cabinet or other committee. In such circumstances, the Member must also leave the meeting.
- 1.2 However, Annex 4 to the Code of Conduct (attached as Appendix A to this report) provides that this Committee may grant a dispensation to allow a member to take part in a decision where they would otherwise be precluded from doing so.
- 1.3 It is proposed that the Committee grant a dispensation to all Cabinet Members (and Substitute Cabinet Members) appointed by each constituent council to allow them to take part in decisions which relate to the constituent council which appointed them. This is because the statutory order which created the Authority requires that a Cabinet Member or Substitute Cabinet Member from at least 5 of the constituent councils must be present for the Cabinet to be quorate. Clearly, in the absence of such a dispensation, there is a risk that Cabinet may be inquorate for any decision which involved one or more constituent councils. It is recommended that these dispensations be issued to the existing Cabinet and Substitute Cabinet members and any new or replacement members.
- 1.4 Members will note from Appendix A to this report that the Monitoring Officer (in consultation with the Chair or Vice Chair of the Committee) is authorised to issue dispensations in cases of urgency.

2. Potential Impact on Objectives

The proposals in this report are intended to facilitate effective decision-making by the Authority.

3. Key Risks

If dispensations are not granted there is a risk that Cabinet meetings will be inquorate and the Authority will be unable to make decisions.

4. Financial and Other Resources Implications

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

5. Legal Implications

These are set out in the body of the report.

6. Consultation/Engagement

None.

7. Appendices

Appendix A - Code of Conduct for Members – Dispensations Procedure

8. Background Papers

[North East CA - Code of Conduct for Members](#)
[Audit and Standards Committee - Terms of Reference](#)

9. Contact Officers

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Annex 4 to Code of Conduct

Dispensations Procedure

A Registerable Personal Interest may in relation to any item of business considered at any meeting of the Authority (including specifically in connection with an Authority budget setting meeting) mean that the criteria set out in paragraph 17 of the Code of Conduct may be satisfied and require the Member to leave the meeting.

Under section 33(2) of the Localism Act 2011 a dispensation can be granted if, after having had regard to all relevant circumstances, the Authority:

- 1) considers that so many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
- 2) without a dispensation, no member of the Cabinet would be able to participate on the matter;
- 3) considers that, without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the likely outcome of any vote on the matter;
- 4) considers that granting a dispensation is in the interests of persons living in its area; and
- 5) considers that it is otherwise appropriate to grant a dispensation.

Members may be given a dispensation either to speak but not vote, or to speak and vote.

The Cabinet has delegated the granting of dispensations to the Audit and Standards Committee (see Part 2.5 of this Constitution).

A Member must complete a dispensations form explaining why a dispensation is appropriate and submit it to the Monitoring Officer. A report will be submitted to a meeting of the Audit and Standards Committee (or a sub-committee thereof) to determine what level of dispensation (if any) should be granted and for what duration; the duration must be specified and can be for up to four years.

Where the need for a dispensation arises in order to allow a meeting of the Cabinet (or other committee) to be quorate and it is not practicable to convene a meeting of the Audit and Standards Committee (or subcommittee thereof) the Monitoring Officer, in consultation with the Chair (or, in his/her absence, the Vice Chair of the Audit and Standards Committee) shall be authorised to issue dispensations.

The Member will receive notification of the decision of the Audit and Standards Committee within five working days of the committee (or subcommittee) meeting. Any dispensations must be declared by the Member at meetings where the dispensation applies.

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