

A meeting of the: **Audit and Standards Committee**

will be held on: **Tuesday 17 September 2024**

at: **10.00am**

in: **The Reception Room, Town Hall, Westoe Road, South Shields,  
NE33 2RL**

to consider the following

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## AGENDA

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	Page No
1. <b>Apologies</b> To record any apologies for absence and the attendance of any substitute members.	
2. <b>Declarations of Interest</b> Members of the committee are required to declare any registerable and/or non-registerable interests in matters appearing on the agenda, and the nature of that interest, in accordance with the Authority's <a href="#">Code of Conduct for Members</a> .	
3. <b>Minutes</b> To confirm as a correct record the minutes of the previous meeting held on 9 July 2024	3 - 5
4. <b>Internal Audit Strategic Audit Plan 2024/25</b> To review, consider and approve the proposed Internal Strategic Audit Plan 2024/25.	6 - 14
5. <b>Risk Management Framework and Strategic Risks</b> To receive an update on risk management within the North East CA including development of the Authority's Risk Management Framework and current strategic risks.	15 - 62
6. <b>Audit Strategy Memorandum for period ending 6 May 2024</b> To review the External Auditor's Audit Strategy Memorandum for the period ending 6 May 2024 in relation to the former North East Combined Authority (NECA) and North of Tyne Combined Authority (NTCA).	63 - 148
7. <b>Appointment of External Auditor</b> To receive an update on the appointment of the local auditor for the North East CA.	149 - 151

8. **External Audit – Local Audit Reset and Implications Presentation** -  
To receive a presentation from the External Auditor on national proposals to address the delays in the delivery of local audits.
9. **Standards Update** 152 - 153  
To receive an update on the position with regard to the sanctions available to local authorities for breaches of the Code of Conduct for Members.
10. **Next Meeting**  
To note that the next meeting will be held on Tuesday 21 January 2025 at 10.00am in City Hall, Sunderland.

Contact Officer: Michael Robson, Senior Governance Officer  
Tel: 0191 2777242 E-mail: [michael.robson@northeast-ca.gov.uk](mailto:michael.robson@northeast-ca.gov.uk)  
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## Audit and Standards Committee

**9 July 2024**

(10.00am)

Meeting held in: The Bridges Room, Gateshead Civic Centre

### Minutes

**Present:** Dave Willis OBE(Chair)  
Councillor Louise Fenwick  
Councillor Alex Watson  
Councillor Julie Simpson  
Councillor Ian Patterson  
Councillor Mark Mitchell  
Councillor Frank Lott  
Councillor Caroline Ball  
Councillor Ken Dawes  
Councillor David Herbert  
Councillor Alison Smith  
Councillor Michael Hartnack

**In attendance:** Eric Richards (Independent Person - Standards)

#### **ASC1/7/24 Apologies for Absence and Substitutes**

Apologies for absence were received from:

Councillor Tracy Dodds. Councillor Alison Smith attended the meeting as her substitute.

Councillor John Harrison.

Councillor Mark Swinburn.

#### **ASC2/7/24 Appointment of Vice Chair**

The Chair welcomed members to the first meeting of the Audit and Standards Committee and asked for nominations for the position of Vice Chair. Councillor Ian Patterson, seconded by Councillor Louise Fenwick, proposed Councillor Julie Simpson for the role of Vice Chair.

**Resolved** that Councillor Julie Simpson be appointed to the role of Vice Chair of the Audit and Standards Committee for the 2024/25 municipal year.

#### **ASC3/7/24 Work Programme 2024/25**

The Committee considered a report from the Senior Governance Officer in relation to the proposed work programme for the year ahead.

It was suggested that the adequacy and appropriateness of the standards regime in local authorities be looked at by the Committee, in view of the new Government's wish to see improved standards. It was confirmed that the work programme included standards updates and that further discussion would be held with Monitoring Officers across the region in order to ensure work was not duplicated. It was agreed that an update report would be brought back to the next Committee.

**Resolved** that:

- i) the proposed work programme for the 2024/25 municipal year be approved;
- ii) 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
- iii) the Committee receive additional reports on any ad-hoc items of business arising during the year, as these related to its responsibilities under its terms of reference.

#### **ASC4/7/24 Internal Audit Quarterly Update**

The Committee considered a report from the Chief Internal Auditor which provided an update on completion of the 2023/24 internal audit plans relating to the former North East Combined Authority and North of Tyne Combined Authority and the timescale for agreeing the internal audit plan for 2024/25. It was noted that all opinions had been reported to the responsible Audit and Standards Committee of the previous combined authorities.

**Resolved** that:

- i) the progress against internal audit plans of the former North East Combined Authority and North of Tyne Combined Authority for 2023/24 be noted; and
- ii) the approach to development of the 2024/25 internal audit plan be noted.

#### **ASC5/7/24 Internal Audit Annual Opinion 2023/24**

The Committee considered a report from the Chief Internal Auditor which provided opinion on the overall adequacy and effectiveness of the former North of Tyne Combined Authority, North East Combined Authority and the Joint Transport Committee Authority's framework of governance, risk management and control. It was noted that the opinions were positive.

**Resolved** that the:

- i) North of Tyne Combined Authority – Internal Audit Annual Opinion be noted; and
- ii) North East Combined Authority and Joint Transport Committee – Internal Audit Annual Reports be noted.

#### **ASC6/7/24 The North East Combined Authority Risk Management Framework**

The Committee considered a report from the Director of Finance and Investment on the proposed North East Combined Authority Risk Management Framework. It was noted that the framework had been developed in collaboration with the North Tyneside Council team through a Service Level Agreement. The Committee was advised that the framework governed how risk was managed and the delivery of strategic objectives. The framework's development had taken into account best practice and HM Treasury guidance.

During discussion, the following points were raised:

- It was suggested that the Authority's appetite for risk ought to be set corporately at a top level and be clearly defined, otherwise Directors may have different tolerances.
- Cabinet should have discussions, supported by executive directors, to provide a corporate view of risk.
- More clear triggers were required to provide more standardisation.

- Each strategic risk would have a Cabinet member and senior leadership team ownership.
- It was suggested that the framework be brought back to the next meeting for endorsement prior to it being reported to Cabinet.

**Resolved** that:

- i) the proposed North East Combined Authority's Risk Management Framework be noted; and
- ii) a further report be brought back to the next meeting to reconsider the proposed framework prior to its approval by Cabinet.

#### **ASC7/7/24 External Audit – Auditor's Annual Reports 2022/23**

The Committee considered the External Auditor's Annual Reports for 2022/23 in relation to the former North East Combined Authority and the North of Tyne Combined Authority.

It was noted that all opinions were unqualified, with no significant issues. Value for money arrangements had no significant weaknesses to report and financial sustainability was sound for both previous combined authorities. It was also noted that governance arrangements were sound and there were no areas of issues to report.

The Committee was advised that the Audit Certificate had not been issued because the External Auditors were awaiting clearance from the National Audit Office on whether they would be required to undertake additional procedures as a sampled component as part of its reporting of Whole Government Accounts. Clearance and the issue of the certificate were expected by November 2024.

It was confirmed that external auditors were waiting for 2023/24 financial statements for both previous combined authorities, where the accounting period would be extended up to and including 6 May 2024. The focus would then be on the new combined authority's accounts and a single set of statements would be in place for 2024/25.

It was confirmed that both final sets of accounts were included in the work programme to be brought back to Committee in April 2025.

**Resolved** that the reports from the External Auditor be noted.

#### **ASC8/7/24 Code of Conduct for Members – Dispensation**

The Committee considered a report of the Monitoring Officer seeking dispensations for the Authority's Cabinet Members and Substitute Cabinet Members to allow them to take part in decisions which related to the constituent council which appointed them.

**Resolved** that dispensations be granted to Cabinet Members and Substitute Cabinet Members as set out in section 1.3 of the report.

**17 September 2024**

**Subject: Internal Audit Plan 2024/25**

**Report of: Ian Pattison, Chief Internal Auditor**

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## **Report Summary**

This report provides Committee with a proposed Internal Audit Plan for 2024/25 (the Plan). The Plan, which outlines the planned work during the period is attached as Appendix 1.

## **Recommendations**

It is recommended that Audit and Standards Committee review, consider and approve the Internal Audit Plan 2024/25, attached as Appendix 1.

### **1. Context**

- 1.1 The Constitution sets out that in discharging its core functions, Audit and Standards Committee will, in relation to the internal audit function:
  - i. oversee its independence, objectivity, performance and professionalism
  - ii. support the effectiveness of the internal audit process, and
  - iii. promote the effective use of internal audit within the assurance framework.
- 1.2 Public Sector Internal Audit Standards (PSIAS) are the mandatory standards which apply to all UK public sector bodies. 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 and Standards Committee to understand the organisation's strategies, key business objectives, associated risks and risk management processes.
- 1.3 The Plan, and subsequent delivery of this plan and reporting around this, is how Audit and Standards Committee obtain assurances over the work of internal audit and the impact it has on the organisation.

### **2. Development of the Plan**

- 2.1 Under normal circumstances the Plan approved by Audit and Standards Committee in April each year and be delivered over the following 12-month period. This was not possible for 2024/25, however, the intention is to deliver a full plan over a shortened period of time, i.e. from approval today through until the end of March 2025.
- 2.2 The Plan is for this year only and does not look beyond this. This is a new organisation bringing together, resources, systems, processes etc from multiple predecessor organisations and developing and embedding new ways of working as one organisation.
- 2.3 The Plan has been developed following a risk assessment undertaken by the Chief Internal Auditor and this is detailed within Appendix 1.
- 2.4 As this is year one of the new organisation, it considered that internal audit resources should be focussed on some of the key areas which cut across all areas of the Combined Authority and

support its operations. As such a significant element of the Plan is dedicated to review overarching reviews of key financial systems, performance management and programme and project management. However, it also reflects requirements to complete mandatory activity such as grant certification and to support participation in the National Fraud Initiative (NFI).

- 2.5 As the Plan is risk based, it is likely some flexibility will be required to enable it to respond to changing and emerging risks and there is a small element of resource dedicate to this.
- 2.6 The individual assignments to be undertaken in 2024/25, the rationale for inclusion, outline scope and estimated resource requirements are detailed within the Plan at Appendix 1.
- 2.7 The Plan provides sufficient coverage to support the evidence based annual opinion of the Chief Internal Auditor and is achievable within the existing resources. The Plan will be kept under review throughout the year and any changes will be agreed with the Director of Finance and Resources and reported to the Audit and Standards Committee accordingly.

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

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

### **4. Key Risks**

- 4.1 There are no risks arising directly from this report. However, the Internal Audit Plan is focused on providing assurance that the Combined Authority's governance, risk management and internal control arrangements are operating effectively.

### **5. Financial and Other Resources Implications**

- 5.1 There are no direct financial implications arising from this report and internal audit activity is provided for within existing budgets.
- 5.2 Internal Audit services are provided as part of a Service Level Agreement (SLA) with North Tyneside Council which also include risk management and some elements of governance such as contributing towards training for Audit and Standards Committee, preparing the Annual Governance Statement, co-ordinating the annual review of effectiveness of Audit and Standards Committee and support for the production of the annual report from the Chair of Audit and Standards Committee to Cabinet. This SLA provides guaranteed levels of resources to the Combined Authority.

### **6. Legal Implications**

- 6.1 Provision of internal audit services will support the Combined Authority to meet its statutory obligations and deliver in line with the Single Assurance Framework.
- 6.2 Internal audit provision will conform to the Public Sector Internal Audit Standards which are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

### **7. Equalities Implications**

- 7.1 There are no direct equalities implications arising out of the recommendations in this report.

### **8. Consultation and Engagement**

- 8.1 The Internal Audit Plan has been prepared following consultation with the Chief Finance Officer, with Audit and Standards Committee consulted through this report.

**9. Appendices**

Appendix 1: Internal Audit Plan for 2024/25

**10. Background Papers**

The North East Combined Authority Single Assurance Framework

The North East Combined Authority Constitution

Public Sector Internal Audit Standards

**11. Contact Officers**

Ian Pattison, Head of Audit and Risk (Chief Internal Auditor) at North Tyneside Council

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**12. Glossary**

Not applicable





## Internal Audit Plan 2024/25

Date: 17 September 2024

Author: Ian Pattison, Head of Assurance and Risk (Chief Internal Auditor)



### **1 Introduction**

- 1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 The work of internal audit provides assurance that governance, risk management and control arrangements established by the Combined Authority are effective in managing risks which prevent achievement of objectives and managing the risk of fraud and error. We will identify areas for improvement and make practical, proportionate and informed recommendations to improve the overall control environment. We will also seek to identify opportunities to enhance efficiency and value for money.

### **2 Strategic Statement**

- 2.1 Our overall strategy is to provide professional, independent and objective assurance services which deliver an annual assurance opinion, add value to the organisation and make recommendations which support positive change, continual improvement and enhance efficiency and value for money.
- 2.2 In delivering this strategy, we will focus on the following areas:
- enhancing our value to the Combined Authority
  - identifying the key objectives, priorities and outcomes, related to risks, through which we demonstrate our effectiveness
  - identifying opportunities and programmes / projects for us to be a key driver for positive change and improvement
  - keeping abreast of developments in internal audit practice and our operating environment to ensure we adapt and remain fit for purpose,
  - ensuring there are sufficient resources to deliver the strategy.

### **3 Period covered by the Internal Audit Plan**

- 3.1 Under normal circumstances the Internal Audit Plan (the Plan) would be presented and approved by Audit and Standards Committee in April each year which is its first meeting of each new financial year. The plan would then be delivered over a 12-month period.
- 3.2 This was not possible for 2024/25 given the Combined Authority was not established until 7 May 2024 and strategic risks, a key consideration in our planning, were formally agreed by SLT at the end of July.
- 3.3 Whilst these matters have resulted in an audit plan being prepared mid-year there is no intention to extend the audit year and delivery will take place over a shortened period for 2024-25.
- 3.4 The Plan does not currently look beyond the end of the current financial year. The Combined Authority is a new organisation bringing together resources, systems, processes etc from multiple predecessor organisations and doing so at a time of national political change which can bring uncertainty. Until capacity, systems and processes are fully in place and operating consistently there is a risk the Combined

Authority may be unable to deliver ambitions with pace in line with stakeholder expectations. The Plan will therefore have a significant focus on providing assurances around the effectiveness and consistency of operation of new ways of working.

- 3.5 The Plan sets out the assurance coverage which we will deliver within this period. The proposed plan is realistic, achievable and provides flexibility to respond to changing priorities.

#### **4 Risk Assessment**

- 4.1 It is important that internal audit resources are deployed in a way which provides the greatest benefit to the Combined Authority. The Plan has been developed following a risk assessment of the arrangements operating across the Combined Authority. This includes, but is not limited to, consideration of the following:

- the challenges of bringing together resources, systems, processes etc from multiple predecessor organisations and embedding new ways of working across the organisation
- the requirements within the Single Assurance Framework which operates alongside other governance and key policy documents such as the Devolution Deal agreement, the Constitution, the Investment Framework, the Corporate Plan, portfolio plans and Medium Term Financial Plan
- known assurance requirements, e.g. grant certification required by government departments and mandatory participation in the National Fraud Initiative (NFI)
- the Strategic Risk Register which identifies those key risks which may prevent achievement of objectives
- consultation with the Chief Finance Officer
- the Risk Management Framework which will embed across the Combined Authority throughout the year
- CAKE (cumulative audit knowledge and experience) in relation to activity transferred into the Combined Authority from predecessor organisations, undertaking work in other organisations and working with new organisations
- other sources of assurance, e.g. risk management reporting, annual governance statement etc.
- available internal audit resources, and
- the views of Audit and Standards Committee.

- 4.2 We will keep this risk assessment under review and consider any requirement to respond to changing and emerging risks and future audit priorities. To ensure the plan remains flexible it does contain a small element of contingency.

## 5 Resource Management

- 5.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.
- 5.2 The service level agreement with North Tyneside Council provides for 97 days of internal audit resources for 2024/25 and this is deemed appropriate and sufficient to deliver an annual opinion on the adequacy of the framework of governance, risk management and internal control.
- 5.3 The level of resources will be kept under review throughout the year.

## 6 Quality Standards

- 6.1 Public Sector Internal Audit Standards (PSIAS) incorporate a Code of Ethics for internal auditors and set clear standards which we are required to conform to.
- 6.2 We have an established quality assurance and improvement programme (QAIP) which includes ongoing monitoring of the performance of the internal audit activity and periodic self-assessments of internal audit practices. The outcomes of this programme are reported annually.

## 7 Internal Audit Plan 2024/25

- 7.1 The proposed Plan for 2024/25 is summarised in Table 1 below and the detail is provided set out below.

**Table 1**

<b>Activity</b>	<b>Estimated resources (days)</b>
Grant Certification and Counter Fraud	13
Assurance audits	60
Advice, guidance and contingency	7
Audit Support Activity	12
Audit and Standards Committee	5
<b>Total</b>	<b>97</b>

Assignment Title	Rationale for inclusion	Outline scope	Days
<b>Grant Certification and Counter Fraud</b>			
Grant work (known and contingency)	<ul style="list-style-type: none"> <li>The Combined Authority receive significant amounts of grant funding and grant funders require verification expenditure has been incurred in line with grant conditions.</li> <li>There are known grants, e.g. Local Transport Plan (Integrated Transport Block) and a history of several ad hoc requests each year from the predecessor organisations.</li> <li>This work provides confidence to grant funder that the Combined Authority can deliver outcomes and expend monies in line with grant conditions.</li> <li>Funding risks are inherent across the strategic risk profile and assurance helps mitigate risks associated with potential clawback and negative impact on future funding bids.</li> </ul>	To determine whether outcomes have been delivered / expenditure has been incurred in line with grant conditions.	10
National Fraud Initiative (NFI)	<ul style="list-style-type: none"> <li>Participation in the NFI is mandatory for the Combined Authority.</li> <li>Data sets must be submitted in October 2024 with work required to investigate potential matches.</li> </ul>	To support the Combined authority's participation in the NFI.	3
<b>Assurance audits</b>			
Key financial systems health check	<ul style="list-style-type: none"> <li>Efficient and effective key financial systems are necessary to support all activity undertaken by the Combined Authority.</li> <li>Contributes towards mitigations for St006 Operational Capacity and Resources.</li> <li>New systems and processes are being implemented within 2024/25 and important to gain assurance these are operating effectively.</li> <li>For the combined authority key systems are identified as payroll, creditors (ordering, receipt and payment for goods, works and services), income collection, budget monitoring and reporting.</li> </ul>	<p>To assess the efficiency and effectiveness of the control environment for key financial systems.</p> <p>NB – in the current year we will focus on the design of the framework with small samples used to confirm the efficiency and effectiveness of these in operation.</p>	20

Assignment Title	Rationale for inclusion	Outline scope	Days
Performance management	<ul style="list-style-type: none"> <li>The necessity to develop effective performance management arrangements is recognised specifically within St007 Accessing data to allow performance reporting but also runs throughout other strategic risks.</li> <li>Performance reporting is one of the key mechanisms through which the Combined Authority demonstrates it is meeting its ambitions and priorities.</li> </ul>	To assess the efficiency and effectiveness of performance management arrangements operating across the Combined Authority.	20
Project and programme management	<ul style="list-style-type: none"> <li>The majority of activity is delivered through dedicated programmes and supporting projects</li> <li>Governance arrangements are being established and embedded across all portfolio and business areas.</li> <li>Successful delivery and effective governance are key mitigations across all strategic risks.</li> </ul>	To assess the efficiency and effectiveness of programme and project management arrangements operating across the Combined Authority.	20
<b>Other areas (not directly attributable to corporate risks)</b>			
Advice, guidance and contingency	<ul style="list-style-type: none"> <li>Systems, processes and arrangements change on a regular basis an ad hoc advice and guidance is needed around governance, risk management and internal control matters.</li> </ul>	Provision of ad hoc advice and guidance to directorates on governance, risk management and internal control matters.	7
<b>Audit support activities</b>			
Audit Support Activity	<ul style="list-style-type: none"> <li>Core activity required to support delivery of internal audit activity</li> <li>This includes activity such as audit planning, follow up on the implementation of audit recommendations and preparing the Internal Audit Annual Report and Opinion</li> <li>For 2024/25 this includes an allocation of time relating to understanding and setting up arrangements for a new organisation and preparing documents such as the Internal Audit Charter, working practices etc.</li> </ul>		12
Audit and Standards Committee (reporting and attendance)	<ul style="list-style-type: none"> <li>Core activity required to report outcomes of internal audit activity.</li> <li>This includes preparation of reports, meeting with the Chair and attendance at meetings (4 times per year).</li> </ul>		5
<b>Total</b>			<b>97</b>

**17 September 2024**

**Subject: The North East Combined Authority Risk Management Framework and Strategic Risks**

**Report of: Janice Gillespie, Director of Finance and Investment**

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## **Report Summary**

This report provides an update on the work that has been undertaken in respect of risk management within the North East Mayoral Combined Authority (the Combined Authority), including development of the North East Combined Authority's Risk Management Framework and current strategic risks.

## **Recommendations**

The Audit and Standards Committee is recommended to:

- i. endorse the North East Combined Authority's Risk Management Framework and recommend that Cabinet consider and approve this.
- ii. consider and comment upon the current strategic risks, scoring and proposed management actions as detailed within Appendix 2 to this report. Officers will provide any feedback verbally to Cabinet when it considers these risks later today.

## **1. Context**

### **1.1 Introduction**

- 1.1.1 Following consideration of the Risk Management Framework by Audit and Standards Committee in July, further work has been undertaken in respect of our approach to risk management. This includes updating the Risk Management Framework and formally capturing current strategic risks.
- 1.1.2 The Mayor and Cabinet has overall responsibility for ensuring effective risk management arrangements are in place, agreeing the approach to risk management, setting the risk tolerance which determines the level of risk we are prepared to accept and ensuring risk and opportunities are appropriately considered as part of all decision-making processes as defined in the Single Assurance Framework.
- 1.1.3 Audit and Standards Committee have a role to review and assess the effectiveness of risk management arrangements, the risk profile of the organisation and to receive and review risk reports, which include the Strategic Risk Register.
- 1.1.4 In line with the Risk Management Framework, risk officers and Senior Leadership Team have undertaken an exercise to identify, assess and score an initial list of strategic risks for consideration by Audit and Standards Committee at this meeting prior to being presented to Cabinet for consideration at their meeting later today.

## 1.2 The Risk Management Framework

- 1.2.1 The Risk Management Framework governs the way in which the Combined Authority identifies and manages its risks and opportunities, supporting the requirements of the Single Assurance Framework and delivery of our strategic objectives.
- 1.2.2 The Combined Authority 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. Risk Management will be championed by Cabinet and the Senior Leadership Team, ensuring it is embedded into our ways of working.
- 1.2.3 The Risk Management Framework was reviewed by Audit and Standards Committee at its meeting in July 2024 and feedback has been incorporated into the version presented today.
- 1.2.4 The updated Risk Management Framework is available in Appendix 1.

## 1.3 Approach to Managing Strategic Risk

- 1.3.1 In line with the Risk Management Framework, work has been undertaken across the Combined Authority to identify, assess, score and develop action plans for our current strategic risks. This initial exercise has identified 7 strategic risks for consideration. These are summarised in Table 1 below and full details are provided within Appendix 2.

**Table 1 – Summary of Strategic Risks**

Risk Ref	Corporate Risk (Unique Ref. No.)	Risk Owner (Senior Officer)	Risk Scores	
			Current Score	Target Score
St001	Transport – funding and scale	Tobyn Hughes	<b>C2 (R)</b>	<b>D3 (G)</b>
St002	Transport – operational	Tobyn Hughes	<b>E1 (A)</b>	<b>F2 (G)</b>
St003	Inclusive Growth	Rob Hamilton / Leigh Mills	<b>E2 (A)</b>	<b>D3 (G)</b>
St004	Net Zero	Rob Hamilton	<b>C3 (G)</b>	<b>D3 (G)</b>
St005	Political and Policy Change	Henry Kippin	<b>B3 (A)</b>	<b>E3 (G)</b>
St006	Operational Capacity & Resources	Jacqueline Laughton	<b>D2 (A)</b>	<b>E3 (G)</b>
St007	Accessing Data to allow Performance Reporting	Jacqueline Laughton	<b>A4 (A)</b>	<b>E4 (G)</b>

- 1.3.3 Whilst strategic risks are owned collectively by the Mayor and Cabinet, a responsible senior officer within the Combined Authority has been assigned as risk owner and is responsible for ensuring controls and actions are kept up to date.

## 1.4 Risk Reporting

- 1.4.1 The ongoing management and reporting of risk forms a key component of the Combined Authority's governance arrangements.



- 1.4.2 Audit and Standards Committee and Cabinet will receive a formal update on strategic risks approximately every 6 months with the next updates scheduled for March 2025. This will provide assurance that action is being taken to identify and manage risks effectively across the Combined Authority, that the records remain relevant to the current context and risk are managed in line with our risk appetite.
- 1.4.3 Whilst formal updates are provided to Cabinet, risk and opportunities will be considered as part of all decision-making and portfolio holders will be part of risk discussions within their portfolios which will inform risk management at all levels across the organisation.

## **2. Potential Impact on Objectives**

- 2.1 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 and identification and assessment of risk will support delivery of our vision, ambitions and priorities.

## **3. Key Risks**

- 3.1 Should the Combined Authority not manage and mitigate risk in a disciplined, co-ordinated and proportionate way it this may negatively impact on our ability to deliver, prevent us seizing opportunities or lead to taking risk outside of our risk tolerance.

## **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 Risk management is an integral part of decision-making, service delivery and managing the Combined Authority and, as such, falls within normal working practices covered through current budgeted resources.

## **5. Legal Implications**

- 5.1 Effective risk management supports the Combined Authority to meet its statutory obligations and deliver in line with the Single Assurance Framework.

## **6. Equalities Implications**

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. However, the effective risk management supports the Combined Authority to meet its obligations in respect of its Public Sector Equality Duty.

## **7. Consultation and Engagement**

- 7.1 Audit and Standards Committee have previously reviewed the Risk Management Framework and their comments have been incorporated.
- 7.2 The approach to developing the Risk Management Framework and strategic risks has included ongoing engagement with the Senior Leadership Team and Heads of Service within the Combined Authority.

## **8. Appendices**

Appendix 1: The North East Combined Authority Risk Management Framework  
Appendix 2: The North East Combined Authority Strategic Risks

**9. Background Papers**

[The North East Combined Authority Single Assurance Framework Audit and Standards Committee Agenda, Tuesday 9 July 2024](#)

**10. Contact Officers**

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**11. Glossary**

Not applicable

# North East Combined Authority Risk Management Framework

September 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 <sup>st</sup> Line	Management Control Internal Control Measures
2 <sup>nd</sup> Line	Functions that oversee or specialise in risk management
3 <sup>rd</sup> 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"> <li>• Setting the tolerance level for risk within the Combined Authority</li> <li>• Ensuring effective risk management arrangements are in place.</li> <li>• Approve, and keep under review, the Risk Management Framework.</li> <li>• Collective ownership of the Combined Authority’s strategic risks.</li> <li>• Receive risk reports, at least twice a year, which enables oversight of strategic risks and review of the effectiveness of risk management arrangements.</li> <li>• Receive an annual report from the Chair of Audit and Standards Committee which provides commentary on its assessment of risk management arrangements.</li> </ul>

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



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

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

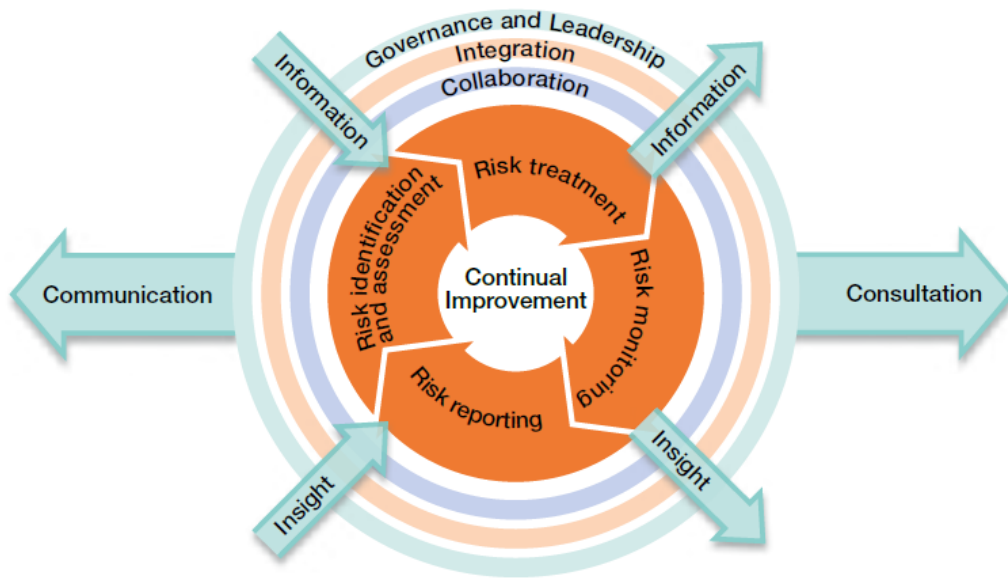
4.2 The Assurance Framework states that Senior Officers of the Combined Authority are responsible for the identification and management of risk. In NECA the Risk team within the Finance and Investment Directorate will support with this activity.

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

Impact	
<b>1</b>	Major – consequences result in extensive loss / gain and long-term effects
<b>2</b>	Significant – consequences result in significant loss / gain
<b>3</b>	Moderate – consequences result in considerable loss / gain
<b>4</b>	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 poorly managed and may not deliver to time, budget or contracted objectives.	1. Regular communication with delivery organisations to identify challenges early.  2. Budget for the provision of

	project in line with contracted timeframe.		<p>additional funding to support delivery where necessary.</p> <p>3. New projects – detailed assessment of management capability and project costings prior to approval of funds.</p>
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- 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 in line with the Combined Authority's risk tolerance 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.

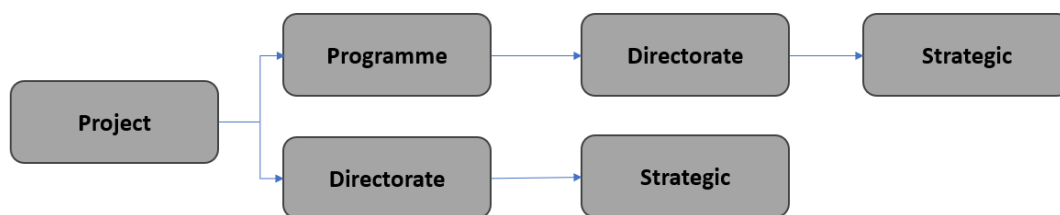
## **5.5 Risk Escalation**

- 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

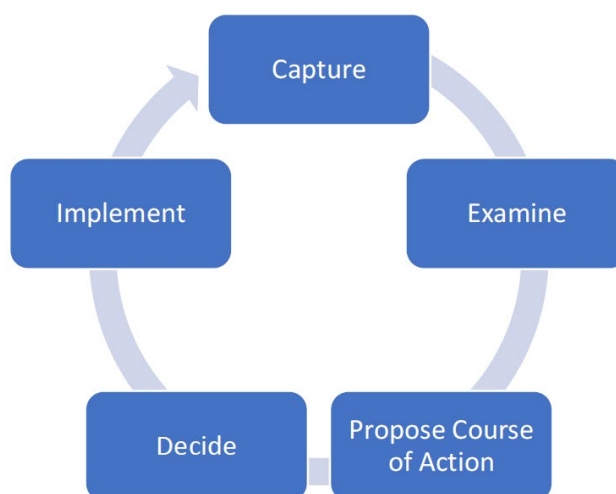
- 8.1.1 An issue is a challenge or a problem that has already occurred or is currently happening and requires management actions. Issues can arise from identified risks in the risk management strategy or from new challenges that weren't anticipated. Issues are different from risks in that it is only 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 Section 73 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**

<b>A</b>	<b>Risk Register Template</b>
<b>B</b>	<b>Issues Register Template</b>

## Appendix 2

<b>Risk Subject:</b>		<b>St001 - Transport Funding and Scale</b>		<b>Risk Owner:</b>		<b>Tobyn Hughes</b>	
<b>Risk Detail:</b>							
There is a risk that funding may not be sufficient to deliver the commitments set out in the Transport Programme and Local Transport Plan or is constrained because of Government funding conditions on funding use.							
<b>Opportunity:</b>							
There is an opportunity through further devolution to work with the Government to have access to a more stable longer-term funding stream for transport, whose prioritisation and conditions of use are determined by the North East CA.							
<b>Links to Corporate Plan:</b>							
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills	
X	X	X	X	X	X	X	
<b>Cause of Risk:</b>							
<p>This risk has been raised to reflect the scale and breadth of the Transport Programme and its overarching impact across the North East CA. Transport Programme deliverables often act as enablers for other portfolios to deliver against their ambitions.</p> <p>Government itself is fiscally constrained, and its historical approach has been to provide “stop-start” funding allocations for transport to deliver central Government policy initiatives, resulting in transport funding being time-bound, its use and conditions closely managed by civil servants, and has often required competitive bidding.</p> <p>The ability to draw down future Government funding for transport is often dependent on the successful expenditure of existing funding within Government-defined criteria and delivery periods, thus creating a circular problem. Insufficient resources or time to prepare projects for delivery and major changes to schemes in the agreed delivery programme by partners can both lead to under-delivery by the North East CA as a whole and result in Government reducing the resources it makes available to the North East CA in future.</p> <p>This risk therefore arises from the quantum of Government funding to deliver the Transport Programme, its conditions, and the quality of the North East CA’s delivery.</p>							
<b>Consequences of the risk materialising and risk indicators:</b>							
	<b>Trigger</b>		<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>NECA finances</b>	<ul style="list-style-type: none"> <li>Failure to deliver within funding window</li> </ul>		<ul style="list-style-type: none"> <li>Impact on future award of funding</li> <li>Potential clawback of funding if requirements not met.</li> <li>Impact on added value</li> </ul>		<ul style="list-style-type: none"> <li>Budget monitoring</li> </ul>		
<b>Local economy</b>	<ul style="list-style-type: none"> <li>Non delivery of key schemes</li> </ul>		<ul style="list-style-type: none"> <li>Constraint of growth</li> <li>Impact on future investments in the region /leverage</li> </ul>		<ul style="list-style-type: none"> <li>Evaluation</li> </ul>		
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>Milestones not met</li> </ul>		<ul style="list-style-type: none"> <li>Impact on Programme Plan</li> </ul>		<ul style="list-style-type: none"> <li>Programme monitoring and evaluation</li> </ul>		
<b>Health, Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>Non delivery of schemes</li> <li>Reduced uptake</li> <li>External events</li> </ul>		<ul style="list-style-type: none"> <li>Impact on safety and security</li> <li>Impact on wellbeing</li> </ul>		<ul style="list-style-type: none"> <li>Programme monitoring and evaluation</li> </ul>		

<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>• Non delivery of schemes and ambitions</li> <li>• Lack of cross organisational engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on North East CA Cabinet and Mayoral priorities</li> <li>• Impact on other portfolio ambitions due to Transport being an enabler for other ambitions to be delivered successfully</li> </ul>	<ul style="list-style-type: none"> <li>• Performance reporting</li> </ul>
<b>Morale</b>	<ul style="list-style-type: none"> <li>• Insufficient funding to deliver schemes</li> <li>• Criticism of the North East CA for lack of delivery</li> <li>• Pressure from partners competing for inadequate funding</li> </ul>	<ul style="list-style-type: none"> <li>• Low retention rates and high staff turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Poor staff survey results</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>• Non delivery</li> <li>• External events</li> <li>• Overview &amp; Scrutiny Committee</li> <li>• Perception of corporate responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse impact on reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Media coverage</li> <li>• Complaints</li> </ul>
<b>Legal / Regulatory</b>	<ul style="list-style-type: none"> <li>• Tendency towards non-compliance with funding conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse impact on reputation</li> <li>• Possible legal challenge</li> <li>• Reduced future funding allocations</li> </ul>	<ul style="list-style-type: none"> <li>• Poor audit results</li> <li>• Assurance framework compliance failures</li> </ul>
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. Ongoing performance monitoring against programme delivery	This will be reported to Programme Board, SLT and Cabinet and will highlight any areas of concern that needs to be addressed		Jonathan Bailes
	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>• Relevant agenda, reports and minutes</li> </ul>		
2. Resources and allocation of funding agreed to develop proposals.	£4.7m CRSTS funding was allocated for business case development and professional services to enable delivery of programme ambitions last year and Cabinet has approved the allocation of £8.5m for the franchising scheme assessment for Bus Reform.		Philip Meikle / Jonathan Bailes
	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>• JTC agenda, reports and minutes (June 23)</li> <li>• Cabinet agenda, reports and minutes (July 24)</li> </ul>		
<b>Current Score of Risk (as at new risk raised on 24 June 2024):</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
C	2	C2 (R) (Red)	Likelihood of transport funding availability to meet ambitions would be slightly diminished, but impact would be negated through effective partnership and planning working with wider CA colleagues to ensure alternative solutions are arrived at. Ongoing liaison with DfT and successful delivery of transport programme, leading into single transport funding settlement would also minimise risk.



New Controls:		How will it reduce the risk?		Senior Officer:	Date new control will be in place:
1. Transport representation in portfolio advisory board		This will enable Transport work with other portfolio leads to align linked plans within the constraints of transport funding.		Tobyn Hughes	September 2024
2. Allocation of funding to develop resources to enable the delivery of ambitions more broadly		Will allow for resources and funding to be allocated to the development of staff and commissioning of external expertise to allow ambitions to be delivered successfully in line with expectations.		Jonathan Bailes	Ongoing
3. Establish formal liaison route with DfT on funding settlement and programme delivery		Will allow for greater devolution of transport funding and greater local determination on expenditure		Tobyn Hughes	Ongoing
4. Develop a finance/funding strategy for the programme, including sources of private sector finance		By giving greater visibility of future needs and only embarking on projects when sources of finance and the timing of their availability are understood		Jonathan Bailes / Eleanor Goodman	Ongoing
Target Score of Risk:					
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:		
D	3	D3 (G)	The introduction and embedding of new controls should enable the risk to reduce in score over time.		

New risk raised: 24 June 2024  
New risk raised by: Jonathan Bailes  
Agreed by SLT: 31 July 2024

<b>Risk Subject:</b>	<b>St002 - Transport - Operational</b>			<b>Risk Owner:</b>	<b>Tobyn Hughes</b>	
<b>Risk Detail:</b>						
There is a strategic and reputational risk for the North East CA that transport operations and projects are delivered through a complex array of bodies, some of which are outside the North East CA's direct sphere of influence.						
<b>Opportunity:</b>						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
x		x		x		
<b>Cause of Risk:</b>						
This risk has been raised because the governance of transport operations is complex in the region, and although the North East CA is the Local Transport Authority with overall strategic responsibility, many transport functions projects are delivered by partners through funding agreements, delegations, by arms-length arrangements and contracts with the private sector. This can result in lack of clarity over accountabilities, policy direction, and potentially lead to reputational damage. Furthermore, some key aspects of transport lie wholly outside the North East CA's current powers (e.g. strategic roads, national railways and commercial bus services) contrary to a commonly held public perception that the North East CA should be able to control or influence them.						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>NECA finances</b>	<ul style="list-style-type: none"> <li>Funding Constraints</li> </ul>	<ul style="list-style-type: none"> <li>Potential financial impact</li> <li>Impact on added value</li> </ul>		<ul style="list-style-type: none"> <li>Budget monitoring</li> </ul>		
<b>Local economy</b>	<ul style="list-style-type: none"> <li>Non delivery of key schemes</li> </ul>	<ul style="list-style-type: none"> <li>Constraint of growth</li> <li>Impact on future investments in the region /leverage</li> </ul>		<ul style="list-style-type: none"> <li>Evaluation</li> </ul>		
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>Milestones not met</li> </ul>	<ul style="list-style-type: none"> <li>Impact on Programme Plan</li> </ul>		<ul style="list-style-type: none"> <li>Programme monitoring and evaluation</li> </ul>		
<b>Health, Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>Non delivery of essential maintenance or upgrades</li> <li>Reduced uptake</li> <li>External events</li> </ul>	<ul style="list-style-type: none"> <li>Impact on safety and security</li> <li>Impact on wellbeing</li> </ul>		<ul style="list-style-type: none"> <li>Programme monitoring and evaluation</li> </ul>		
<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>Non delivery of schemes and ambitions</li> <li>Lack of cross organisational engagement</li> </ul>	<ul style="list-style-type: none"> <li>Impact on North East CA Cabinet and Mayoral priorities</li> <li>Impact on other portfolio ambitions due to Transport being an enabler for other ambitions to be delivered successfully</li> </ul>		<ul style="list-style-type: none"> <li>Performance reporting</li> </ul>		

<b>Morale</b>	<ul style="list-style-type: none"> <li>• Disruption to services</li> </ul>	<ul style="list-style-type: none"> <li>• Demoralised staff</li> <li>• High turnover rates</li> </ul>	<ul style="list-style-type: none"> <li>• Staff monitoring surveys</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>• Non delivery</li> <li>• External events</li> <li>• Overview &amp; Scrutiny Committee</li> <li>• Perception of corporate responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse impact on reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Media coverage</li> <li>• Complaints</li> </ul>
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. Financial /budget monitoring	<p>The North East CA transport budget includes financial information for all components of transport operations for which the North East CA has responsibility. The monitoring of the North East CA budget will be reported to relevant governing bodies e.g. SLT, Cabinet and Audit and Standards Committee. It will ensure that we are delivering within budget and obtaining value for money. It will also identify any pressures that need to be addressed.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Relevant agendas, minutes and reports</li> </ul>		Tobyn Hughes
2. Overview and Scrutiny Committee	<p>Progress against the Transport Programme is reported regularly to the Overview and Scrutiny Committee who are given the opportunity to challenge and comment on performance.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Agenda, reports and minutes</li> </ul>		Tobyn Hughes
3. Arrangements with Nexus and TT2 Ltd (Tyne Tunnel operators)	<p>Arrangements with Nexus and TT2 Ltd (Tyne Tunnel operators) are clearly understood in terms of responsibilities, deliverables and funding.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Grant Funding Agreements, Nexus Corporate Business Plan and annual budget (and monitoring reports), Tyne Tunnel Project Agreement, minutes of TT2 Client Liaison meetings</li> </ul>		Tobyn Hughes
4. Discharge of functions by Northumberland and Durham County Councils to Highways Authority	<p>NCC and DCC deliver certain transport services under a delegation from the North East CA</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Regular report from DCC and NCC to Cabinet over the exercise of their delegations</li> </ul>		Tobyn Hughes
5. Delivery of projects through local authority partners	<p>Much of the Transport Programme is delivered by local authorities and Nexus</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Grant Funding Agreements in place, application of Single Assurance Framework, oversight from TOG and Finance &amp; Investment Board</li> </ul>		Tobyn Hughes
6. Ongoing liaison with operation	<p>Provide oversight of risk and allow for early mitigations to be employed.</p>		Tobyn Hughes

bodies co-ordination of risk mitigation approaches	<b>Assurance Source:</b> • Programme risk registers • Programme Steering Groups			
7. Joint funding strategies developed	Ensure there is a read-across between North East CA, Nexus and Highways Authorities in terms of strategic funding approaches particularly for asset maintenance.			Tobyn Hughes
	<b>Assurance Source:</b> • Local Transport Plan • Transport Advisory Board			
<b>Current Score of Risk (as at new risk raised on 24 June 2024):</b>				
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:	
E	1	E1 (A)	Unlikely that operational functions would cease or would be significantly diminished. However, risk of external circumstances impacting on operations is minor possibility. Risk of securing financial support to ensure essential maintenance can be completed. If the operational functions were to negatively affect the network there could be a severe impact on the region.	
<b>New Controls:</b>		<b>How will it reduce the risk?</b>		<b>Senior Officer:</b>
				<b>Date new control will be in place:</b>
1. Review of transport delivery functions	Understand the “value chain” of transport projects and delivery, including where the responsibilities and handover points lie between partners. Restructure relationships and relevant parts of the organisation accordingly.		Tobyn Hughes	April 2025
2. Partnerships with independent external bodies	Create partnerships with independent external bodies, including National Highways, Great British Railways, and bus operators, to align objectives with the North East CA’s transport programme. Develop Terms of Reference for Partnership Boards and create MOU where appropriate.		Tobyn Hughes	April 2025
<b>Target Score of Risk:</b>				
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:	
F	2	F2 (G)	Likelihood would be severely diminished, outside of force majeure, however, impact if realised would still be significant.	

New risk raised: 24 June 2024  
New risk raised by: Jonathan Bailes  
Agreed by SLT: 31 July 2024

<b>Risk Subject:</b>	<b>St003: Inclusive Growth</b>			<b>Risk Owner:</b>	<b>Rob Hamilton / Leigh Mills</b>	
<b>Risk Detail:</b>						
There is a risk that North East CA's ambition on inclusive growth and creating opportunities for all, may not deliver planned outcomes to improve wellbeing for all whilst reducing inequality and removing barriers.						
<b>Opportunity:</b>						
Embedding our ambitions on inclusive growth in everything we do, creating a fairer North East, working with partners to create 'good jobs' increasing opportunities for our residents						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
X	X	X	X	X	X	X
<b>Cause of Risk:</b>						
This risk has been raised to reflect the need for a joined up approach in delivering programmes across the region, with a view to addressing the economic and social inequalities that exist within the region, enabling inclusive growth and opening up opportunities for all residents to contribute to the region's success. Failure to achieve the planned outcomes to reduce inequality and remove barriers to ensure opportunities and jobs are available to traditionally underserved groups, present a risk of further widening the gap which will have impacts both in respect of health and wellbeing, and an inability to meet current and future employer demand and grow a more resilient local economy.						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>NECA finances</b>	CA investment is not targeted towards programmes of inclusive growth.	<ul style="list-style-type: none"> <li>The CA does not have sufficient financial resource to deliver on its inclusive growth ambitions</li> <li>Impact on value for money and impact on programmes and benefits</li> </ul>		<ul style="list-style-type: none"> <li>Performance Reporting</li> <li>Budget monitoring</li> <li>State of the Region Report</li> </ul>		
<b>Local economy</b>	<ul style="list-style-type: none"> <li>NE 'offer' not viewed as internationally competitive (due to UK or local issues) leading to reduction of investment and reinvestment</li> <li>Deterioration in foundations for economic growth – capabilities, business environment, innovation, skills base, infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Adverse impact on residents' quality of life, with poorer health outcomes, more people living in poverty and increased levels of crime and disorder.</li> <li>Loss of external investment opportunities</li> <li>Fewer new jobs</li> <li>Lower pay</li> <li>Adverse impact on productivity and economic growth due to skills gaps, low employment, rising economic inactivity and increasing demand on public services.</li> </ul>		<ul style="list-style-type: none"> <li>Evidence Hub / Strategic Evidence Base</li> <li>State of the Region Report</li> </ul>		

	<ul style="list-style-type: none"> <li>• Closure of a large business</li> <li>• Levels of inequality persist or rise</li> <li>• Rise in unemployment</li> <li>• Increase in child poverty</li> <li>• Poorer health outcomes</li> </ul>		
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>• Programmes and projects designed without equality and inclusion considerations</li> </ul>	<ul style="list-style-type: none"> <li>• Missed opportunities to maximise impact of investment by focussing on supporting residents most at risk of being left behind.</li> <li>• Projects do not achieve intended outcomes and/or address local need.</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Reporting</li> <li>• Evaluation reports</li> <li>• Equality Impact Assessments.</li> </ul>
<b>Health, Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>• Projects are designed without considering opportunities to improve health, wellbeing and/or public safety</li> </ul>	<ul style="list-style-type: none"> <li>• Missed opportunities to maximise impact of investment through the inclusion of Health and wellbeing objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Reporting</li> <li>• Evaluation reports</li> <li>•</li> </ul>
<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>• Inclusive growth is not embedded within the CA's ways of working</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on Mayor and Cabinet priorities in respect of inclusive growth not being met</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Reporting</li> <li>• Evaluation reports</li> <li>• Staff survey</li> </ul>
<b>Morale</b>	<ul style="list-style-type: none"> <li>• Staff and stakeholders feel disillusioned that we are not delivering in line with our commitment and values.</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on staff retention</li> <li>• Failure to attract talent</li> <li>• Lack of engagement from stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Staff survey</li> <li>• Evaluation reports</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>• News/media enquiries</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse impact on the reputation of North East CA if inclusive growth is not prioritised</li> <li>• Lack of public and Governmental trust in the power of devolution to create a fairer North East.</li> <li>• Lack of consistency and clear messaging compromises public and stakeholder trust in North East CA's commitment to creating a fairer NE.</li> </ul>	<ul style="list-style-type: none"> <li>• Social media activity</li> <li>• Reports on media enquiries and articles – trends and patterns</li> </ul>
<b>Legal / Regulatory</b>	<ul style="list-style-type: none"> <li>• Non-compliance with Public Sector Equality Duty</li> </ul>	<ul style="list-style-type: none"> <li>• Legal action taken by Equality and Human Rights Commission.</li> </ul>	<ul style="list-style-type: none"> <li>• Progress against equality objectives.</li> <li>• Annual equality report.</li> </ul>
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>

		<b>How are we assured of the control in place?</b>		
1. Strategic commitments as set out in corporate plan and portfolio plans		<p>The North East CA has a strategic commitment to create a Fairer North East by narrowing inequalities.</p> <p>The Investment Framework includes a commitment to reducing economic and social inequalities, particularly those experienced by the most deprived and vulnerable communities.</p>		Rob Hamilton / Leigh Mills
		<p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• The North East Combined Authority Investment Framework</li> </ul>		
2. North East CA Deal and Deeper Devo Deal		<p>A commitment to reducing inequalities and addressing disparities is included in the North East devolution deal.</p>		Rob Hamilton / Leigh Mills
		<p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• The North Devolution Deal</li> </ul>		
3. Inclusion and Inequalities included in the development and embedding of Portfolio plans.		<p>Evidence driven portfolio plans have been developed that align to the CAs commitments on inclusive growth and set the foundations for delivering inclusive projects and programmes.</p>		Rob Hamilton / Leigh Mills
		<p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• The North East Combined Authority Portfolio Plans</li> </ul>		
4. The Single Assurance Framework		<p>The Single Assurance Framework sets out arrangements to ensure:</p> <ul style="list-style-type: none"> <li>• Accountable and transparent decision making</li> <li>• Appraise and allocate funding</li> <li>• Monitor and evaluate projects</li> </ul> <p>It ensures all investment proposals are sufficiently tested to ensure they achieve value for money and projected outcomes in line with the CAs strategic ambitions.</p>		Janice Gillespie
		<p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• The Single Assurance Framework</li> </ul>		
<b>Current risk score as when new risk raised: 20 June 2024</b>				
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:	
D	2	D2 (A)	The policies and strategies are in development for the new organisation, however there are interim processes and procedures and existing ways in working which will mitigate the risk to some extent. This is coupled with existing capacity and dedicated roles specific to inclusion and inequalities.	
<b>New Controls:</b>		<b>How will it reduce the risk?</b>		<b>Senior Officer:</b>
				<b>Date new control will be in place:</b>

1. Development of strategies and frameworks	The North East CA will work with stakeholders and partners to further develop policy to maximise opportunities in respect of inclusive growth, including: <ul style="list-style-type: none"> <li>• Local Growth Plan</li> <li>• The North East Skills Strategy</li> <li>• The North East employment strategy</li> <li>• An Inclusive Local Industrial Strategy</li> <li>• Inclusion Framework</li> <li>• Health and wellbeing framework.</li> </ul> This will drive the development of projects and programmes focused on inclusive growth outcomes.	Leigh Mills/ Mark Stamper	Dec 2024
2. Staff training and development	North East CA staff will receive training on the single assurance framework to ensure project/programme proposals are developed to a high standard, deliver value for money in line with the CA's objectives.  Staff will also have access to online equality training and development modules.	Chrisi Page/ Robin Fry	October 2024
3. Assurance Framework	The single assurance framework and supporting business process will be subject to regular review to ensure it supports the development and delivery of projects/programmes in line with the CAs objectives.	Chrisi Page	Ongoing
4. Portfolio Advisory Boards	The Portfolio Advisory Boards will play an important role, including: <ul style="list-style-type: none"> <li>• supporting members of the Authority in overseeing the delivery of the vision, ambitions and programmes of activity set out in the Authority's Corporate Plan and associated plans and strategies;</li> <li>• bringing together key stakeholders to support the development and delivery of these ambitions and programmes; and</li> <li>• provide advice and information to the Authority to ensure there is a robust evidence base for decision-making.</li> </ul>	Elizabeth Kerr	August 2024
<b>Target Score of Risk:</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
E	3	E3 (G)	It is expected that as new controls are implemented, and permanent processes and procedures are in place that the risk score will reduce.

New risk raised: 20 June 2024  
New risk raised by: Leigh Mills  
Agreed by SLT: 31 July 2024



<b>Risk Subject:</b>	<b>St004: Net Zero</b>	<b>Risk Owner:</b>	<b>Rob Hamilton</b>			
<b>Risk Detail:</b>						
There is a risk that North East CA's Net Zero ambitions may not be achieved with insufficient funding and resources and should it not prove possible to form the necessary coalition of partners, including across the public and VCSE sectors, businesses and residents.						
<b>Opportunity:</b>						
There is an opportunity to lead as an example on how to manage Net Zero at a regional level, grow the low carbon economy, and to support LAs to achieve their targets						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
X	X	X	X	X	X	X
<b>Cause of Risk:</b>						
<p>This risk has been raised to reflect the importance on the work North East CA will undertake to progress Net Zero and low carbon growth throughout the region and scale of work required across all portfolios to achieve this.</p> <p>North East CA will work with Local Authorities and external bodies to achieve our strategic ambitions in respect of Net Zero, however it is acknowledged that there will be significant activity in this area outside the Combined Authority's direct control.</p> <p>A number of schemes are also externally funded which may result in certain requirements being met to be successful in winning funding bids and preventing clawback.</p> <p>As this risk cuts across all portfolios there is collective Cabinet responsibility, this creates both an opportunity to truly embed Net Zero considerations across portfolio activity but also a risk that there may be an assumption by Portfolio Leads that it is being progressed elsewhere in the Combined Authority, resulting in lower outcomes. This could also result in the perception that North East CA is not adequately responding to the climate crisis or delivering against ambitions set out in devolution deals and mayoral manifesto.</p>						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>			<b>Supporting Trend Data</b>	
<b>NECA finances</b>	<ul style="list-style-type: none"> <li>Insufficient resources available within the MTFP for Net Zero activity</li> </ul>	<ul style="list-style-type: none"> <li>Funding could be lost if requirements are not met.</li> <li>Insufficient resources to meet ambitions</li> </ul>			<ul style="list-style-type: none"> <li>Programme performance reporting</li> </ul>	
<b>Local economy</b>	<ul style="list-style-type: none"> <li>NE 'offer' not viewed as internationally competitive (due to UK or local issues) leading to reduction of investment and reinvestment</li> <li>Failure to secure a floating wind leasing round</li> </ul>	<ul style="list-style-type: none"> <li>Loss of external investment opportunities</li> <li>Fewer new jobs</li> <li>Existing companies unable to successfully transition to low carbon economy</li> </ul>			<ul style="list-style-type: none"> <li>Programme performance reporting</li> <li>State of the Region reports</li> </ul>	

	<ul style="list-style-type: none"> <li>Failure to progress heat networks</li> </ul>		
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>Failure to deploy Green New Deal funding</li> </ul>	<ul style="list-style-type: none"> <li>Key programme milestones may not be met</li> <li>Private Sector investment significantly lower than expectations</li> </ul>	<ul style="list-style-type: none"> <li>Programme performance reporting</li> </ul>
<b>Health, Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>Failure to deliver retrofit or active transport programmes</li> </ul>	<ul style="list-style-type: none"> <li>Co benefits that would improve the health and wellbeing of the region may not be realised.</li> </ul>	<ul style="list-style-type: none"> <li>Programme performance reporting</li> </ul>
<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>Failure to demonstrate our commitment to creating 'a greener North east'</li> <li>Failure to demonstrate to government delivery of the devolution deal in full.</li> </ul>	<ul style="list-style-type: none"> <li>North East CA deal priorities may not be met impacting on government confidence in the CA and future funding/devolution opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate reporting</li> <li>Programme performance reporting</li> <li>Gateway review – progress against the local evaluation framework</li> </ul>
<b>Morale</b>	<ul style="list-style-type: none"> <li>Staff and stakeholders feel disillusioned that we are not delivering in line with our commitment and values.</li> </ul>	<ul style="list-style-type: none"> <li>High staff turnover</li> <li>Failure to attract talent</li> <li>Lack of engagement from stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Staff survey</li> <li>Stakeholder surveys</li> <li>Evaluation reports</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>News/media enquiries</li> </ul>	<ul style="list-style-type: none"> <li>Adverse impact on reputation Net Zero activity is not prioritised and if investment activity does not meet our ambitions published in the deal, commitments, corporate and portfolio plans.</li> </ul>	<ul style="list-style-type: none"> <li>Social media activity</li> <li>Reports on media enquiries and articles – trends and patterns</li> </ul>
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. North East CA will continue to engage with Department for Energy Security and Net Zero (DESNZ) and relevant external bodies.	<p>This will enable an understanding of latest government policy, priorities and potential funding opportunities to support the delivery of commitments within the devolution deal on Net Zero and the ongoing development of climate initiatives within the region.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>Partnership agreement with North East and Yorkshire Net Zero Hub (DESNZ funded)</li> <li>Active participation on Hub Board</li> </ul>		Rob Hamilton/Ross Lowrie
2. Embedding of Net Zero across Portfolio activity and NECA	<p>This ensures that Net Zero is delivered throughout all portfolios. This will also ensure that business areas understand their responsibilities in respect of Net Zero.</p>		Rob Hamilton/Ross Lowrie

Governance arrangements	<b>Assurance Source:</b> Strategic Portfolio Plan Monitoring and Evaluation Framework Corporate Plan			
3. There are a number of existing programmes of delivery that are delivering on the CAs Net Zero ambitions e.g. Retrofit Advice Service, Green New Deal Fund and Energy Accelerator	These will continue to provide vehicles for targeted Net Zero investment.			Rob Hamilton/Ross Lowrie
	<b>Assurance Source:</b> Contract Management Performance Reporting Project Governance			
4. Existing Dedicated Net Zero Capacity within North East CA	Provides dedicated expertise within the Combined Authority to drive agenda forward, deliver programmes and provide expert advice across to the Combined Authority and constituent LAs.			Rob Hamilton/Ross Lowrie
	<b>Assurance Source:</b> • Net Zero team in situ • Performance reporting			
5. Net Zero North East England Partnership Board	The Board will provide an assurance function to ensure that commitments are being delivered.			Rob Hamilton/Ross Lowrie
	<b>Assurance Source</b> • Terms of Reference, agenda's, reports and minutes			
<b>Current risk score as when new risk raised: 24 June 2024</b>				
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:	
C	3	C3 (A)	There are resources and plans in place to deliver Net Zero, however reputationally progress against plans will remain high profile and performance will be scrutinised by media, public and environmental NGOs.	
<b>New Controls:</b>		<b>How will it reduce the risk?</b>		<b>Senior Officer:</b>
				<b>Date new control will be in place:</b>
1. North East CA will build on previous work, and opportunities under this devolution deal, to develop a North East Retrofit capacity building programme, identifying measures needed to promote a viable, stable, long term approach to retrofit with which the Local Net Zero Hub can provide support		This will look to build upon existing piece meal approach with a view to developing a more cohesive approach.		Rob Hamilton/ Ross Lowrie
2. North East CA will establish a North East Strategic Energy		The Board will review regional grid connectivity, understand future grid capacity, accessibility and the joint-		Mark Stamper/ Ross Lowrie
				December 2024

<p>Board (sub group to Economy Board)to guide energy policy in the region and liaise and coordinate between stakeholders including the National Grid, Ofgem, electricity providers, and large energy consumers.</p>	<p>investments that will be needed to underpin inclusive growth within the region’s relevant industries and sites. DESNZ will provide observer representation on this Board.</p>		
<p>3. We will work with government and local authorities to enable heat networks in the region, including implementing heat network zoning</p>	<p>Heat networks are a key mechanism for decarbonising heating in public, commercial and domestic properties, they are referenced within the Portfolio Plan for Housing and Land. Development of a heat network supply chain will contribute to low carbon growth and exportable capability</p>	<p>Rob Hamilton/Ross Lowrie</p>	<p>Unconfirmed – developing proposal</p>
<p>4. We will develop a cohesive approach to Offshore Wind, including maximising the opportunity of floating wind</p>	<p>NECA will minimise transition risks from oil &amp; gas through to a low carbon economy by maximising supply chain opportunities and jobs in the North East for floating wind (inc floating, O&amp;M, robotics) This will be set out in the Inclusive Industrial Strategy and a sector growth opportunity plan.</p>	<p>Mark Stamper/ Ross Lowrie</p>	<p>December 2024</p>
<p>5. NECA will work with Government, regional partners and the North East and Yorkshire NZ Hub to progress recommendations in the geothermal white paper</p>	<p>We will break down barriers to deployment of geothermal and minewater, therefore enabling schemes in the region</p>	<p>Rob Hamilton/ Ross Lowrie</p>	<p>December 2024</p>
<p>6. Develop governance proposal for senior/political accountability of Net Zero in North East CA</p>	<p>Recognise the significant risk of falling short of climate ambition by putting in place senior ownership and accountability for Net Zero across the portfolios.</p>	<p>Rob Hamilton/ Ross Lowrie</p>	<p>December 2024</p>

Target Score of Risk:			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
D	3	D3 (G)	Through the embedding of both existing and new controls the likelihood of risk will reduce over time, however climate change will still be subject to scrutiny.

New risk raised: 25 June 2024  
New risk raised by: Ross Lowrie  
Agreed by SLT: 31 July 2024

<b>Risk Subject:</b>	<b>ST005: Political &amp; Policy Change</b>			<b>Risk Owner:</b>	<b>Chief Executive</b>	
<b>Risk Detail:</b>						
There is a risk that the North East CA do not have the capacity to engage with, adapt and respond at pace to political and policy changes in a structured and comprehensive way.						
<b>Opportunity:</b>						
If the North East CA is able to demonstrate it is agile and adaptable this may provide further opportunities to expand on the existing devolution deals or access additional funding.						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
X	X	X	X	X	X	X
<b>Cause of Risk:</b>						
This risk has been raised to reflect that the recent change in Government, and any subsequent new / changes to policy, may have an impact on the North East CA as an organisation, its remit and its ability to deliver the deal, its ambitions and portfolio plans. This includes: <ul style="list-style-type: none"> <li>• We are embedding a new organisation at a time of potential significant national political change which can bring uncertainty.</li> <li>• Further organisational change may be required as a result of national policy.</li> <li>• Capacity to exploit opportunities that political change will bring – we need to be prepared with our asks for a new government and agile enough to take advantage of the change.</li> <li>• A significant proportion of funding is reliant on short term government awards, e.g. skills bootcamps and UK Shared Prosperity Fund (UKSPF), without long term funding agreements and commitments.</li> <li>• Government decisions may significantly impact upon current funding, long term plans and our ability to deliver.</li> </ul>						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>North East CA finances</b>	<ul style="list-style-type: none"> <li>• Changes in National Policies and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on future funding and on maintaining delivery momentum</li> <li>• Impact on budget stability</li> <li>•</li> </ul>		<ul style="list-style-type: none"> <li>• Manifesto</li> <li>• Parliamentary Statement/ Announcement</li> </ul>		
<b>Local economy</b>	<ul style="list-style-type: none"> <li>• Changes in National Policies and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>• Potential delays in delivering/ failure to deliver existing commitments</li> <li>• Reduced Government investment in the North East</li> <li>• Potential unwillingness for companies to invest in the region.</li> </ul>		<ul style="list-style-type: none"> <li>• State of the Region Reports</li> <li>• Performance data</li> <li>• Parliamentary announcements</li> </ul>		
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>• Changes in National Policies and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on delivery of key programmes and projects</li> </ul>		<ul style="list-style-type: none"> <li>• Manifesto</li> </ul>		

			<ul style="list-style-type: none"> <li>Parliamentary Statement/ Announcement</li> </ul>
<b>Health, Safety &amp; Wellbeing</b>			
<b>North East CA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>Changes in National Policies and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>Changes to the North East CA Offer</li> <li>Impact on delivery of ambitions</li> </ul>	<ul style="list-style-type: none"> <li>Performance Reporting</li> </ul>
<b>Morale</b>			
<b>Reputation</b>	<ul style="list-style-type: none"> <li>Changes in National Policies and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>Impact on reputation if the Mayor and Cabinet priorities cannot be met.</li> <li>Adverse impact on relationships with stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Local media</li> <li>Anecdotal</li> </ul>
<b>Legal / Regulatory</b>			
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. Membership of networks/ relationships built with key figures nationally and locally	Allows for some forward planning if see change of direction being flagged	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>SLT and other senior managers ensuring they and the North East CA are visible to the policy makers and decision takers.</li> <li>Attendance and invitations to events/meetings/conferences etc.</li> </ul>	Directors / Heads of Service
2. Workforce development plan/process	Allows for timely recruitment /reorganisation if see change of direction being flagged/get notice of change	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>Corporate reporting</li> </ul>	Head of HR/OD & H&S
3. Reading of sector related press/publications/blogs to do Horizon scanning	Allows for early discussions and testing of ideas/solutions and wider sector collaboration/response.	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>Reports to Cabinet and SLT</li> </ul>	SLT/Heads & Snr Management
<b>Current Score of Risk (as at new risk raised on 25 June 2024):</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
B	3	B3 (A)	The new Government have indicated changes on how devolution in the country is managed but full details and impact unknown. To be aware of and monitored.

New Controls:		How will it reduce the risk?		Senior Officer:	Date new control will be in place:
1. Good internal communication routes to be established to pass messages down and hear messages coming up		Ensures senior management is aware of the temperature of the organisation and that they and the entire workforce are aware of any impact following any change to what we will deliver as an organisation.  This will also ensure that there is political engagement with Cabinet and Government Ministers.		Jacqueline Laughton	September 2024
Target Score of Risk:					
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:		
E	3	<b>E3 (G)</b>	Once the new Government has made clear any changes in legislation, policy and funding work will be undertaken to assess the impact and take required action.		

New risk raised: 25 June 2024

New raised by: Liz Kerr

Agreed by SLT: 31 July 2024



<b>Risk Subject:</b>	<b>St006 - Operational Capacity and Resources</b>			<b>Risk Owner:</b>	<b>Jacqueline Laughton</b>	
<b>Risk Detail:</b>						
There is a risk that until capacity, systems and processes are fully in place to be able we may be unable to deliver ambitions with pace in line with stakeholder expectations.						
<b>Opportunity:</b>						
Opportunity to build upon experience and learning of current capacity to enable agile and efficient delivery of our ambitions.						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
X	X	X	X	X	X	X
<b>Cause of Risk:</b>						
This risk has been raised to reflect the maturity of the organisation following the transition of 5 organisations each with own cultures and ways of working into the North East CA. Additionally until relevant systems and processes are developed and fully embedded, we may have to rely on interim solutions or existing approached which may be may less joined up.						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>NECA finances</b>	<ul style="list-style-type: none"> <li>Inability to recruit to fill vacancies</li> <li>Identified skills gaps</li> </ul>	<ul style="list-style-type: none"> <li>Potential financial impact if processes are not in place and programme delivery is delayed</li> <li>Reliance on external expertise and associated costs</li> <li>Impact on VFM</li> </ul>		<ul style="list-style-type: none"> <li>Performance data</li> <li>Budget monitoring</li> </ul>		
<b>Local economy</b>						
<b>Programme / Project</b>	<ul style="list-style-type: none"> <li>Inability to recruit to fill vacancies</li> <li>Identified skills gaps</li> <li>Lack of clarity of systems and processes</li> </ul>	<ul style="list-style-type: none"> <li>Potential programme and project delays with key milestones being missed</li> </ul>		<ul style="list-style-type: none"> <li>Performance data</li> <li>Pulse surveys</li> </ul>		
<b>Health, Safety &amp; Wellbeing</b>	<ul style="list-style-type: none"> <li>Lack of steer on vision, clarity on roles and expectations</li> <li>Pressure on existing resources</li> <li>Poor communication</li> </ul>	<ul style="list-style-type: none"> <li>High levels of staff sickness and absence</li> </ul>		<ul style="list-style-type: none"> <li>HR Reports</li> <li>Pulse surveys</li> <li>Data from wellbeing providers</li> </ul>		
<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>Inability to recruit to fill vacancies</li> <li>Identified skills gaps</li> <li>Lack of clarity of systems and processes</li> <li>Lack of steer on vision, clarity on</li> </ul>	<ul style="list-style-type: none"> <li>Cabinet and Mayoral priorities not met</li> </ul>		<ul style="list-style-type: none"> <li>HR Reports</li> <li>Pulse surveys</li> <li>Data from wellbeing providers</li> <li>Performance data</li> </ul>		

	<ul style="list-style-type: none"> <li>roles and expectations</li> <li>• pressure on existing resources</li> <li>• Poor communication</li> </ul>		
<b>Morale</b>	<ul style="list-style-type: none"> <li>• Lack of steer on vision, clarity on roles and expectations</li> <li>• pressure on existing resources</li> <li>• Poor / inconsistent communication</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on staff morale</li> </ul>	<ul style="list-style-type: none"> <li>• HR Reports</li> <li>• Pulse surveys</li> </ul>
<b>Reputation</b>		<ul style="list-style-type: none"> <li>• Adverse impact on reputation if stakeholder expectations are not met</li> <li>• Inconsistent / inaccurate messages could impact on reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse media coverage</li> </ul>
<b>Legal / Regulatory</b>			
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. Organisational Governance	<p>This ensures there will be oversight and decision making at a strategic level.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• SLT and Cabinet agenda, reports and minutes</li> </ul>		Jacqueline Laughton
2. Organisational structure in place	<p>Staff from previous of 5 family organisations transferred across bringing experience, knowledge and skills. There is also defined roles and responsibilities in place across all business areas.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Staff in situ</li> </ul>		Jacqueline Laughton
3. SLA in place with Durham CC which includes some HR functions and recruitment.	<p>Ensure that recruitment is undertaken as and when required following a consistent approach throughout the CA.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• A number of roles have been successfully recruited into</li> </ul>		Tracey Hives
4. Organisational Values	<p>Ensures that all staff are aware of the North East CA values enabling them to become embedded in the organisational culture.</p> <p><b>Assurance Source:</b></p> <ul style="list-style-type: none"> <li>• Organisational Values are published</li> </ul>		Tracey Hives
<b>Current Score of Risk (as at new risk raised 10 July 2024):</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
D	2	D2 (A)	Although the organisation is newly established good progress has been made in developing frameworks, processes along with ensuring that required capacity is in place.
<b>New Controls:</b>	<b>How will it reduce the risk?</b>		<b>Senior Officer:</b>
			<b>Date new control will be in place:</b>

1. Workforce planning (include succession planning)	Clear identification of resources and future needs of the business which will link into our succession planning.	Tracey Hives	Dec 24
2. Internal communication plan	Structured communication strategy that will help inform the workforce on progress, updates, etc	Stuart Tarbuck	Dec 24
3. Relevant Frameworks (e.g. risk, assurance, monitoring and evaluation and investment)	These will set out the organisational approach and provide the basis for consistent ways of working throughout the organisation.	Janice Gillespie / Jacqueline Laughton	September 24
4. Capacity analysis	To establish current ways of working and identify processes that need to be implemented.	Jacqueline Laughton	December 24
5. Systems to be fully implemented e.g. HR, Financial and Project and Programme management.	Will provide a clear and consistent approach throughout the organisation.	Janice Gillespie / Jacqueline Laughton	December 24
<b>Target Score of Risk:</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
E	3	E3 (G)	Through the implementation of new controls and further embedding of existing it is expected that the risk score will reduce.

New risk raised: 10 July 2024  
New risk raised by: Jonathan Bailes  
Agreed by SLT: 31 July 2024

<b>Risk Subject:</b>	<b>St007: Accessing data to allow performance reporting</b>	<b>Risk Owner:</b>	<b>Jen Robson</b>			
<b>Risk Detail:</b>						
<p>There is a risk that until we have fully integrated systems and digitalised/automated processes across the five directorates, corporately, we will not be able to easily identify what data is collected where and how it is processed to easily allow performance reporting.</p> <p>Until our systems are aligned an interim process will need to be created to collate data from multiples sources to enable performance reporting. This will be complex due to the inconsistencies around data processing and multiple systems in use across the organisations and may result in the North East CA being unable to deliver ambitions related to transparent and accurate performance management, at a pace which aligns with stakeholder expectations.</p>						
<b>Opportunity:</b>						
To create a data and digital strategy which builds upon learnings from five legacy organisations to ensure that the data we collect and the systems and processes which underpin collection and performance reporting are ambitious and innovative.						
<b>Links to Corporate Plan:</b>						
Transport	Environment Coast and Rural	Economy	Culture, Creative, Tourism and Sport	Finance and Investment	Housing and Land	Education, Inclusion and Skills
X	X	X	X	X	X	X
<b>Cause of Risk:</b>						
This risk has been raised to reflect the maturity of the organisation following the transition of 5 organisations each with their own data cultures, ways of working and digital systems and processes into the North East CA. Until relevant systems and processes are operationalised, the North East CA will have to rely on manual intervention for collating data in relation to requests for performance information and reporting, where automated systems are not in place.						
<b>Consequences of the risk materialising and risk indicators:</b>						
	<b>Trigger</b>	<b>Consequence</b>		<b>Supporting Trend Data</b>		
<b>NECA finances</b>						
<b>Local economy</b>						
<b>Programme / Project</b>						
<b>Health, Safety &amp; Wellbeing</b>						
<b>NECA Plan / Our Values</b>	<ul style="list-style-type: none"> <li>Unable to consistently quality assure data from multiple sources when creating performance reports</li> </ul>	<ul style="list-style-type: none"> <li>There may be inconsistencies in reports due to difficulty in quality assuring data</li> </ul>		<ul style="list-style-type: none"> <li>Reporting schedule</li> </ul>		
<b>Morale</b>						
<b>Reputation</b>	<ul style="list-style-type: none"> <li>Regular reporting to cabinet, government and other stakeholders</li> <li>Requests for data from media and wider stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Adverse impact on reputation if stakeholder expectations are not met in a timely manner</li> <li>Inconsistent / inaccurate performance reporting could impact on reputation</li> </ul>		<ul style="list-style-type: none"> <li>Adverse media coverage</li> </ul>		

<b>Legal / Regulatory</b>	<ul style="list-style-type: none"> <li>Unable to meet expectation set out in Gateway review</li> </ul>	<ul style="list-style-type: none"> <li>Unable to accurately report on impact our of funds due to not having an agreed performance framework to ensure consistency across the organisation</li> </ul>	<ul style="list-style-type: none"> <li>Gateway review feedback</li> </ul>
<b>Existing Controls:</b>	<b>How does it reduce the risk?</b>		<b>Senior Officer:</b>
	<b>How are we assured of the control in place?</b>		
1. All projects and programmes have been consistently prior to establishment of North East Combined Authority.	All reports have met expectations prior to the establishment of the North East Combined Authority and those reporting systems remain unchanged.		Jacqueline Laughton
	<b>Assurance Source:</b> <ul style="list-style-type: none"> <li>Performance Reporting</li> </ul>		
<b>Current Score of Risk (as at update received 1 July 2024):</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
A	4	A4 (A)	Due to different systems and processes in place at the moment, it is almost certain that this risk will materialise when the North East CA needs to report on its performance in the next quarter. This impact of this, while time consuming, is likely to be minor. This is tolerable while the organisation is still in its infancy. As the organisation matures and what it is delivering grows the of not being able to accurately report performance will increase.
<b>New Controls:</b>	<b>How will it reduce the risk?</b>		<b>Senior Officer:</b>
			<b>Date new control will be in place:</b>
1. Relevant Frameworks to set out organisational approach (e.g. risk, assurance, monitoring and evaluation and investment)	Agreed frameworks will bring consistency to teams' approach to governance, risk, delivery and performance and underpin the establishment of shared ways of working.		Jen Robson
2. Mapping existing processes	To establish relevance and effectiveness, identify any gaps and efficiencies. With a view to look at potential for technological automation of processes.		Jen Robson
3. Creation of a data and digital strategy	An agreed strategy which sets out the North East CA's approach to data collection and the systems which underpin it will create consistency and ensure all activity going forward is aligned.		Jen Robson
4. Systems to be fully implemented and agreed Project and Programme management approach and underpinning	An agreed data and digital strategy underpinning the systems used and supported through an agreed programme management approach will ensure consistent and share ways of working across the organisation and reduce the risk of data being collected		Jen Robson

processes operationalised.	and processed in ways which do not align with the digital infrastructure of the North East CA.		
<b>Target Score of Risk:</b>			
Likelihood: A,B,C,D,E,F	Impact: 1,2,3,4	Full: RAG	Reasons:
E	4	E4 (G)	Once an integrated system with digitalised and automated process is in place, underpinned by a data and digital strategy, all data needed for performance reporting will be stored in the North East CA's digital infrastructure and be accessible in performance dashboards which show live data, the risk of data being stored in multiple places and the need for manual processes to enable performance reporting will be significantly reduced.

Risk raised: 1 July 2024  
New risk raised by: Jen Robson  
Agreed by SLT: 31 July 2024

**17 September 2024**

**Subject: Audit Strategy Memorandum – Period ending 6 May 2024**

**Report of: External Auditor**

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## **Report Summary**

The purpose of this report is to review the External Auditor's Audit Strategy Memorandum for the 2023/24 accounts. 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, Proposals and Timetable for Implementation**

- 1.1 The Audit Strategy Memorandum summarises the audit approach, highlights significant audit risks and areas of key judgements, and provides details of the audit team. The document also summarises considerations and conclusions around Mazars' independence as auditors and forms the basis for a discussion around audit approach.
- 1.2 The reports include an appendix that outline key communications with the Audit and Standards Committee during the course of the audit and forthcoming accounting issues and other issues that may be of interest.

### **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 The proposed audit fees for the 2023/24 audits is set out in the reports. The increase in audit fees is largely driven by the national Public Sector Audit Appointments procurement process and will be accommodated in current 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 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 The reports have been discussed with Combined Authority statutory officers.

## **8. Appendices**

Appendix 1 – Audit Strategy Memorandum – North East Combined Authority – Period ending 6 May 2024

Appendix 2 – Audit Strategy Memorandum – North of Tyne Combined Authority – Period ending 6 May 2024

## **9. Background Papers**

None

## **10. Contact Officers**

Eleanor Goodman, Interim Head of Finance, [Eleanor.goodman@northeast-ca.gov.uk](mailto:Eleanor.goodman@northeast-ca.gov.uk)

## **11. Glossary**

None.





# Audit Strategy Memorandum

## North East Combined Authority – Period ending 6 May 2024

5 September 2024

Members of the Audit and Standards Committee

North East Combined Authority  
The Lumen  
St James' Boulevard  
Newcastle-upon-Tyne  
NE4 5BZ

Forvis Mazars

Bank Chambers  
26 Moseley Street  
Newcastle Upon Tyne  
NE1 1DF

5 September 2024

Dear Members

## Audit Strategy Memorandum – Period Ending 6 May 2024

We are pleased to present our Audit Strategy Memorandum for North East Combined Authority (NECA) for the extended year and period ending 6 May 2024.

For the avoidance of doubt, this is the audit of NECA for the final period of its existence in its previous form, for the extended 2023/24 financial year resulting in the period ending 6 May 2024, and our work is addressed to the new North East Mayoral Combined Authority, which is operating under the same name as the previous entity, NECA. There are separate Audit Strategy Memoranda for each of the two previous entities, NECA and the North of Tyne Combined Authority (NTCA).

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and

- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NECA which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 07896 684 771.

Yours Faithfully



Gavin Barker

Forvis Mazars LLP

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- 02** Your audit engagement team
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- 06** Audit fees and other services
- 07** Confirmation of our independence
- 08** Materiality and misstatements
  
- A** Appendix A – Key communication points
- B** Appendix B - Current year updates, forthcoming accounting and other issues
- C** Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

## Engagement and responsibilities summary

# Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of NECA for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Authority's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Authority in due course.

# Engagement and responsibilities summary

## Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Cabinet, as Those Charged With Governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of whether it is appropriate for NECA to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists; and
- b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

## Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



## Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NECA's internal control.

## Wider reporting and electors' rights

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

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of NECA and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

## Value for money

We are also responsible for forming a view on the arrangements that NECA has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

# 02

Your audit engagement team

# Your audit team

.Your external audit service will be led by Gavin Barker

Who	Role	Contact
Gavin Barker	Engagement Lead	<a href="mailto:Gavin.Barker@mazars.co.uk">Gavin.Barker@mazars.co.uk</a> 07896 684 771
Naser Alkobir	Engagement Manager	<a href="mailto:Naser.Alkobir@mazars.co.uk">Naser.Alkobir@mazars.co.uk</a> 07977 261 903
Simbarashe Mudzamiri	Engagement Team Leader	<a href="mailto:Simbarashe.Mudzamiri@mazars.co.uk">Simbarashe.Mudzamiri@mazars.co.uk</a> 07974 031 414





# 03

Audit scope, approach, and timeline

# Audit scope, approach, and timeline

## Audit scope

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

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

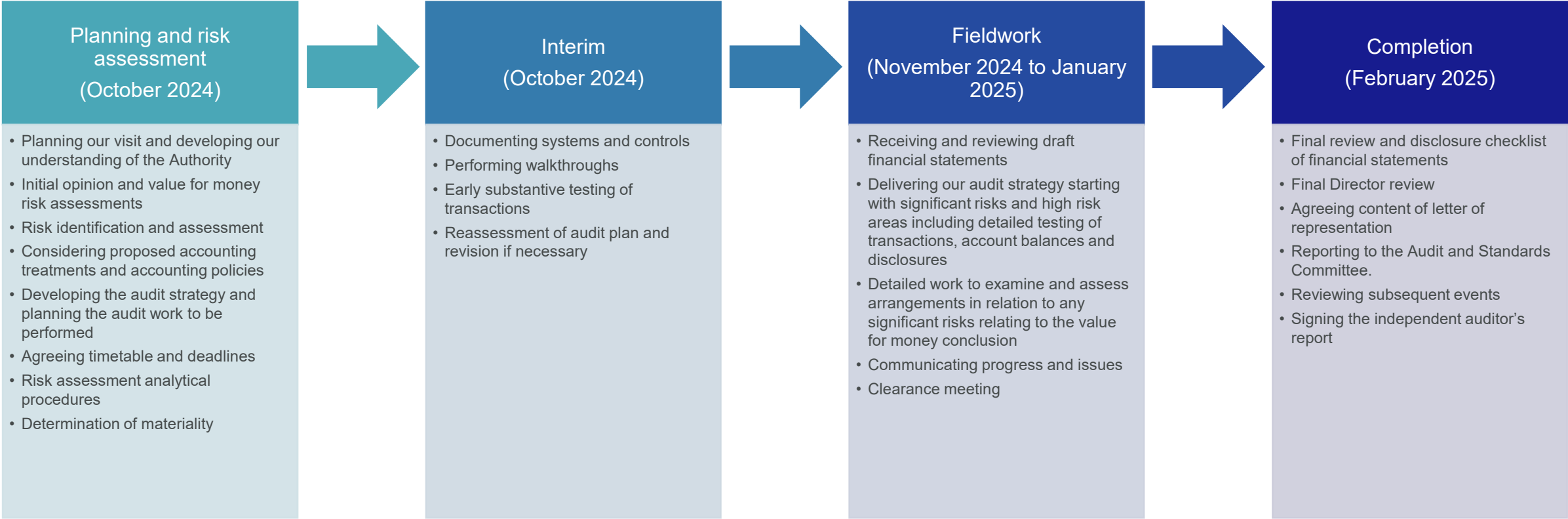
# Audit scope, approach, and timeline

## Risk-based approach



# Audit scope, approach, and timeline

## Audit timeline



# Audit scope, approach, and timeline

## Management's experts and our experts

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

Item of Account	Management's expert	Our expert
Defined Benefit Liability / Asset	Aon Hewitt Limited for the Local Government Scheme	National Audit Office, prepared by PwC.
Fair Values	Link Asset Service	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

The table below summarises the service organisations used by the Authority and our planned audit approach.

Item of Account	Service organisation	Audit approach
All areas	Durham County Council	We have sufficient access to officers and systems, along with all of the relevant financial information, to conduct our audit of NECA.

# Audit scope, approach, and timeline

## Group audit approach

We are responsible for the audit of the group consolidation. For the period ending 6 May 2024, the Group will be made up of the following components:

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

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

An analysis of Group is shown below setting out:

- an overview of the type of work to be performed on the financial information of the components, and
- The percentage of the components of the Group audited directly by Forvis Mazars.

The scope of our audit is based on an analysis of the risks we have identified at the Group level. When scoping our audit, we have considered quantitative criteria (the contribution of the Group’s consolidated components to the Group financial statements) and qualitative criteria (risks of material misstatement that consolidated components may present individually). A further analysis will be performed on the other entities to verify they do not present any other risks. Where necessary, we will include some of these subsidiaries in our audit scope.

Planned Group Scope by Entity:

Forvis Mazars are the auditors of the two main Group entities.

Entity	Auditor	Scope
North East Combined Authority	Forvis Mazars	Full scope audit
Nexus	Forvis Mazars	Full scope audit

NOTE: Tyneside Transport Services Limited is not subject to separate audit, and its transactions are not significant to the Group audit, therefore minimal audit procedures are undertaken in relation to this entity.

# Audit scope, approach, and timeline

## Key Developments

The below key developments have taken place in the year. We have set out below how we will approach these areas during our audit.

Key Development	Description	Planned Response
Formation of a North East Mayoral Combined Authority, operating as the North East Combined Authority from 7 May 2024	As a result, the previous NECA ceased to exist from 6 May 2024, and its final year of accounts for the 2023/24 financial year has been extended to the period ended 6 May 2024.	We plan to address this by ensuring the following: <ul style="list-style-type: none"><li>• Gaining a comprehensive understanding of the business operations, internal controls, and any changes that occurred during the extended period;</li><li>• Assessing the risk of material misstatement due to errors or fraud, especially focusing on periods of transition or significant changes; and</li><li>• Ensuring additional procedures are performed to sufficiently cover the extended period.</li></ul>

## Significant risks and other key judgement areas



# Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

## Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

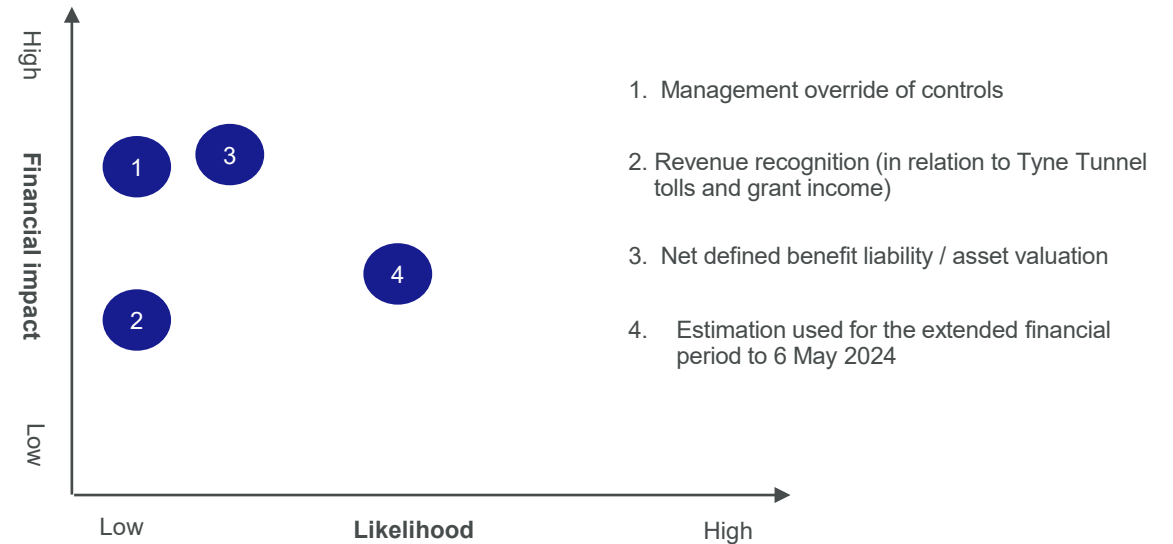
- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

## Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



1. Management override of controls
2. Revenue recognition (in relation to Tyne Tunnel tolls and grant income)
3. Net defined benefit liability / asset valuation
4. Estimation used for the extended financial period to 6 May 2024

Key: ● Significant risk    ● Enhanced risk / significant management judgement

# Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Standards Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls (Single entity and the Group accounts)</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	●	●	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and the Group accounts)</b></p> <p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>For the Authority we deem the risk to relate specifically to:</p> <ul style="list-style-type: none"> <li>cut off considerations for Tyne Tunnel toll income; and</li> <li>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.</li> </ul>	●	●	●	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>the judgements made by management in determining when grant income is recognised;</li> <li>for Tyne Tunnel toll income, perform a substantive analytical review; and</li> <li>for major grant income, obtaining counterparty confirmation.</li> </ul>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Net defined benefit liability / asset valuation (Single entity and Group accounts)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	●	●	●	<p>We will discuss with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we will:</p> <ul style="list-style-type: none"> <li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and</li> <li>• consider the reasonableness of the actuary’s outputs, referring to an expert’s report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul> <p>We will also specifically review the accounting treatment of any net pension asset against the latest technical guidance available.</p>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Estimation used for the extended financial period to 6 May 2024 (Single entity and Group accounts)</b></p> <p>The financial period end has been extended to 6 May 2024, making an accounting period of just over 13 months. This is a significant risk because this is a new situation for NECA to deal with and there will be considerable use of management estimation and judgement in how to account for the extended period and the source of transactions.</p>	●	●	●	We will discuss this with management throughout the audit and we will specifically review the accounting treatments adopted and any estimation techniques used by management to ensure that the risk of material misstatement is mitigated.

# Significant risks and other key judgement areas

## Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit and Standards Committee has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- We plan to do this by formal letter to the Chair of the Audit and Standards Committee which we will obtain prior to completing our audit.

## Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Audit and Standards Committee and the Cabinet which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

## Internal audit function

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

We assess the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

At the planning stage we do not expect to specifically rely on the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

# 05

Value for money arrangements

# Value for money arrangements

## The framework for value for money work

We are required to form a view as to whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

2023/24 will be the fourth audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that NECA has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on NECA's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

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

1. **Financial sustainability** – how NECA plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how NECA ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how NECA uses information about its costs and performance to improve the way it manages and delivers its services

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on NECA's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to NECA and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

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



# Value for money arrangements

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand NECA's arrangements and to identify risks that significant weaknesses in arrangements may exist.

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

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

# 06

Audit fees and other services

# Audit fees and other services

## Fees for audit and other services

Our fees (exclusive of VAT) for the audit of NECA for the year ended 31 March 2024 (this covers the audit to the extended year end of 6 May 2024), are outlined below. The significant increase between 2022/23 and 2023/24 reflects the results of the national procurement exercise undertaken by Public Sector Audit Appointments (PSAA) Limited and to which the Authority was a party. We anticipate that there are likely to be additional fees in relation to the extended financial year end, but we are unable to reliably estimate these at this stage. Any divergence from the scale fees set by PSAA Limited will require formal approval.

Area of work	2023/24 Proposed Fee	2022/23 Actual Fees*
Planned fee in respect of our work under the Code of Audit Practice	£66,274	£19,404
Additional fees in respect of the VFM approach (recurring)		£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)		£2,500
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
Consideration of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, emphasis of matter, including Consultant Partner Review		£1,500
Additional fee in respect of numerous adjustments to the Group accounts		£1,500
<b>Total Fees</b>	<b>£66,274</b>	<b>£35,904</b>

\* 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).




## Fees for non-PSAA work

There is no 2023/24 non-audit fee work planned at this stage. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

07

Confirmation of our independence

# Confirmation of our independence

	<b>Requirements</b>	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	<b>Compliance</b>	We are not aware of any relationship between Forvis Mazars and NECA that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of NECA and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	<b>Non-audit and Audit fees</b>	We have set out a summary any non-audit services provided by Forvis Mazars (with related fees) to NECA in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC’s Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Gavin Barker in the first instance.

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

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 08

## Materiality and misstatements

# Materiality and misstatements

## Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

## Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit Standards Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

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

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

# Materiality and misstatements

## Materiality (continued)

For the group and single-entity financial statements, we consider that gross expenditure at the net cost of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of the benchmark for the group financial statements, and a materiality threshold of 2% of the benchmark for NECA's single entity statements.

Due to the timing of the audit strategy memorandum the materiality figures as set out in the tables alongside, have been based on currently available information. The materiality figures have been based on the figures per the 2022/23 final accounts. These figures are subject to change as the information for 2023/24 draft accounts become available.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

## Group financial statements

	2023/24 £'000s
Overall materiality	£17,340
Performance materiality	£13,005
Clearly trivial	£520
Specific materiality: Senior Officers' remuneration	£5

## Authority's single-entity financial statements

	2023/24 £'000s
Overall materiality	£8,426
Performance materiality	£6,319
Clearly trivial	£253
Specific materiality: Senior Officers' remuneration	£5



# Materiality and misstatements

## Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to Audit and Standards Committee and Management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £0.253 million for NECA and £0.520 million for Group, based on 3% of overall materiality. If you have any queries about this, please raise these with Gavin Barker.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit and Standards Committee and Cabinet as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements, including those relating to the notes of the financial statements.

## Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit and Standards Committee and the Cabinet as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

# Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit strategy memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix A: Key communication points

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

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion;</li> <li>• The effect of uncorrected misstatements related to prior periods;</li> <li>• A request that any uncorrected misstatement is corrected; and</li> <li>• In writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• Enquiries of the Audit and Standards Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• A discussion of any other matters related to fraud.</li> </ul>	Audit completion Report and discussion at Audit and Standards Committee  Audit planning and clearance meetings

# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Standards Committee and Cabinet in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>

## Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report and Audit and Standards Committee meetings
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of.	Audit Completion Report and Audit and Standards Committee meetings
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
<p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management:</p> <ul style="list-style-type: none"> <li>• Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership</li> <li>• Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities</li> <li>• Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.)</li> <li>• Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality</li> <li>• Evaluate responses to identify and remediation process / control gaps</li> </ul> <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website <a href="#">here</a>.</p>	Audit Strategy Memorandum

# Appendix B: Current year updates, forthcoming accounting & other issues

## New standards and amendments

### Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

### **Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)**

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

### **Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)**

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

### **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)**

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

## Appendix B: Current year updates, forthcoming accounting & other issues

### **New standards and amendments (continued)**

#### **Effective for accounting periods beginning on or after 1 January 2023**

##### **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)**

The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

##### **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Issued February 2021)**

The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

##### **IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)**

IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

##### **Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)**

The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.



# Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Authority's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

## **CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit**

This [consultation](#) proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

## **DLUHC consultation on addressing the local audit backlog in England**

This [consultation](#) proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Authority, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 [[latest announcement for this is 13 December 2024](#)] unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited

statements of account; and

- Setting out 'backstop' dates for each financial year up to and including 2027/28.

**The latest announced backstop date for 2023/24 audits is for completion by 28 February 2025.**

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

## **NAO consultation on draft amendments to the Code of Audit Practice**

This [consultation](#) has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

# Contact

## Forvis Mazars

**Gavin Barker**

Audit Director

Tel: 07896 684 771

[gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)

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# Audit Strategy Memorandum

## North of Tyne Combined Authority – Period ending 6 May 2024

5 September 2024

Members of the Audit and Standards Committee  
North East Combined Authority  
(in relation to North of Tyne Combined Authority)  
The Lumen  
St James' Boulevard  
Newcastle-upon-Tyne  
NE4 5BZ

Forvis Mazars  
Bank Chambers  
26 Moseley Street  
Newcastle Upon Tyne  
NE1 1DF

5 September 2024

Dear Members

## Audit Strategy Memorandum – Period Ending 6 May 2024

We are pleased to present our Audit Strategy Memorandum for North of Tyne Combined Authority (NTCA) for the extended year and period ending 6 May 2024.

For the avoidance of doubt, this is the audit of NTCA for the final period of its existence in its previous form, for the extended 2023/24 financial year resulting in the period ending 6 May 2024, and our work is addressed to the new North East Mayoral Combined Authority, which is operating as North East Combined Authority (NECA). There are separate Audit Strategy Memoranda for each of the two previous entities, NECA and the North of Tyne Combined Authority (NTCA).

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and

- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NTCA which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 07896 684 771.

Yours Faithfully



Gavin Barker

Forvis Mazars LLP

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## Engagement and responsibilities summary

# Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of NTCA for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Authority's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Authority in due course.

# Engagement and responsibilities summary

## Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Cabinet, as Those Charged With Governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of whether it is appropriate for NTCA to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists; and
- b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

## Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



## Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NTCA's internal control.

## Wider reporting and electors' rights

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

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of NTCA and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

## Value for money

We are also responsible for forming a view on the arrangements that NTCA has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



# 02

Your audit engagement team

# Your audit team

.Your external audit service will be led by Gavin Barker

Who	Role	Contact
Gavin Barker	Engagement Lead	<a href="mailto:Gavin.Barker@mazars.co.uk">Gavin.Barker@mazars.co.uk</a> 07896 684 771
Naser Alkobir	Engagement Manager	<a href="mailto:Naser.Alkobir@mazars.co.uk">Naser.Alkobir@mazars.co.uk</a> 07977 261 903
Simbarashe Mudzamiri	Engagement Team Leader	<a href="mailto:Simbarashe.Mudzamiri@mazars.co.uk">Simbarashe.Mudzamiri@mazars.co.uk</a> 07974 031 414



# 03

Audit scope, approach, and timeline

# Audit scope, approach, and timeline

## Audit scope

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

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

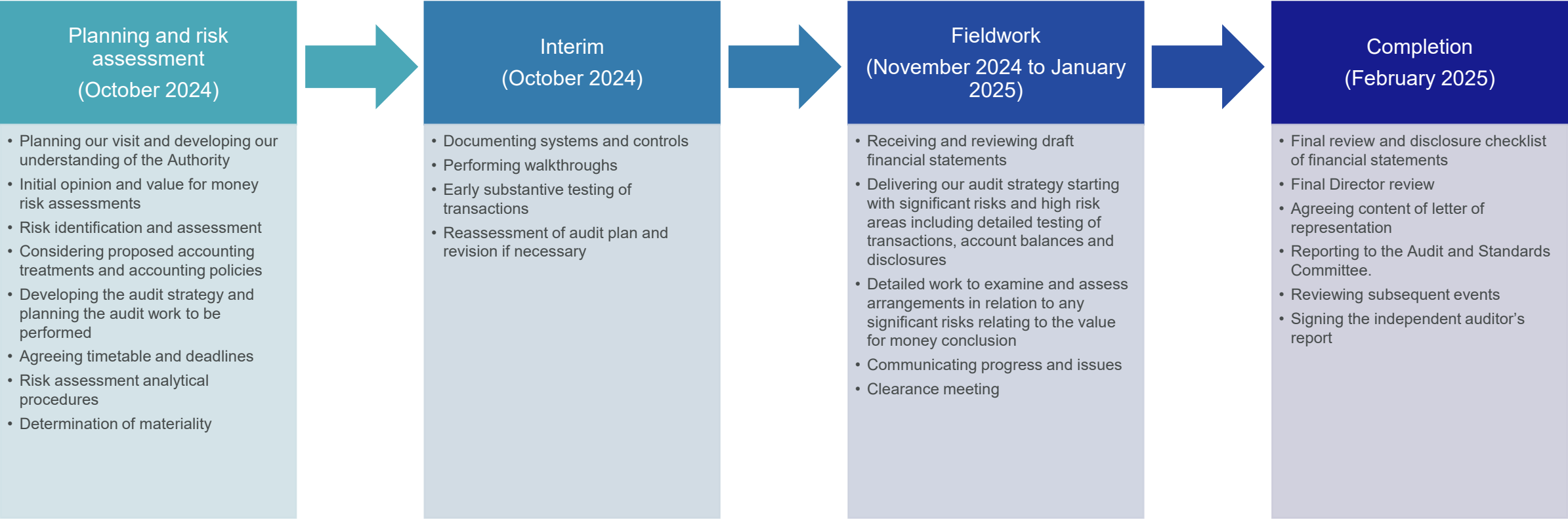
# Audit scope, approach, and timeline

## Risk-based approach



# Audit scope, approach, and timeline

## Audit timeline



# Audit scope, approach, and timeline

## Management's experts and our experts

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

Item of Account	Management's expert	Our expert
Defined Benefit Liability / Asset	Aon Hewitt Limited for the Local Government Scheme	National Audit Office, prepared by PwC.
Fair Values	Link Asset Service	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

The table below summarises the service organisations used by the Authority and our planned audit approach.

Item of Account	Service organisation	Audit approach
All areas	North Tyneside Council	We have sufficient access to officers and systems, along with all of the relevant financial information, to conduct our audit of NTCA.

# Audit scope, approach, and timeline

## Group audit approach

We are responsible for the audit of the group consolidation. For the period ending 6 May 2024, the Group will be made up of the following components:

- North of Tyne Combined Authority (NTCA);
- Nexus, and
- Tyneside Transport Services (TTS) Limited.

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

An analysis of Group is shown below setting out:

- an overview of the type of work to be performed on the financial information of the components, and
- The percentage of the components of the Group audited directly by Forvis Mazars.

The scope of our audit is based on an analysis of the risks we have identified at the Group level. When scoping our audit, we have considered quantitative criteria (the contribution of the Group’s consolidated components to the Group financial statements) and qualitative criteria (risks of material misstatement that consolidated components may present individually). A further analysis will be performed on the other entities to verify they do not present any other risks. Where necessary, we will include some of these subsidiaries in our audit scope.

Planned Group Scope by Entity:

Forvis Mazars are the auditors of the two main Group entities.

Entity	Auditor	Scope
North of Tyne Combined Authority	Forvis Mazars	Full scope audit
Nexus	Forvis Mazars	Full scope audit

NOTE: Tyneside Transport Services Limited is not subject to separate audit, and its transactions are not significant to the Group audit, therefore minimal audit procedures are undertaken in relation to this entity.



# Audit scope, approach, and timeline

## Key Developments

The below key developments have taken place in the year. We have set out below how we will approach these areas during our audit.

Key Development	Description	Planned Response
Formation of a North East Mayoral Combined Authority, operating as the North East Combined Authority from 7 May 2024	As a result, the previous NTCA ceased to exist from 6 May 2024, and its final year of accounts for the 2023/24 financial year has been extended to the period ended 6 May 2024.	We plan to address this by ensuring the following: <ul style="list-style-type: none"><li>• Gaining a comprehensive understanding of the business operations, internal controls, and any changes that occurred during the extended period;</li><li>• Assessing the risk of material misstatement due to errors or fraud, especially focusing on periods of transition or significant changes; and</li><li>• Ensuring additional procedures are performed to sufficiently cover the extended period.</li></ul>

## Significant risks and other key judgement areas

# Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

## Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

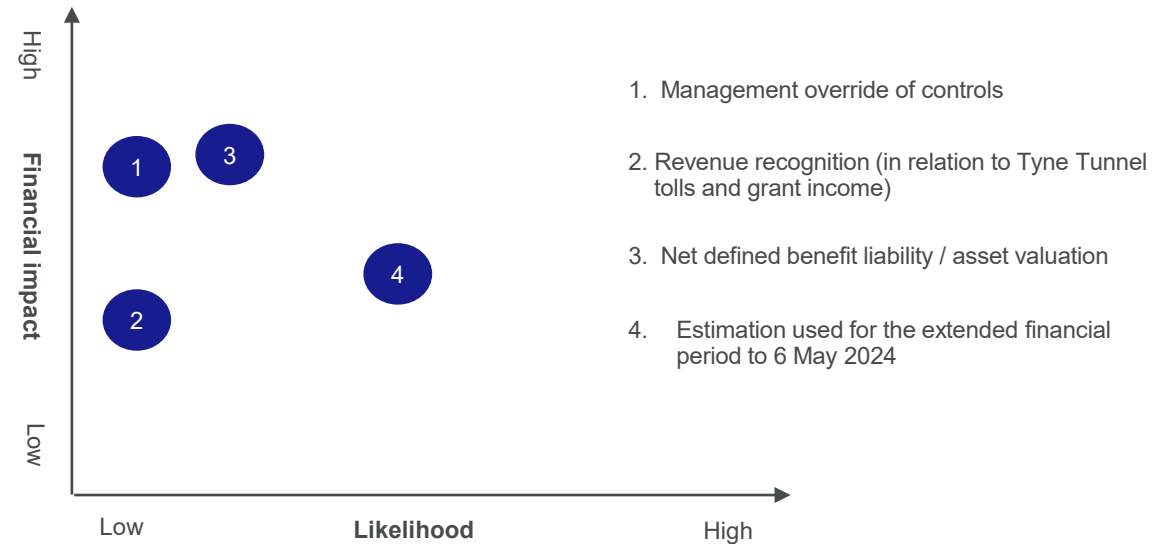
- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

## Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



1. Management override of controls
2. Revenue recognition (in relation to Tyne Tunnel tolls and grant income)
3. Net defined benefit liability / asset valuation
4. Estimation used for the extended financial period to 6 May 2024

Key: ● Significant risk    ● Enhanced risk / significant management judgement

# Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Standards Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls (Single entity and the Group accounts)</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	●	●	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and the Group accounts)</b></p> <p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>For the Authority we deem the risk to relate specifically to:</p> <ul style="list-style-type: none"> <li>cut off considerations for Tyne Tunnel toll income; and</li> <li>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.</li> </ul>	●	●	●	<p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>the judgements made by management in determining when grant income is recognised;</li> <li>for Tyne Tunnel toll income, perform a substantive analytical review; and</li> <li>for major grant income, obtaining counterparty confirmation.</li> </ul>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Net defined benefit liability / asset valuation (Single entity and Group accounts)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	●	●	●	<p>We will discuss with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we will:</p> <ul style="list-style-type: none"> <li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and</li> <li>• consider the reasonableness of the actuary’s outputs, referring to an expert’s report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul> <p>We will also specifically review the accounting treatment of any net pension asset against the latest technical guidance available.</p>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Estimation used for the extended financial period to 6 May 2024 (Single entity and Group accounts)</b></p> <p>The financial period end has been extended to 6 May 2024, making an accounting period of just over 13 months. This is a significant risk because this is a new situation for NTCA to deal with and there will be considerable use of management estimation and judgement in how to account for the extended period and the source of transactions.</p>	●	●	●	We will discuss this with management throughout the audit and we will specifically review the accounting treatments adopted and any estimation techniques used by management to ensure that the risk of material misstatement is mitigated.

# Significant risks and other key judgement areas

## Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit and Standards Committee has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- We plan to do this by formal letter to the Chair of the Audit and Standards Committee which we will obtain prior to completing our audit.

## Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Audit and Standards Committee and the Cabinet which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

## Internal audit function

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

We assess the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

At the planning stage we do not expect to specifically rely on the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.



# 05

Value for money arrangements

# Value for money arrangements

## The framework for value for money work

We are required to form a view as to whether 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 in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

2023/24 will be the fourth audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that NTCA has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on NTCA's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

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

1. **Financial sustainability** – how NTCA plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how NTCA ensures that it makes informed decisions and properly manages its risks; and
3. **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 approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on NTCA's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to NTCA and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

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

# Value for money arrangements

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand NTCA's arrangements and to identify risks that significant weaknesses in arrangements may exist.

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

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

# 06

Audit fees and other services

# Audit fees and other services

## Fees for audit and other services

Our fees (exclusive of VAT) for the audit of NTCA for the year ended 31 March 2024 (this covers the audit to the extended year end of 6 May 2024), are outlined below. The significant increase between 2022/23 and 2023/24 reflects the results of the national procurement exercise undertaken by Public Sector Audit Appointments (PSAA) Limited and to which the Authority was a party. We anticipate that there are likely to be additional fees in relation to the extended financial year end, but we are unable to reliably estimate these at this stage. Any divergence from the scale fees set by PSAA Limited will require formal approval.

Area of work	2023/24 Proposed Fee	2022/23 Actual Fees*
Planned fee in respect of our work under the Code of Audit Practice	£88,339	£28,195
Additional fees in respect of the VFM approach (recurring)		£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)		£2,500
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
Consideration of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024, emphasis of matter, including Consultant Partner Review		£1,500
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
<b>Total Fees</b>	<b>£88,339</b>	<b>£46,695</b>

\* 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).




## Fees for non-PSAA work

There is no 2023/24 non-audit fee work planned at this stage. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

07

Confirmation of our independence

# Confirmation of our independence

	<b>Requirements</b>	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	<b>Compliance</b>	We are not aware of any relationship between Forvis Mazars and NTCA that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of NTCA and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	<b>Non-audit and Audit fees</b>	We have set out a summary any non-audit services provided by Forvis Mazars (with related fees) to NECA in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Gavin Barker in the first instance.

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

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 08

## Materiality and misstatements



# Materiality and misstatements

## Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

## Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit Standards Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

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

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

# Materiality and misstatements

## Materiality (continued)

For the group and single-entity financial statements, we consider that gross expenditure at the net cost of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of the benchmark for the group financial statements, and a materiality threshold of 2% of the benchmark for NoTCA's single entity statements.

Due to the timing of the audit strategy memorandum the materiality figures as set out in the tables alongside, have been based on currently available information. The materiality figures have been based on the figures per the 2022/23 final accounts. These figures are subject to change as the information for 2023/24 draft accounts become available.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

## Group financial statements

	2023/24 £'000s
Overall materiality	£17,112
Performance materiality	£12,834
Clearly trivial	£513
Specific materiality: Senior Officers' remuneration	£5

## Council/Authority's single-entity financial statements

	2023/24 £'000s
Overall materiality	£9,826
Performance materiality	£7,369
Clearly trivial	£295
Specific materiality: Senior Officers' remuneration	£5

# Materiality and misstatements

## Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to Audit and Standards Committee and Management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £0.295 million for NTCA and £0.513 million for Group, based on 3% of overall materiality. If you have any queries about this, please raise these with Gavin Barker.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit and Standards Committee and Cabinet as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements, including those relating to the notes of the financial statements.

## Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit and Standards Committee and the Cabinet as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

# Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit strategy memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix A: Key communication points

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

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion;</li> <li>• The effect of uncorrected misstatements related to prior periods;</li> <li>• A request that any uncorrected misstatement is corrected; and</li> <li>• In writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• Enquiries of the Audit and Standards Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• A discussion of any other matters related to fraud.</li> </ul>	Audit completion Report and discussion at Audit and Standards Committee  Audit planning and clearance meetings

# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Standards Committee and Cabinet in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>

## Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report and Audit and Standards Committee meetings
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of.	Audit Completion Report and Audit and Standards Committee meetings
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
<p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management:</p> <ul style="list-style-type: none"> <li>• Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership</li> <li>• Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities</li> <li>• Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.)</li> <li>• Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality</li> <li>• Evaluate responses to identify and remediation process / control gaps</li> </ul> <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website <a href="#">here</a>.</p>	Audit Strategy Memorandum



# Appendix B: Current year updates, forthcoming accounting & other issues

## New standards and amendments

### Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

### **Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)**

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

### **Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)**

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

### **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)**

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

## Appendix B: Current year updates, forthcoming accounting & other issues

### **New standards and amendments (continued)**

#### **Effective for accounting periods beginning on or after 1 January 2023**

##### **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)**

The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

##### **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Issued February 2021)**

The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

##### **IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)**

IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

##### **Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)**

The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

# Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Authority's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

## **CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit**

This [consultation](#) proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

## **DLUHC consultation on addressing the local audit backlog in England**

This [consultation](#) proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Authority, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 [[latest announcement for this is 13 December 2024](#)] unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited

statements of account; and

- Setting out 'backstop' dates for each financial year up to and including 2027/28.

**The latest announced backstop date for 2023/24 audits is for completion by 28 February 2025.**

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

## **NAO consultation on draft amendments to the Code of Audit Practice**

This [consultation](#) has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

# Contact

## Forvis Mazars

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**Title:** Appointment of External Auditor  
**Report of:** Director of Finance and Investment  
**Portfolio:** All

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## Report Summary

The purpose of this report is to update the Committee on the appointment of the local auditor for the North East CA.

## Recommendations

The Audit and Standards Committee is recommended to note the information set out in the report and make any comments or recommendations to Cabinet relating to the appointment of an external auditor for the North East CA.

### A. Context

#### 1. Appointment of Local (External) Auditor

- 1.1 The Local Audit and Accountability Act 2014 makes provision for the appointment of a local auditor. Normally such an appointment is required to be made by 31 December before the financial year which will be covered by the accounts to be audited but as the North East CA did not exist on 31 December 2023 it is necessary to progress that appointment now.
- 1.2 The North East CA has two options to consider in terms of the approach which could be taken to the appointment of a local auditor. It can either (a) conduct a procurement exercise to appoint a new local auditor, or (b) 'opt-in' to the national scheme for appointing local auditors operated by Public Sector Audit Appointments Ltd ("PSAA Ltd").
- 1.3 Cabinet at its meeting on 17 September 2024 will be appointing an External Auditor for the North East CA. The recommendation is that Public Sector Audit Appointments Ltd be asked to appoint a local auditor for the North East CA and authorise the Director of Finance and Investment to take all necessary steps to formalise the appointment of a local auditor.

#### 2. Background information

- 2.1 To make a stand-alone appointment, the North East CA would be required to establish an independent Auditor Panel. The Panel must be made up of a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees – for the North East CA this excludes all current and former elected members (or officers) and their close families and friends. This means that elected members would not have a majority input into the process for the assessment and appointment of the firm of accountants to provide the CA external audit. A newly established and independent Auditor Panel would be responsible for selecting the auditor.
- 2.2 PSAA Ltd is recognised as an "appointing person" under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. The North East CA can choose to "opt-in" to the PSAA Ltd. contract. If opted in, PSAA Ltd. could therefore appoint a local auditor for the North East CA, set the fee level for the contract and manage the contract with the appointed audit firm. Given the significant challenges and lack of capacity in the local audit market and the need to maintain a high quality of external audit provision, there is a strong case that this option will

produce better outcomes and will be less burdensome for the CA, compared to procurement undertaken locally.

- 2.3 Set out below are more details of why this is the preferred option being recommended to Cabinet.
- collective procurement (i.e. through the PSAA Ltd. contract) reduces overall costs for the sector and for individual authorities compared to smaller local procurements and contract management arrangements.
  - there is no requirement to establish a specific CA auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract.
  - supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term; and
  - it is the best opportunity to secure the appointment of a qualified, registered auditor.
- 2.4 Key features of the PSAA approach are:
- contracts let under the PSAA opt-in normally run for five years. Should the North East CA take the decision to “opt-in,” the contract would run to 2027-28, i.e. four years;
  - contracts between PSAA and the audit firms will require the firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice;
  - the number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the Recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments;
  - PSAA will manage current and potential future conflicts of interest, rather than the CA having to re-procure contracts should such conflicts arise;
  - Opting-in to the PSAA scheme will remove the need to set up an auditor panel in addition to the North East CA Audit and Standards Committee;
  - In addition to working with the Local Government Association (LGA), a stakeholder advisory panel with representative organisations for councils, police and fire bodies ensures ongoing influence and engagement with PSAA;
  - PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members;
  - scale fees will vary in line with the additional work needed which reflects risk and complexity and will be set following consultation with opted-in bodies;
  - PSAA will manage variation requests and approve where appropriate; and
  - This approach is supported and endorsed by the LGA.
- 2.5 The main downside to this approach to local auditor appointment is the inability to determine the evaluation criteria used for procurement. However, given that the audit approach is mandated through standards and guidance, there is minimal flexibility in the scope of work requested.
- 2.6 The PSAA route for 2023-2028 was adopted by 462 bodies including all the North East CA constituent authorities and Nexus.
- 2.7 The contract fee will need to be paid by the North East CA, in common with all other audited ‘relevant authorities’. Guidance sought from PSAA Ltd in respect of the duration of the contract has been that the 2023 appointments made by PSAA for accounting periods beginning from 2023/24 were for five years, meaning contracts awarded as part of that tranche are due to end in 2027/28. It is likely that, if PSAA are requested to appoint a local auditor for the North East CA, the same contract period would apply, i.e., the auditor would be in place up to 2027/28.
- 2.8 Given the time which would be involved in carrying out a procurement exercise at this stage (which would include the need for North East CA to seek the views of its Independent Auditor Panel), it has been recommended in a report to Cabinet today that the North East CA follow the PSAA Ltd route to secure the appointment of a new local auditor as expeditiously as possible. If the PSAA Ltd route is chosen, there is no need to convene the Independent Auditor Panel to participate in the appointment. The independence requirement would be met by participation in the national scheme.

## **B Impact on North East Combined Authority Objectives**

1. The Authority's governance framework is concerned with the systems, processes, culture, values, and activities through which it directs and controls resources to deliver its ambitions and priorities.

## **C Key risks**

1. The local auditor and the Audit and Standards Committee are essential components of the Authority's governance framework, and their appointments ensure that the Authority complies with its statutory obligations.

## **D Financial and other resources implications**

1. Provision has been made in the initial 2024-25 Corporate Budget for the Local Auditor fee in line with estimates.

## **E Legal implications**

1. The Monitoring Officer has been consulted and has no comments to add.

## **F Equalities Implications**

1. There are no direct equalities implications arising out of the recommendations in this report.

## **G Consultation and engagement**

1. Consultation has been undertaken with the Chair of Audit and Standards Committee, the Chief Executive, the Mayor, and Cabinet. In addition, consultation has been undertaken with PSAA Ltd.

## **H Appendices**

None

## **I Background papers**

None

## **J Contact officer(s)**

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## **K Glossary**

JTC Joint Transport Committee  
NECA Former North East Combined Authority  
NTCA North of Tyne Combined Authority  
PSAA Public Sector Audit Appointments Ltd.

17 September 2024

**Subject: Standards Update**

**Report of: John Softly, Monitoring Officer**

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## Report Summary

This report updates the Committee on the position with regard to the sanctions available to local authorities for breaches of the Code of Conduct for Members.

## Recommendation

The Committee is recommended to note this report.

### 1. Background

- 1.1 As Members will be aware, the Localism Act 2011 removed a local authority's ability to suspend a member found to have breached the Code of Conduct for Members. The removal of this potential sanction has been regarded by many authorities (but, it should be stressed, not all) as weakening the ability of a local authority to ensure compliance with the Code of Conduct. The issue was raised by various bodies with the previous government, for example the Committee on Standards in Public Life report on "Local Government Ethical Standards" in 2019 included the following comment:

*"The current lack of robust sanctions damages public confidence in the standards system and leave local authorities with no means of enforcing lower level sanctions, nor of addressing serious or repeated misconduct."*

Accordingly, the CSPL report included amongst its recommendations the following:

*"Local authorities should be given the power to suspend councillors, without allowances, for up to six months."*

- 1.2 However, the then government's response (which was published in March 2022) did not accept the CSPL's recommendation. Following the general election in May 2024, the current government's approach to this issue is to be established. The issue has been discussed amongst monitoring officers across the region and any developments in this respect will be reported to this Committee.

### 2. Potential Impact on Objectives

None.

### 3. Key Risks

Not applicable

### 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**

None.

**8. Background Papers**

[North East CA - Code of Conduct for Members](#)

CSPL report- [Local Government Ethical Standards January 2019 \(publishing.service.gov.uk\)](#)

2022 - [Government response to the Committee on Standards in Public Life review of local government ethical standards \(publishing.service.gov.uk\)](#)

**9. Contact Officers**

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