

Audit and Standards Committee

17 September 2024

(10.00am)

Meeting held in: The Reception Room, Town Hall, South Shields

Minutes

Present: Dave Willis OBE(Chair)
Councillor Caroline Ball
Councillor Tracy Dodds
Councillor Louise Fenwick
Councillor Colin Ferguson
Councillor John Harrison
Councillor Michael Hartnack
Councillor David Herbert
Councillor Frank Lott
Councillor Ian Patterson
Councillor Julie Simpson
Councillor Mark Swinburn

In attendance: Eric Richards (Independent Person - Standards)

ASC9/9/24 Apologies for Absence and Substitutes

Apologies for absence were received from:

Councillor Alex Watson

Councillor Mark Mitchell (Councillor Colin Ferguson attended the meeting as substitute.)

Councillor Ken Dawes

ASC10/9/24 Declarations of Interest

There were no declarations of interest.

ASC11/9/24 Minutes

Resolved that the minutes of the previous meeting held on 9 July 2024 be confirmed as a correct record and signed by the Chair.

ASC12/9/24 Internal Audit Strategic Audit Plan 2024/25

The Committee were presented with a proposed Internal Audit Plan for 2024/25. The Chief Internal Auditor was required to develop a risk-based plan to explain how planned assurance delivery

linked to organisational objectives and priorities, how internal audit resource requirements had been assessed and the need to ensure resources were sufficient to support an annual evidence-based opinion. The Plan, and its subsequent delivery, would allow the Committee to obtain assurances over the work of internal audit and the impact it had on the organisation.

The Plan covered the period to the end of March 2025. The Plan had been developed following a risk assessment undertaken by the Chief Internal Auditor in consultation with the Authority's senior management. As this was year one of the new organisation, it was considered that internal audit resources should be focussed on some of the key areas which cut across all areas of the Authority and support its operations. As such a significant element of the Plan was dedicated to review overarching reviews of key financial systems, performance management and programme and project management. However, it also reflected requirements to complete mandatory activity such as grant certification and to support participation in the National Fraud Initiative (NFI).

As the Plan was risk based, it was likely some flexibility would be required to enable it to respond to changing and emerging risks and there was a small element of resource dedicated to this. The Plan would be kept under review throughout the year and any changes would be agreed with the Director of Finance and Investment and reported to the Audit and Standards Committee accordingly.

Resolved that the Internal Audit Plan 2024/25 be approved.

ASC13/9/24 Risk Management Framework and Strategic Risks

The Committee were presented with a proposed Risk Management Framework. The Framework would govern the way in which the Authority identified and managed its risks and opportunities, supporting the requirements of the Single Assurance Framework and delivery of its strategic objectives. It documented the processes to be used in the identification and management of risks within the Authority, the key roles and responsibilities, the levels of risk (project, programme, corporate programme and project, directorate and strategic) and the relevant reporting lines. A draft framework had previously been reviewed by the Committee (see minute ASC6/9/24) and its feedback had been incorporated into the final version. This was to be presented to the Cabinet at its meeting on 17 September 2024 for approval.

In accordance with the Framework, work had been undertaken across the Authority to identify, assess, score and develop action plans for the strategic risks. This initial exercise had identified 7 strategic risks and details of these risks and controls were presented to the Committee for review. The strategic risks would also be considered by the Cabinet at its meeting on 17 September 2024. The Committee and Cabinet would receive a further report on strategic risks at their meetings planned for March/April 2025 and on a 6 monthly basis following this.

In examining the framework and the strategic risks the Committee considered in more detail:

- a) the process followed in identifying and assessing the strategic risks;
- b) the role of senior leaders and managers in determining the Authority's appetite for risk;
- c) how the framework made provision for intangible risks associated with the acts of external parties such as changes in Government policy and budgets;
- d) the timescales and processes for identifying and reporting risks associated with external delivery partners;
- e) the assessment of the risk that the Authority's Net Zero ambitions may not be achieved and the reasons why the risk was rated as Amber;
- f) the Authority's approach to ensuring there was integration between different policy areas which was underpinned by its Strategic Portfolio Plans and the Single Assurance Framework;
- g) the risks associated with the scale and funding of the transport programme (rated as red) and transport operations (rated as amber) which the Committee agreed were the right levels at this moment in time;

- h) the role and capacity of the Overview and Scrutiny Committee to monitor and challenge delivery of the transport programme;
- i) the relationship between the Risk Management Framework and longer term strategic planning processes to ensure that the Authority's strategic objectives could be sustainably delivered; and
- j) the assessment of risk in relation to cyber security.

Resolved that:

1. the North East CA Risk Management Framework be endorsed and the Cabinet be recommended to approve it; and
2. the current strategic risks, scoring and proposed management actions be noted and it be reported to Cabinet that the risks have been reviewed by the Committee.

ASC14/9/24 Audit Strategy Memorandum for the period ending 6 May 2024

The Committee were presented with the External Auditor's Audit Strategy Memoranda for the 2023/24 accounts. There were two separate reports, one in relation to the former North East Combined Authority (NECA) and another in relation to the North of Tyne Combined Authority (NTCA). The Memoranda summarised the External Auditor's proposed approach to the audit of the two authorities for the period ending 6 May 2024. They highlighted significant audit risks and areas of key judgements and provided details of the audit team. The documents also summarised considerations and conclusions around the External Auditor's independence and formed the basis for a discussion around audit approach.

The Committee received confirmation that if any issues were to arise following the conclusion of the audits these would be addressed as part of the next audit. Members also considered the current state of the local external audit market and a significant increase in fees. It was noted that the significant risks identified for each audit were identical but that the outcomes from each audit could be very different.

Resolved that the External Auditor's Audit Strategy Memoranda for the 2023/24 North East Combined Authority and North of Tyne Combined Authority accounts be noted.

ASC15/9/24 External Audit – Local Audit Reset and Implications Presentation

The Committee received a presentation from the External Auditor in relation to the Government's proposals to address the backlog in completing local audits. The approach involved:

- a) a reset of the system and the setting in law of backstop dates by which audited accounts must be published. The backstop dates would apply only to the audit opinion and not the reporting on VFM arrangements.
- b) Recovery. Backstop dates would be set over a number of years to allow assurance to be rebuilt over multiple audit cycles; and
- c) Reform. Addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

The proposed backstop dates were:

Financial year 2023/24: 28 February 2025 (previously 31 May 2025)
Financial year 2024/25: 27 February 2026 (previously 31 March 2026)
Financial year 2025/26: 31 January 2027
Financial year 2026/27: 30 November 2027
Financial year 2027/28: 30 November 2028

To meet the backstop dates, auditors would be required to issue an opinion based on the work they had been able to complete. An audit opinion could be either unmodified, modified and qualified (where specific issues existed, but overall statements were accurate), modified and adverse (where there were significant misstatements; financials are not reliable) or disclaimed,

when there was insufficient evidence to form an opinion. The proposed backstop date was likely to result in significant numbers of modifications or disclaimers of the audit opinion.

The Committee considered the capacity and commitment of the Authority's finance team and the External Auditor to complete the 2023/24 audit before the backstop date on 28 February 2024 without a disclaimed opinion. In the longer term a statutory backstop date in November was welcomed as it would drive the process to a conclusion and allow the Authority to progress preparations of its next budget. Members considered the risks of the backstop arrangements and disclaimed opinions for local government generally at a time of intense financial pressures.

The Chair thanked the External Auditor for the presentation and the Committee noted the Government's proposals to address the backlog in completing local audits.

ASC16/9/24 Appointment of External Auditor

(At this point the External Auditor left the meeting.)

The North East CA was required to appoint a local auditor. The Cabinet at its meeting on 17 September 2024 were due to consider two options for progressing the appointment, either (a) to carry out 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"). Given the time which would be involved in carrying out a procurement exercise at this stage it was proposed to follow the PSAA Ltd route to secure the appointment of a new local auditor as expeditiously as possible. PSAA Ltd. would 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 was a strong case that this option would also produce better outcomes and would be less burdensome for the CA.

Resolved that the Cabinet be recommended to opt-in to the national scheme for appointing local auditors operated by Public Sector Audit Appointments Ltd ("PSAA Ltd").

ASC17/9/24 Standards Update

In determining its work programme at its previous meeting, the Committee had suggested that it review the adequacy and appropriateness of the standards regime in view of the new Government's wish to improve standards. It was reported that since the General Election in May 2024, the current government's approach to this issue was yet to be established. The issue had been discussed amongst monitoring officers across the region and any developments in this respect would be reported to this Committee.

In noting the current situation, members reiterated their desire to review the effectiveness of existing standards regimes across the region with a view to influencing and shaping any proposals by the Government to change the legislative framework.

Resolved that the Committee give consideration to reviewing the effectiveness of existing standards regimes across the region at a future meeting.