

North of Tyne Combined Authority, Audit and Standards Committee

Thursday 14 February 2019 at 2.00 pm

Meeting to be held at North Tyneside Council Offices, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

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AGENDA

Page No

1. **Appointment of the Vice Chair of the North of Tyne Combined Authority Audit and Standards Committee for the Municipal Year 2018/19**

2. **Welcome and Apologies**

3. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

4. **The Role of the Audit and Standards Committee**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

5. **Internal Audit Plan - Initial Assurance Coverage (2018/19) and Development of Strategic Audit Plan (2019/20)**

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6. **Internal Audit Charter** **7 - 20**
7. **Strategic Risk Register - Approach and Next Steps** **21 - 26**
8. **Proposed Audit and Standards Committee Work Programme 2019/20**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

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

4 April 2019, 2.00pm at Newcastle Civic Centre

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**Subject: Internal Audit Plan –
Initial Assurance Coverage (2018/19) and Development of
Strategic Audit Plan (2019/20)**

Report by: Allison Mitchell, Chief Internal Auditor

Report Summary

The purpose of this report is to outline:

- (a) the proposed approach to identifying optimum assurance coverage for the North of Tyne Combined Authority in its first year of operation (2018/19); and
- (b) the proposed approach to preparing a full year Strategic Audit Plan for 2019/20;

for consideration and endorsement by the Audit and Standards Committee.

The report also ensures the Audit and Standards Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the assurance planning process.

Recommendations

The Audit and Standards Committee is recommended to consider and endorse the approach to preparation of assurance coverage and resulting Strategic Audit Plans for 2018/19 (part year) and 2019/20.

1. Background Information, Proposals and Timetable for Implementation

Role of Internal Audit

- 1.1 Internal Auditing *"is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.2 The Internal Audit team has a key role in helping the Authority to achieve its objectives. We are an independent resource available to assist the organisation to explore areas of potential efficiency and matters of probity and internal control. We seek to use our

business intelligence and knowledge of the Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.

- 1.3 Internal Audit provides assurance to the organisation that governance and control, which has been established to manage risks to the achievement of the Authority's objectives and to optimise opportunities, are operating effectively. This has a positive impact on the risk environment, informing management whether the actions they are taking to control and manage risks are working as they should.
- 1.4 Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. This is key to Internal Audit achieving its objectives as an independent assurance function for the Authority and to provide an independent and objective opinion on the adequacy and effectiveness of the framework of governance, risk management and control.

North of Tyne Combined Authority

- 1.5 The North of Tyne Combined Authority was formed on 2 November 2018 by a legal order made by the Secretary of State. The Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order (No 1133 of 2018) sets out the constitution, functions and powers of the new Combined Authority. Establishment of the Combined Authority represents a significant devolution deal for the North of Tyne area.
- 1.6 The North of Tyne Combined Authority is forecast to attract approximately £600m of additional funding to the North of Tyne area over the next 30 years, with the added potential for extra funding. Its remit includes work within adult education; the education system; housing and land; rural communities; trade and investment; digital and low carbon economy; transport; and tourism development. The North of Tyne Combined Authority has developed six 'pillars of ambition' (Champion of Enterprise; Leaders of Tomorrow; Hotbed of Talent; Spark of Innovation; Network of Connections; and Pride of Place) to shape and inform its approach and work. A main focus since inception of the Combined Authority has been the development of an 'Inclusive Economy' stream, with a range of governance and funding processes to support this work already in operation.

Early Assurance Coverage Identified – Year 1 (2018/19 – part year)

- 1.7 Internal Audit's work is required to be risk-based and to focus on areas of genuine benefit to the organisation and the achievement of its objectives. In turn, understanding the ambitions set out in paragraph 1.6 above is essential to ensuring that Internal Audit's coverage is real and relevant to the North of Tyne Combined Authority. Internal Audit's proposed approach reflects the lean and outward facing approach (with a focus on delivery of outcomes) which is a main aspiration of the Authority.
- 1.8 As the Combined Authority has been created so recently, it is likely that the main areas of immediate assurance focus for senior management and the Board will therefore include:
 - (a) **Key Internal Control Systems** (including main financial processes) – these systems represent the core of internal control arrangements in any organisation and are

essential to the smooth, efficient, effective, economic and lawful functioning of the entity. In a new organisation, it is particularly important that the effective implementation of such key systems is assured and tested. Core systems will therefore be defined and initial control objectives audited within the 2018/19 year.

- (b) **Assurance Framework (Inclusive Economy, ‘Quick Wins’ and Business Case Development)** - a main focus of the North of Tyne Combined Authority to date has been in setting out a vision for ‘Inclusive Economy’. To achieve this vision, the Authority has established terms of reference for an Inclusive Economy Board and an Inclusive Economy Innovation Fund supported by an Investment Plan. In addition, a number of ‘quick wins’ have been identified and actively progressed with various funding streams identified and business cases developed.

Underpinning this work is a specific ‘Assurance Framework’ by which the Authority will demonstrate to Government that it is following accountable and transparent decision making; explain how projects are appraised and funding allocated; and how projects will be monitored and evaluated to ensure they achieve both value for money and projected outcomes.

Given these areas of immediate focus in the early work of the Combined Authority, it is proposed that the effective implementation of the agreed Assurance Framework will form part of the initial assurance coverage of Internal Audit. Audit of this area will commence in 2018/19 and will continue into 2019/20 where it will form part of the proposed Strategic Audit Plan.

Early Assurance Coverage Identified – Year 2 (2019/20 – full year)

- 1.9 It is likely that further assurance will be required on North of Tyne Combined Authority’s key systems in 2019/20, and on the approach to Inclusive Economy / the associated Assurance Framework, with a more focused and tailored approach to this work as the risk profile is further understood and defined.
- 1.10 Other sources of focus early in the first full year of operation are likely to include assurance support in respect of identified ‘Quick Wins’ for the Combined Authority, early preparations for the five year gateway review, and project and programme assurance. The work to develop this Plan is described below.

Development of the detailed Strategic Internal Audit Plan for 2019/20

- 1.11 To ensure that all legislative responsibilities and professional standards are fully complied with and that a plan of work is agreed for the coming year which will meet the Authority’s key assurance requirements, a detailed, risk based Strategic Internal Audit Plan for 2019/20 will be prepared and presented to Audit and Standards Committee at its scheduled meeting on 4 April 2019.
- 1.12 Internal Audit must be independent in its planning and operation, and have an unrestricted range of coverage of the Authority’s operations.
- 1.13 The Public Sector Internal Audit Standards (PSIAS, 2017), and the specific Local Government Application Note on the Standards, set out the professional standards which Internal Audit must apply when planning the use of its resources. It states that:

- (a) The Chief Internal Auditor (Chief Audit Executive) must establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisation's goals;
- (b) The plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and Audit Committee (the 'board') must be considered in this process. The Chief Internal Auditor must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions;
- (c) The Chief Internal Auditor should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan;
- (d) The Chief Internal Auditor must communicate plans and resource requirements, including significant interim changes, to senior management and Audit Committee for review and approval. The Chief Internal Auditor must also communicate the impact of any resource limitations; and
- (e) The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

1.14 Preparation of the detailed Strategic Internal Audit Plan for 2019/20 is now underway and will involve the following stages:

- (a) Developing Internal Audit's intelligence base on the breadth of the Authority's functions from published plans, strategies, and reports;
- (b) Consulting with the Head of Paid Service, Chief Finance Officer (Section 73 Officer), Cabinet and Audit and Standards Committee Members on this preparatory work, and their aspirations for Internal Audit work and coverage in the coming year. This consultation allows us to identify the areas where stakeholders consider Internal Audit can provide the greatest assistance and benefit;
- (c) Developing the assessment of audit risks, to prioritise audit coverage and ensure the Strategic Audit Plan includes all key areas of audit assurance, with resources targeted at those areas of highest priority;
- (d) Developing the outcomes which each Internal Audit assignment in the Strategic Audit Plan will deliver, and the objectives which each audit will meet; and
- (e) Ensuring that each proposed audit assignment will help assess and support a priority or priorities of the identified 'pillars of ambition'.

1.15 Once this process is finalised, the Strategic Internal Audit Plan will be presented to the Audit and Standards Committee for approval in April 2019 and will set out Internal Audit's planned 2019/20 coverage. This will include detail on all key areas of Internal Audit provision, and the objectives which each assignment will deliver.

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of the Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

- 3.1 There are no key risks identified from the approach outlined. The Strategic Audit Plan will be prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of activity where Internal Audit resource will deliver most benefit to the North of Tyne Combined Authority and assist most effectively in the management of risk.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

- 5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 5.2 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.

6. Consultation / Engagement

- 6.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer will be consulted on the proposed work programme. The 2019/20 Strategic Audit Plan will be prepared following consultation with a number of key stakeholders as set out in this report.

7. Appendices

None.

8. Background Papers

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013

- (c) The Accounts and Audit Regulations 2015, April 2015 [Accounts and Audit Regulations 2015](#)
(d) North of Tyne Combined Authority Constitution, November 2018 [NTCA Constitution](#)

9. Contact Officers

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10. Sign Off

Head of Paid Service
Monitoring Officer
Chief Finance Officer ✓

Audit and Standards Committee

Thursday 14 February 2019

Subject: Internal Audit Charter

Report by: Allison Mitchell, Chief Internal Auditor

Report Summary

This report sets out an Internal Audit Charter, prepared in conformance with the Public Sector Internal Audit Standards. Agreement of the Internal Audit Charter by Audit and Standards Committee, as the designated 'board' under the Public Sector Internal Audit Standards, will allow the Authority to fulfil its responsibilities regarding the Public Sector Internal Audit Standards.

Recommendations

The Audit and Standards Committee is recommended to agree the Internal Audit Charter, attached as **Appendix A** to this report, which is a requirement of the Public Sector Internal Audit Standards.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 It is a requirement for all relevant local authorities to "undertake an effective internal audit to evaluate the effectiveness of...risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." ¹
- 1.2 The Institute of Internal Auditors (IIA) has published an International Professional Practices Framework (IPPF) which includes certain mandatory elements with which every Internal Audit service provider must comply. For the Public Sector in the UK, 'Relevant Internal Audit Standard Setters' have been designated for central government, the NHS and local government. The role of these standard setters is to adopt a common set of Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements issued by the IIA and any additional requirements and interpretations for the UK public sector, whilst maintaining the integrity of the text of the mandatory elements of the IPPF.
- 1.3 In April 2017, the 'Relevant Internal Audit Standard Setters' published updated specific Public Sector Internal Audit Standards, applying the IIA International Standards to the UK Public Sector. These standards apply to all parts of the public sector (local

¹ The Accounts and Audit Regulations 2015 – Regulation 5 (1)

government, central government and the NHS). For local government, the Chartered Institute of Public Finance and Accountancy (CIPFA) has been designated as 'the relevant standard setter'. To support the PSIAS in local government, CIPFA, as relevant local government standard setter, has published a Local Government Application Note which accompanies and underpins the mandatory requirements of the full PSIAS. The PSIAS and Local Government Application Note together comprise the 'public sector internal auditing standards' which are necessary to undertake the effective internal audit required by the Accounts and Audit Regulations 2015.

- 1.4 All local government Internal Audit providers in the UK are expected to comply fully with the PSIAS. The PSIAS include a requirement that a specific Internal Audit Charter is adopted by every relevant authority. An Internal Audit Charter has therefore been developed for the Authority, ensuring that the requirements of the PSIAS are met. The proposed new Internal Audit Charter is attached as Appendix A.
- 1.5 PSIAS states that the final approval of the internal audit charter resides with the board. The Audit and Standards Committee fulfils the role of the 'board' in the North of Tyne Combined Authority. This report therefore provides Audit and Standards Committee with a proposed Internal Audit Charter for approval.

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit covers the entire framework of governance, risk management and control within the Authority. As such, it will help enable the Authority to properly discharge its functions and assist in delivering the Authority's vision, policies and priorities.

3. Key Risks

- 3.1 There are no key risks associated with this report. Agreement of the Internal Audit Charter will ensure that the work of Internal Audit complies with prevailing standards and best professional practice.

4. Financial and Other Resources Implications

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

5. Legal Implications

- 5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 5.2 These internal auditing standards / guidance are the Public Sector Internal Audit Standards 2017 and the accompanying Local Government Application Note. Adherence to these standards includes the agreement of an Internal Audit Charter.

6. Consultation / Engagement

- 6.1 The Internal Audit Charter will be shared with the Head of Paid Service, Monitoring Officer and Chief Finance Officer. This report advises Audit and Standards Committee, as the recognised 'board' under the Public Sector Internal Audit Standards, of conformance with the requirements for an internal audit charter within those standards. The views of Audit and Standards Committee will be considered during presentation of this item at the Audit and Standards Committee meeting.

7. Appendices

- 7.1 Appendix A – Internal Audit Charter

8. Background Papers

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013
- (c) The Accounts and Audit Regulations 2015, April 2015 [Accounts and Audit Regulations 2015](#)

9. Contact Officers

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10. Sign Off

Head of Paid Service
Monitoring Officer
Chief Finance Officer ✓

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North of Tyne Combined Authority Internal Audit Service

Internal Audit Charter

February 2019

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1 Introduction and Purpose of the Internal Audit Charter

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and were revised on 1 April 2017. The PSIAS and associated Local Government Application Note are the mandatory standards with which every Internal Audit provider delivering such services in local government is required to comply. PSIAS require that an internal audit charter is in place to define the purpose, authority and responsibility of Internal Audit.
- 1.2 The Internal Audit Charter must be consistent with the Definition of Internal Auditing and the Code of Ethics which form part of the Standards. The Internal Audit Charter must also be consistent with the Attribute Standards which address the characteristics of organisations performing internal audit activities, and with the Performance Standards which provide quality criteria against which the performance of these activities can be evaluated.
- 1.3 The PSIAS require that the Internal Audit Charter is approved by “senior management” and the “board”. In the North of Tyne Combined Authority, the Audit and Standards Committee acts as the “board”.
- 1.4 The PSIAS also uses the term “Chief Audit Executive”, referring to the person who has responsibility for managing the internal audit activity in accordance with the Internal Audit Charter and associated mandatory requirements. Within the North of Tyne Combined Authority, this is the Chief Internal Auditor.
- 1.5 This document seeks to codify existing practice and arrangements governing the work of Internal Audit within the North of Tyne Combined Authority. The Internal Audit Charter confirms:
 - the objectives of Internal Audit;
 - the position of Internal Audit within the organisation;
 - the scope of Internal Audit activity; and
 - Internal Audit’s authority and right of access to all records.

2 Role and Objectives of Internal Audit

- 2.1 The Public Sector Internal Audit Standards define internal auditing as ‘*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*’
- 2.2 Internal Audit assists management in delivering the objectives of the organisation by assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. It objectively examines, evaluates and reports on the control environment in place as a contribution to the proper, economic, efficient and effective use of resources.
- 2.3 Internal Audit has a vital role in providing assurance to the organisation and evaluating the governance arrangements in place. Internal Audit must provide an

overall annual opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. This overall opinion is supported by individual audit assignments which are undertaken in accordance with the Strategic Audit Plan. Internal Audit is responsible for completing sufficient work as part of the Strategic Audit Plan, to evidence and support the overall annual opinion. It is important to emphasise with regard to the annual opinion, that Internal Audit's responsibilities extend to the entire framework of governance, risk management and control and is not restricted to financial controls.

- 2.4 In addition to performing internal audits of existing systems, Internal Audit has a significant role in providing an advice and consultancy role for the organisation. This includes advising on controls during the introduction of new systems, to minimise the risk of weaknesses in new systems and strengthens the control environment. This activity comprises 'consulting activity' under the PSIAS (see section 7).
- 2.5 Internal Audit may perform investigations into suspected fraud or irregularity. It is important that the organisation can call upon Internal Audit resource to respond quickly to assess the extent of potential problems and to secure evidence if required. Internal Audit will also review weaknesses in control to establish the reasons for the fraud / irregularity occurring and recommend improvements in the control environment to minimise the risk of reoccurrence.

3 Role and Responsibilities of the Board

3.1 The responsibilities of the Board as detailed in the PSIAS are:

- (i) Approving the Internal Audit Charter.
- (ii) Approving the annual risk based Internal Audit plan and any amendments to the plan during the course of the year.
- (iii) Approving the Internal Audit budget and resource plan and establishing that there are sufficient resources with regard to the provision of an annual audit opinion (See 2.3 above).
- (iv) Considering communications from the Chief Internal Auditor on Internal Audit performance relative to its plan and other matters.
- (v) Receiving annual confirmation from the Chief Internal Auditor that Internal Audit is organisationally independent.
- (vi) Considering the results of the quality assurance and improvement programme from the Chief Internal Auditor.

4 Role and Responsibilities of Senior Management

- 4.1 The responsibilities of Senior Management as detailed in the PSIAS are:
- (i) Providing input to the annual Internal Audit plan.
 - (ii) Actioning Internal Audit reports and follow-up reports.
 - (iii) Receiving the results of the quality assurance and improvement programme (see section 10) from the Chief Internal Auditor.
- 4.2 In addition, the organisation's senior officers are responsible for ensuring that appropriate and adequate internal controls exist, **independently of any Internal Audit activity**. Officers must establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness; and for achieving their financial performance targets.
- 4.3 When an Internal Audit report is issued, it is for management to decide whether to accept and implement audit findings and recommendations, subject to adherence to the organisation's policies and prevailing financial rules. Any decision to reject a formal Internal Audit recommendation must be justified in writing. It is the Chief Internal Auditor's duty to consider taking matters to a higher level of management, or to the Audit Committee, if it is felt that a risk should not (or need not) be borne.

5 Objectivity and Independence

- 5.1 Internal Audit must be, and must be seen to be, independent. To ensure this, a number of arrangements are in place to ensure that Internal Audit operates within a framework which allows:
- unrestricted access to the board and senior management;
 - impartial and unbiased opinions;
 - reporting in its own name; and
 - segregation from line operations.
- 5.2 It is a requirement of the PSIAS that the Chief Internal Auditor reports 'to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities.' The PSIAS interprets organisational independence as being effectively achieved when the Chief Internal Auditor reports functionally to the board. Within the North of Tyne Combined Authority, this will be achieved by:
- the Chief Internal Auditor reporting functionally to the Audit and Standards Committee. The Chief Internal Auditor reports functionally to Audit and Standards Committee in her own name and has the right of free and unfettered access to the Audit and Standard Committee and its Chair
 - the Chief Internal Auditor reporting operationally to a member of the North of Tyne Combined Authority's senior officer team. The operational reporting line will be from the Chief Internal Auditor to the Combined Authority's Chief Finance Officer (also known as the 'Section 73 Officer').
- 5.3 In line with the requirements of the PSIAS, the Head of Paid Service and the Chair of Audit and Standards Committee will be invited to provide input / feedback to the

annual performance review of the Chief Internal Auditor. The Chief Internal Auditor will also confirm the organisational independence of Internal Audit to the Audit and Standards Committee at least annually.

- 5.4 In addition, the Chief Internal Auditor has free and unfettered access to the Head of Paid Service, Chief Finance Officer and Monitoring Officer.
- 5.5 Internal Audit shall have no responsibilities over the operations which it audits other than the furnishing of recommendations to relevant management, and advice to management on risks and controls.
- 5.6 Internal Auditors will complete an annual declaration confirming compliance with rules on independence, conflicts of interest and the offer and / or acceptance of gifts and hospitality. In compiling the Strategic Audit Plan it will be ensured that this recognises and addresses potential conflicts of interest, in particular, by ensuring that staff do not undertake an audit assignment for at least one year in an area if they have had previous operational roles.
- 5.7 All Internal Auditors will be appraised of the “Definition of Internal Auditing”, the “Code of Ethics” and the “Standards”, and will work in accordance with these requirements. This will form the basis of the performance appraisal for each Internal Auditor.
- 5.8 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review. Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.
- 5.9 When performing their work, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor.
- 5.10 Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so.

6 Scope and Authority

6.1 The Authority's Chief Finance Officer (Section 73 Officer) is designated as the officer responsible for making proper arrangements for the administration of the organisation's financial affairs. In addition, the Accounts and Audit Regulations 2015 require that each organisation "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

6.2 The Accounts and Audit Regulations 2015 make it a legal requirement that any officer or elected member of a relevant authority must, if required to do so for the purposes of internal audit:

- a) make available such documents and records (including those in an electronic form); and
- b) supply such information and explanations

as are considered necessary by those conducting the internal audit. This Internal Audit Charter affirms these statutory rights of access for Internal Audit.

6.3 Internal Audit has the authority to:

- access the Authority's premises at all reasonable times;
- access all records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the authority to account for cash, stores or any other authority asset under his or her control; and
- directly access the head of paid service, the Cabinet / Executive, Audit and Standards Committee and / or other appropriate committees as required
- access financial records belonging to third parties, such as contractors, organisations in receipt of grant funding, and partnering arrangements in any scheme for which the organisation has responsibility as lead or accountable body. This right of access will be included in any agreement with such third parties.

6.4 Senior officers of the North of Tyne Combined Authority will ensure that Internal Audit is given access at all reasonable times to such premises, personnel, documents and assets that Internal Audit considers necessary for the purposes of its work.

6.5 The work of Internal Audit embraces the whole internal control system of the organisation, including all of its activities, funded from any source. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by either the management of the organisation or externally;

- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the organisation's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

7 Consulting Activity

- 7.1 The PSIAS define consulting services as:
“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”
- 7.2 The Strategic Internal Audit Plan, agreed by the Audit Committee annually, will identify any assignments which fall within the above definition. In addition, in terms of the requirements of the PSIAS, any significant additional consulting services identified during the course of the year will be approved by the Audit Committee prior to accepting the assignment. Within the North of Tyne Combined Authority, it is considered appropriate to define “significant” as any single assignment which is estimated to require a resource of 15 days or more.

8 Planning

- 8.1 Internal Audit prepares a Strategic Internal Audit Plan, setting out the scope of work to be undertaken each year. This detailed plan is prepared in consultation with the Head of Paid Service, s73 Officer, and other senior management as appropriate. , The Strategic Internal Audit Plan is approved by the Audit and Standards Committee.
- 8.2 Internal Audit must however be independent in its planning and operation. In producing the Strategic Internal Audit Plan, the Chief Internal Auditor will have an unrestricted range of coverage of the Authority’s operations. The Chief Internal Auditor will have freedom to determine the priorities of Internal Audit, following consultation with the senior management of the organisation.
- 8.3 The Strategic Internal Audit Plan will provide a broad scope of each audit assignment, together with the resources required and the respective priorities. The Plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments, investigations and staff vacancies which could not be reasonably foreseen.
- 8.4 In determining the resourcing of Internal Audit provision to the North of Tyne Combined Authority, proposed resourcing and coverage , will be kept under annual review. As a minimum, resourcing will ensure that the Service is able to comply

with the requirements of the Public Sector Internal Audit Standards. Resourcing required will be identified by the Chief Internal Auditor, ensuring that as a minimum resources are sufficient to provide a level of coverage necessary to give an annual evidence based opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. A risk based audit plan will be prepared which reflects the Chief Internal Auditor's view about the level of audit coverage and optimum resources to be devoted to Internal Audit provision of the North of Tyne Combined Authority.

9 Reporting

- 9.1 At the end of every Internal Audit assignment, a draft audit report will be issued to the relevant audit client, as identified in the project brief prepared at commencement of the assignment and agreed with the audit client. The project brief will set out clearly the circulation of the report and Internal Audit will normally observe this circulation list very closely.
- 9.2 Should the Chief Internal Auditor consider that a matter of governance or control is so serious as to warrant communication to other officers of the organisation, or to an external agency, the Chief Internal Auditor has the authority to do so. Accordingly the Chief Internal Auditor will have direct access to, and freedom to report to, all senior management and elected members, and any external agency which, in her professional judgement, she considers appropriate.
- 9.3 The organisation's management is expected to implement all accepted recommendations within a reasonable timescale, determined by management and agreed with Internal Audit at the end of the audit assignment. Each audit will be followed up to assess the extent to which this has happened. Summary information will be reported to the respective senior management team and Audit Committee on a periodic basis.
- 9.4 On an annual basis the Chief Internal Auditor is required to consider the results of Internal Audit work performed during the year and to prepare an annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control. This opinion is presented to and considered by the Audit and Standards Committee, in conjunction with the Annual Governance Statement, each year.

10 Quality Assurance and Improvement Programme

- 10.1 Quality assurance procedures have been in place within the Internal Audit team for many years as part of the team's adherence to the relevant professional standards prevailing at that time. The PSIAS introduced a requirement to develop a 'quality assurance and improvement programme' (QAIP). The PSIAS recognised that the new requirement should not add significantly to existing quality requirements.
- 10.2 The Chief Internal Auditor codifies all existing qualitative measures used to manage effectiveness of Internal Audit activity under one QAIP. There is a requirement for an external assessment of Internal Audit at least once in every five years. The

results of the QAIP will be reported to senior management and the board as required by the PSIAS.

IA/KM/AHM
February 2019

Date: 14 February 2019

Subject: Strategic Risk Register – Approach and Next Steps

Report of: Audit, Risk and Insurance Service Manager

Report Summary

The purpose of this report is to provide members with information on the development of a Strategic Risk Register for the North of Tyne Combined Authority.

Recommendations

Audit and Standards Committee are recommended to note the current position and consider the potential risks to the North of Tyne Combined Authority.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 It is a requirement of Audit and Standards Committees to consider the effectiveness of an Authority's risk management arrangements and the control environment. This includes reviewing the risk profile of the organisation to gain assurance that action is being taken on risk related issues, including partnerships and collaborations with other organisations.
- 1.2 To comply with this the North of Tyne Combined Authority (NTCA) will need to introduce a risk management process which identifies the key risks to the operation of the Authority and delivery of its objectives.
- 1.3 The risk management process will be documented into a Risk Management Strategy and will involve quarterly reporting to the Audit and Standards Committee by the Audit, Risk and Insurance Service Manager. This will allow members to gain assurance and monitor progress of plans to mitigate the impact and likelihood of risks. Appendix 1 shows the proposed format, also being used for other audit committees, such as the Joint Transport Committee, Audit Committee. Appendix 2 shows a toolkit used to determine the risk priority for individual risks.
- 1.4 To develop a risk register for the Combined Authority, work will be undertaken to discuss potential risk areas with NTCA Statutory Officers in the first instance, with the views of this Committee also being considered. The outcomes from a NTCA Staff event held on 31 January 2019, where officers working to develop the NTCA considered opportunities, risks and barriers, will also be taken into account.
- 1.5 The strategic risk register will contain strategic level risks covering the responsibilities of NTCA. Strategic regional transport risks will be identified by the North East Joint Transport Committee and monitored by its Audit Committee and the aim will be that they are summarised for this Committee.
- 1.6 Newcastle City Council will co-ordinate the development of the risk register for NTCA and the subsequent reporting of the risks to the Audit and Standards Committee.

2. Potential Impact on Objectives

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

3. Key Risks

- 3.1 There are no direct risk management implications from this report. The approach to risk management will be documented within the agreed policy and strategy.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NTCA during 2018/19 through a Service Level Agreement with Newcastle City Council.

5. Legal Implications

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

6. Consultation/Engagement

6.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have been consulted on the proposed Strategic Risk Register process.

7. Appendices

7.1 Appendix 1 – Risk Register Template

Appendix 2 – Risk Management Toolkit

8. Background Papers

8.1 None.

9. Contact Officers

9.1 Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk.

Telephone - 0191 2116511

10. Sign-off

10.1 Head of Paid Service:

Monitoring Officer:

Chief Finance Officer: ✓

**North Of Tyne Combined Authority, Audit and Standards Committee
Appendix 1 – Risk Register Template**

Risks at a glance		
Risk Title & Description	Risk Priority	Direction of Travel

Transport Related Risks			
<u>Risk Description</u>			
The risk descriptions of all risks in the risk register will be listed together with their score and whether they are improving/ Static/ Deteriorating.			Improving/ Static/ Deteriorating

Summary Risk Register for Committee	
This will form a separate appendix in Committee Reports which provides some detail on each risk.	
<u>Risk Description</u>	<u>Risk Owner</u>
	<u>Risk Score (see toolkit appendix 2)</u>
	  
	Likelihood – Impact -
Cause:	
Impact/Consequence:	
<u>Controls (already in place)</u>	
•	
Next Steps and Deadlines	Lead Officer(s)
•	

Risk Management Toolkit - An assessment of the likelihood of a risk occurring and its impact i.e. High (4) x Critical (4) = Red (16)

Action plans must be developed for Red and Amber risks

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High (4)	4	8	12	16
	Medium (3)	3	6	9	12
	Low (2)	2	4	6	8
	Negligible (1)	1	2	3	4

Assess the likelihood of the risk occurring	
High (4)	Risk will almost certainly occur or is occurring at present
Medium (3)	Risk is likely to occur in most circumstances
Low (2)	Risk may occur
Negligible (1)	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of objectives Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of objectives Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partner's commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignificant	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

(Financial limits to be reviewed)

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