

Audit and Standards Committee

26 July 2019

(10.00 - 10.45 am)

Meeting held: Committee Room, Civic Centre, Barras Bridge, Newcastle upon Tyne, NE1 8QH

Minutes

Present:

Chair: Mr D Ross

Councillors: A Chisholm, A Lower, D Cox, M Rankin, M Swinburn, J Watson and S Postlethwaite

19 APPOINTMENT OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2019/20

Councillor D Cox and Councillor M Swinburn were both nominated and seconded for the position of Vice Chair of the Audit and Standards Committee.

RESOLVED – that Councillor D Cox was appointed Vice Chair for the municipal Year 2019/20.

20 WELCOME AND APOLOGIES

The Chair welcomed everyone to the meeting. Apologies were received from Cllr Penny-Evans and Cllr Dickinson.

21 DECLARATIONS OF INTEREST

None

22 AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 4 APRIL 2019

In response to a query, the Chief Finance Officer agreed that officers would provide members with further information on how to complete and submit claims.

The minutes of the meeting held on 4 April 2019 were agreed as a correct record and signed by the Chair.

23 FINANCIAL REGULATIONS DIAGNOSTIC TOOLKIT AND INTERNAL AUDIT ANNUAL OPINION 2018/19

Submitted: Report of the Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes)

The Chief Internal Auditor presented the report which outlined the outcomes of Internal Audit's work to assess the adequacy and embeddedness of fundamental financial processes using a diagnostic tool and Internal Audit's 2018/19 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control. During the presentation of the report the Chief internal Auditor referred to the following:

The financial governance diagnostic tool had been presented to and agreed by members of the Audit and Standards Committee at its meeting in April 2019. Discussions took place with lead finance officers of the Combined Authority who were asked to self-assess arrangements against each of the questions in the Diagnostic tool.

Following the assessment Internal Audit sought and obtained where possible, evidence in respect of each diagnostic tool question and a final score awarded. Where improvements have been identified recommendations to address these have been agreed.

Internal Audit explained the work which had been undertaken by them and the outcomes at this stage. Given that the Combined Authority has so recently been established, effective systems have been implemented in a range of areas with some additional actions recommended to embed expected standards of practice in other areas examined. This is not uncommon and would be expected in any such new entity.

Internal Audit has recommended that existing arrangements are further enhanced by:

- The development of a financial regulations training programme.
- Additional documentation providing extra clarity and guidance on specific processes.
- The creation of bespoke processes where appropriate which are specific to the operation and needs of the Combined Authority.

Internal Audit will continue to work with the Combined Authority's finance staff to develop an action plan from the outcomes of the diagnostic tool. The completed action plan and a progress update from management will be presented to a future meeting of the Audit and Standards Committee.

In relation to the adequacy and effectiveness of the Framework of Governance, Risk Management and control the opinion of the Chief Internal Auditor that as the new Combined Authority continues to embed its framework of governance, risk management and control (which is normal and to be expected for any entity at this stage in its evolution) careful attention should be paid by management and 'those charged with governance' to the risks inherent in the newly established governance

framework. Further work is needed to fully embed all financial governance arrangements within the combined Authority. This judgement has been informed by the outcomes of Internal Audit's initial coverage, which was the completion of the Financial Regulations Diagnostic Tool.

During discussion members put the following queries/comments

Reference was made to the Diagnostic Tool outcomes (table 4.1) and officers were requested to present committee with future update reports in respect of the results, in particular those scored as 'Qualified No'.

RESOLVED that the Audit and Standards Committee –

- (i) Noted the Internal Audit's report following assessment of fundamental financial processes, attached at Appendix 1.
- (ii) Noted the Chief Internal Auditor's 2018/19 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control, attached as Appendix 2.

24 DRAFT STRATEGIC RISK AND OPPORTUNITIES REGISTER

Submitted: Report of the Risk Advisor to the NTCA (previously circulated and a copy attached to the Official minutes.

The purpose of the report was to provide Members with a draft Strategic Risk and Opportunities Register for the North of Tyne Combined Authority.

The Committee were advised that since the last meeting it had been agreed to assign the responsibility for Strategic Risks to a Portfolio Holder. The draft risks and opportunities identified are:

- Delivery of Devolution
- Operational Capacity and Resources
- Partnerships

During discussion concerns were voiced in respect of the tolerances highlighted on the risk management toolkit, which are used to assesses the potential impact if a risk were to occur.

The Risk Advisor explained that the tolerances against which the risks are assessed (objective, service delivery, financial and reputation) are the criteria used to determine the red, amber, green (RAG) assessment for individual risks and were not additional risk descriptions.

RESOLVED that the Audit and Standards Committee –

Reviewed the draft strategic risk and opportunities risk register

25 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT

The purpose of the report was to update the Committee on progress with the production of the audited 2018/19 Statement of Accounts and the position of the local auditor.

The Chief Finance Officer outlined the report explaining the process used to appoint Ernst Young (“EY”) as the local auditor for NTCA; the appointment of a replacement local auditor and the publication of the Statement of Accounts.

Committee were informed that on 16 July 2019 EY contacted the Chief Finance Officer to advise that they could no longer act as the local auditor for NTCA as they had identified a material conflict of interest. The conflict of interest related to other (non-audit) services which EY have provided to Nexus. This impacted on their ability to carry out audit work for NTCA because NTCA’s Statement of Accounts must include Group Accounts with Nexus and EY could not audit accounts where they had been involved in providing advice.

NTCA now had 2 options regarding the appointment of a replacement local auditor: (i) carry out a procurement exercise to appoint a new local auditor or (ii) ‘opt-in’ to the national scheme for appointing local auditors operated by the Public Sector Audit Appointments Ltd (PSAA Ltd).

So far as option (ii) is concerned, PSAA Ltd can appoint a local auditor for NTCA, set the fee level for the contract and manage the contract with the appointed audit firm. The contract fee would need to be paid by NTCA. Guidance would need to be sought from PSAA Ltd on the duration of the contract and if PSSA were requested to appoint a local auditor for NTCA, it was likely that the auditor would be in place until 2022/23. The Chief Finance Officer explained that, in order to secure the appointment of a new local auditor as expeditiously as possible, officers would recommend to Cabinet that it follows the PSAA Ltd route.

It was noted that NTCA would now not be able to comply with the statutory deadline to publish the Statement of Accounts by 31 July 2019. A statement would be published on NTCA’s website explaining the reasons for this.

There followed a discussion where Members raised several issues/concerns which included:

A Member suggested that the local auditors must have been aware of the material conflict of interest at the time of their appointment and stated that the Combined Authority should not be in this position. Another Member expressed surprise that a procurement process (with 5 quotations) had not been carried out. In response the Chief Finance Officer explained that at the time of the appointment it was agreed by officers that it was not necessary to carry out a procurement process as standing orders could be waived and, in the Chief Finance Officer’s view, it was in the best interest of NTCA to appoint EY as EY was already appointed by the 3 constituent authorities. EY had independent processes and had given assurance that they could act as local auditors. The Chief Finance Officer confirmed that she was asking questions about the situation.

Another Member referred to the failure to publish the Statement of Accounts and expressed concerns that the Committee did not have a draft set of accounts to consider at the meeting. The Member also commented that if a procurement process had been followed, officers would have had the option to approach whoever was second choice instead of opting-in to a national scheme. The Chief Finance Officer advised that another meeting of the Audit and Standards Committee would be required following the appointment of the new local auditors and also to receive the audited accounts. In the meantime, the Chief Finance Officer confirmed she would e mail the draft accounts to members of the Committee.

Other Members also expressed concerns that they did not have draft accounts at the meeting and would not see them before 31 July. A Member commented that the Committee was the responsible body to oversee/discuss the accounts.

The Chair confirmed that the accounts would come to the Committee. The Chair also advised Members that he had met with a partner at EY prior to 16 July 2019 and that no reference was made to a conflict of interest during discussions.

A Member asked about the risks and consequences of NTCA having no audited accounts. The Chief Finance Officer explained that there was no financial sanction but there was reputational risk. She also confirmed that no financial payment had been made to EY.

RESOLVED that the Audit and Standards Committee –

Noted the issues set out in the report.

26 **2018/19 ANNUAL GOVERNANCE STATEMENT**

Submitted: Report of the Risk Advisor to the NTCA (previously circulated and a copy attached to the Official minutes).

The purpose of the report was to present an updated 2018/19 Annual Governance Statement.

RESOLVED that –

The Audit and Standards Committee noted the Annual Governance Statement (AGS) and acknowledged that it cannot be agreed for inclusion in the Authority's 2018/19 annual accounts or recommended for signature by the Mayor and Head of Paid Service until such time when the annual accounts have been approved and signed off.

27 **DATE AND TIME OF NEXT MEETING**

17 September 2019 at 10.00am, North Tyneside Council

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