

Audit and Standards Committee

Thursday, 14 February 2019 at 2.00 pm

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

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SUPPLEMENTAL AGENDA

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Role of the Audit & Standards Committee

14 February 2019



Agenda Item 4

Allison Mitchell, Chief Internal Auditor
John Softly, Monitoring Officer

What is a Combined Authority?

- A 'Combined Authority' is a legal body set up using national legislation
- It enables a group of specified local authorities to collaborate and take collective decisions across council boundaries
- Member local authorities can then be more ambitious in their joint working and take advantage of powers and resources devolved from national government in a specific 'devolution deal'
- The 'constituent authorities' of the Combined Authority remain separate legal entities in their own right, with the same governance arrangements, duties and responsibilities as previously. The Combined Authority must establish its own governance arrangements.

North of Tyne Combined Authority

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- In November 2017, Government announced it was “minded-to” agree a devolution arrangement with the 3 North of Tyne authorities: Newcastle, North Tyneside and Northumberland
- This formal devolution deal was confirmed and the North of Tyne Combined Authority was created on 2nd November 2018 by a legal order made by the Secretary of State
- The deal brings additional powers and funding to be used for the benefit of the North of Tyne area
- The Cabinet is the decision making body of the North of Tyne Authority, supported by other committees including Audit and Standards Committee

What is the Audit & Standards Committee?

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- Key component of NTCA's corporate governance arrangements
- Its Terms of Reference reflect specific legal requirements for audit arrangements in Combined Authorities (described later)
- The Committee also covers Standards and Members' Code of Conduct matters
- It will be a major source of assurance on risk management, maintaining an effective control environment, reporting on financial performance and maintenance of high standards of conduct by elected and co-opted members

Who reports to Audit and Standards Committee?

The Committee will receive a variety of reports covering:

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- Internal Audit
- Risk Management
- External Audit (the external auditor is now known as the 'Local Auditor')
- Finance
- Standards

Work Programme

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- A proposed work programme for the 2019/20 year is included in the February agenda, for Audit and Standards Committee's consideration and agreement
- The work programme reflects the legal requirements of the Committee, which are set out in the North of Tyne Combined Authority Constitution
- This acts as a guide both to the Committee and report authors on which reports will be received, and when
- The programme can flex during the year (e.g. reports on emerging governance areas can be added, should these arise during the year)

Role of the Audit & Standards Committee – Audit

The Cities and Local Government Devolution Act 2016 makes it a legal requirement for Combined Authorities to have an audit committee, the purpose of which is to:

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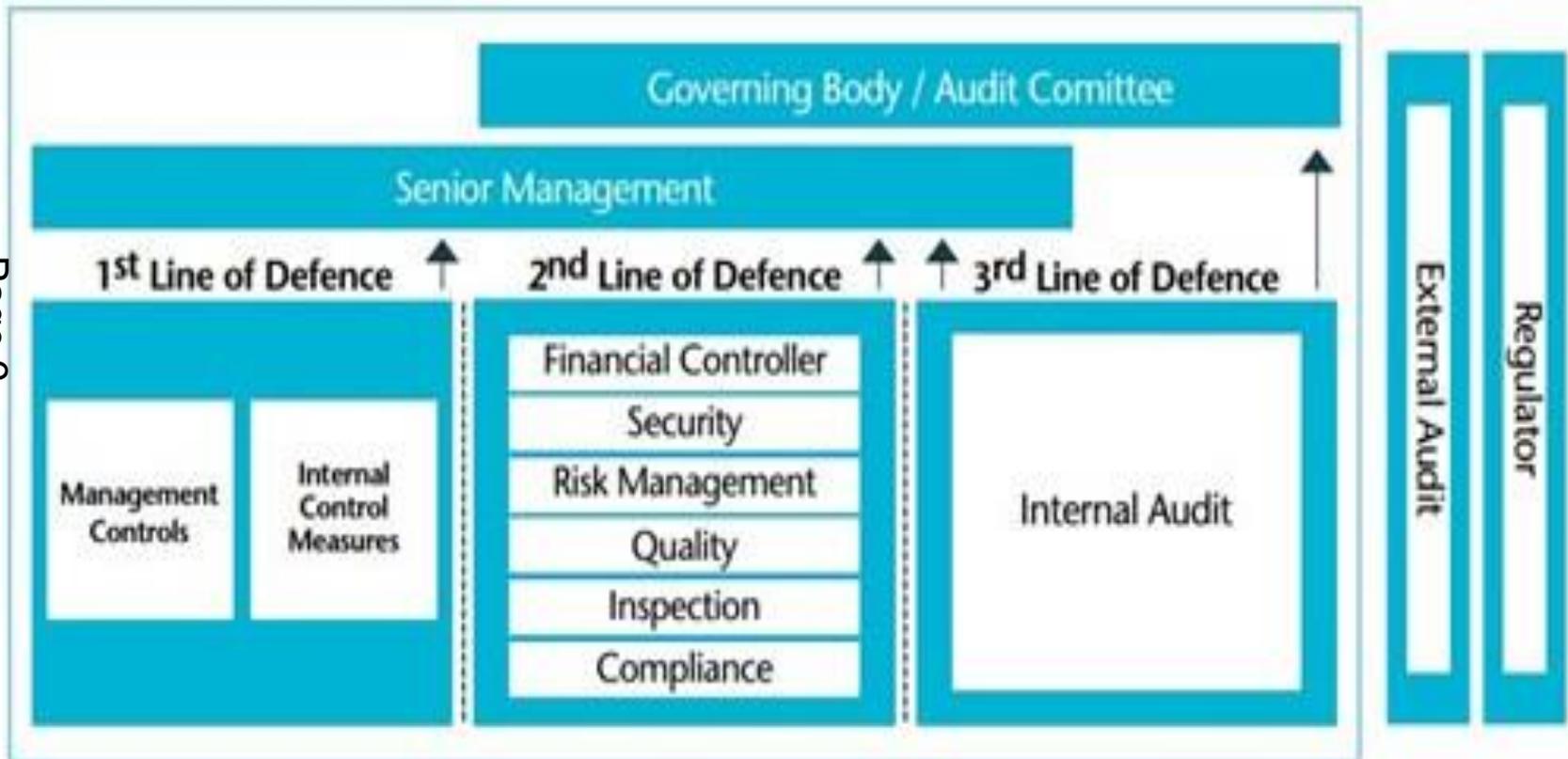
- review and scrutinise the Authority's financial affairs
- review and assess the Authority's risk management, internal control and corporate governance arrangements
- review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the Authority's functions
- Make reports and recommendations to the Authority in relation to reviews conducted covering the above

The 'three lines of defence' assurance model (1)

- The 'three lines of defence' model recognises that there should be a range of controls in place to run any organisation efficiently.
 - **the first line of defence** – is that managers are expected to run services and systems properly.
 - **the second line of defence** – includes risk management, and compliance functions such as budget monitoring, that check the first line of defence is operating properly.
 - **the third line of defence** – are functions that provide independent assurance, such as internal audit.

The 'three lines of defence' assurance model (2)

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Internal Audit

- Exists to provide independent and objective assurance about the way the Authority is working
- Our remit is wide – encompassing everything that the Authority does – and our judgement must always be based on sound evidence
- Under the Accounts & Audit Regulations 2015, we must undertake “an effective internal audit to evaluate the effectiveness of risk management, control and governance processes” in accordance with public sector internal auditing standards
- Chief Internal Auditor must present an annual opinion to Audit & Standards Committee on the “framework of governance, risk management and control”

Local Auditor

- The Local Auditor (External Auditor) has two main roles:
 - To perform an annual audit of the financial statements (the accounts)
 - To provide a value for money opinion to the organisation (whether the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources)
- The Local Auditor has other duties and powers regarding electors' objections on the accounts and the lawfulness of expenditure

Risk Management

- Good risk management enables the Authority to recognise, manage and optimise business opportunities, and to identify and minimise risks to the achievement of aims.
- An effective risk management culture helps to:
 - Increase focus on what needs to be done (and not done) to achieve objectives
 - Achieve better stakeholder satisfaction
 - Protect and enhance the reputation of the Authority

Areas of initial assurance focus

- The Authority's mission and aims are the starting point for deciding what will be audited – what outcomes does the Authority need to achieve?
- The Authority's work on 'Inclusive Economy' and a number of early initiatives around investment and growth will therefore be key assurance strands
- Programme management / programme assurance will be an important feature of our early work
- Key processes – those required for any organisation to work effectively – will also be audited

Standards – Localism Act 2011

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- Authority must promote high standards of conduct by members.
- Authority must have a code of conduct for members.
- Code must be consistent with the “Nolan” principles.
- Authority must have arrangements for dealing with breaches of the code.
- Authority must appoint an Independent Person who must be consulted before it makes a decision on an allegation which has been investigated.

Standards – Role of the Committee

- Dealing with alleged breaches of the code of conduct for members.
- Monitoring and reviewing the Authority’s ethical governance framework, including:
 - code of conduct for members;
 - member/officer relations protocol;
 - whistleblowing policy.
- Dispensations

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**Subject: Proposed Audit and Standards Committee Work Programme
2019/20**

Report by: Allison Mitchell, Chief Internal Auditor

John Softly, Interim Monitoring Officer

Report Summary

This report sets out a proposed programme of core business to be considered by the Audit and Standards Committee during 2019/20, in line with its Terms of Reference as set out in the Authority's Constitution.

Recommendations

The Audit and Standards Committee is recommended to:

- (a) Agree the proposed core business work programme set out within this report for 2019/20;
- (b) Note that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year;
- (c) Note that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference; and
- (d) Consider what initial support and/or training members of the Committee may require.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 Having regard to the Audit and Standards Committee's responsibilities as set out in its Terms of Reference in the Constitution (included at **Appendix A**), a proposed core programme of work has been developed. This work programme aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Authority's overall governance arrangements, and to highlight which reports are planned for presentation to each meeting in 2019/20.
- 1.2 The Terms of Reference agreed by the Cabinet on 8 November 2018 and set out in the Authority's Constitution identify a number of clear roles for the Committee to discharge throughout the course of the year. Some aspects of the Committee's business are time-bound in nature (e.g. relating to the Authority's Accounts, or agreeing future plans of work), whilst other items can reasonably be considered at any point during the year

allowing some flexibility in planning the work programme of the Committee.

Programme of Core Business

- 1.3 The following programme of core business for the Audit and Standards Committee during 2019/20 is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the responsibilities as set out in the Constitution to be met. Reports from the external auditor (also known as the 'Local Auditor') are indicative only at this stage.

Month	Item of Business
4 April 2019	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Internal Audit Initial Coverage 2018/19 – Key Findings and Evaluation • Internal Audit Strategic Audit Plan 2019/20 <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2018/19 • Draft Annual Governance Statement <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Planning Report • External Audit Fee Letter <p><u>Standards</u></p> <ul style="list-style-type: none"> • Standards Update (CSPL Review of local government ethical standards)
July 2019 (Indicative)	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control (2018/19) • Quarterly Update Report (Key Findings and Outturn) <p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Statement of Accounts • Annual Governance Statement <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Results Report <p><u>Standards</u></p> <ul style="list-style-type: none"> • Standards Complaints Update

<p>September 2019 (Indicative)</p>	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> Quarterly Update Report (Key Findings and Outturn) <p><u>Risk Management</u></p> <ul style="list-style-type: none"> Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> Quarterly Update <p><u>External Audit</u></p> <ul style="list-style-type: none"> Annual Audit Letter <p><u>Standards</u></p> <ul style="list-style-type: none"> Standards update (as appropriate)
<p>January 2020 (Indicative)</p>	<p><u>Internal Audit</u></p> <ul style="list-style-type: none"> Preparation for Audit and Standards Committee Self-Assessment of Effectiveness Preparation of Strategic Audit Plan 2020/21 Quarterly Update Report (Key Findings and Outturn) Audit and Standards Committee Work Programme <p><u>Risk Management</u></p> <ul style="list-style-type: none"> Quarterly Update <p><u>Finance</u></p> <ul style="list-style-type: none"> Quarterly Update <p><u>External Audit</u></p> <ul style="list-style-type: none"> Annual Audit Letter <p><u>Standards</u></p> <ul style="list-style-type: none"> Review of Assessment Criteria* Review of Whistleblowing Policy* Registration of Gifts and Hospitality* Complaints Update <p><i>*Reviews to take place November 2019 onwards (ie a year after the adoption of the Constitution).</i></p>

- 1.4 In addition to these core business items, it may also be necessary to update the Audit and Standards Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Audit and Standards Committee will receive additional reports on emerging issues and trends as appropriate.
- 1.5 The proposed work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is the case, the relevant report author will be responsible for

informing the Chair of the Audit and Standards Committee, and Democratic Services, of any changes to proposed reporting.

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 Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities. The approval of the matters set out in this report are part of the process of establishing the governance arrangements of NTCA in accordance with the terms of the Order.

3. Key Risks

- 3.1 There are no key risks arising from this report. The report proposes a work programme for the Committee, optimising the proposed frequency and timing of reporting.

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 helps to assess 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; to have a sound system of internal control; to maintain appropriate accounting records and control systems; and to prepare and publish a statement of accounts in accordance with proper practices in relation to accounts.
- 5.2 The proposed work programme reflects the requirements of the Accounts and Audit Regulations 2015 and will help the North of Tyne Combined Authority to adhere to relevant legal obligations.
- 5.3 With regard to standards, the Authority is required by the Localism Act 2011 to promote high standards of conduct, adopt a Code of Conduct for its members and to have in place arrangements for dealing with alleged breaches of the Code. The Committee will have a key role in ensuring that the Authority complies with these requirements.

6. Consultation / Engagement

- 6.1 The proposed work programme of core business items has been proposed with reference to the Constitution and Terms of Reference for the Committee.
- 6.2 Should any emerging issues or trends arise during the year, the core business items will be supplemented with additional reports agreed in association with the Chair of the Audit and Standards Committee.

7. Appendices

Appendix A – Extract from North of Tyne Combined Authority Constitution – Audit and Standards Committee Terms of Reference

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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**Extract from North of Tyne Combined Authority Constitution (November 2018):
Audit and Standards Committee**

Terms of Reference (Source: Constitution, November 2018)

Audit

The Committee's core functions are:

1. At a strategic overview level, to review and scrutinise the Authority's financial affairs.
2. To review and assess the Authority's risk management, internal control and corporate governance arrangements.
3. To review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the Authority's functions.
4. To make reports and recommendations to the Authority in relation to reviews conducted under 1 to 3 above.

To discharge these core functions, the Committee will:

- a. Be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the Authority's objectives.
- b. In relation to the internal audit function:
 - i. Oversee its independence, objectivity, performance and professionalism;
 - ii. Support the effectiveness of the internal audit process;
 - iii. Promote the effective use of internal audit within the assurance framework.
- c. Consider the effectiveness of the Authority's risk management arrangements and the control environment; review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
- d. Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and managing the Authority's exposure to the risks of fraud and corruption.
- e. Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- f. Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- g. Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

Notes

- (i) The Committee's audit role is to review the relevant procedures of the Authority, and to maintain an overview on the framework of governance, risk management and control within the Authority, but not to make or review policy.
- (ii) For the avoidance of doubt, the Committee will review and scrutinise the Authority's financial affairs at a strategic overview level. Nothing in these terms of reference shall confer upon the Committee the power to regulate or control the finances of the Authority. Detailed reports on ongoing financial performance, budget setting and budget management, and requests to approve the financial statements shall be matters for the Cabinet.

Standards

1. To promote and maintain high standards of conduct by Authority members and co-opted members.
2. To ensure the Authority's members and co-opted members observe the Members' Code of Conduct.
3. To advise the Cabinet on the adoption or revision of the Members' Code of Conduct.
4. To monitor the operation of the Members' Code of Conduct.
5. To advise, train or arrange to train the Authority members and co-opted members on matters relating to the Members' Code of Conduct and Disclosable Pecuniary Interests.
6. To grant dispensations to the Authority members and co-opted members from requirements relating to interests set out in the Members' Code of Conduct.
7. To monitor complaints received by the Authority in respect of Member conduct.
8. To review the Whistleblowing Policy and recommend any changes to the Monitoring Officer for consideration by the Cabinet.
9. To conduct hearings following investigation and determine complaints made against members and co-opted members (including requests for review).
10. Where a member of co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.

11. To review the assessment criteria for complaints against members and co-opted members (included in the Authority's adopted local arrangements) as it considers appropriate from time to time and recommend any changes to the Monitoring Officer for consideration by the Cabinet.
12. To undertake such further functions as may be the responsibility of the Committee under the Combined Authority's adopted local arrangements in relation to the handling of complaints against members and co-opted members.
13. To appoint when required a Sub-Committee to conduct hearings and determine complaints of breaches of the Code of Conduct for Members and for granting dispensations for members with registerable and non-registerable personal interests to enable Members to participate and vote at committee meetings.

Notes for Information

- a. The Localism Act 2011 requires the Authority to appoint at least one Independent Person for their views to be sought and taken into account before the Audit and Standards Committee makes its decision on an allegation about a Member's conduct which has been investigated and at other times when considered appropriate. An Independent Person's views may also be sought by a Member who is the subject of a misconduct complaint. NTCA will appoint 2 Independent Persons for these purposes.
- b. The Members' Code of Conduct and all codes and protocols can be found in Part 5 of the Constitution.