

Audit and Standards Committee

19 September 2023

(10.00 am - 12.00 pm)

Meeting held: Armstrong/Stephenson Room, Civic Centre, Newcastle upon Tyne, NE1 8QH

Draft Minutes

Present:

Chair: D Willis, OBE

Councillors: C Gray, A Walker, C Ferguson, Castle, C Hardy, A McMullen, T Mulvenna and J Shaw

12 **WELCOME AND APOLOGIES**

The Chair introduced himself and welcomed everyone to the meeting. Brief introductions were made.

13 **DECLARATIONS OF INTEREST**

During discussion of item 4(b) – 2021/22 ACR Update Letter – Councillor Mulvenna declared an interest as substitute Member of the Pensions Committee.

14 **AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 4 JULY 2023**

RESOLVED – That the minutes of the meeting held on 4 July 2023 be agreed as an accurate record and were signed by the Chair.

15 **EXTERNAL AUDIT 2021/22 COMPLETION REPORT**

Submitted: Report of Chief Finance Officer (previously circulated and a copy attached to the official records) to present Audit and Standards Committee with the External Auditors 2020/21 signed Audit Certificate, the 2021/22 Updated Letter to the Audit Completion Report, the 2021/22 Auditors Annual Report and the 2022/23 Audit Strategy Memorandum.

(a) **2020/21 Audit Certificate**

G Barker, Mazars, presented the Audit Certificate covering letter for the 2020/21 accounts. It was acknowledged that there was a delay before issuing the Audit Certificate following a delay in the audit due to the infrastructure assets issue and waiting for National Audit Office clearance that the NTCA would not be selected for additional Whole of Government Accounts work. The Certificate formally concluded the audit and drew 2020/21 to a close. An unqualified opinion was given and confirmed the authority had proper arrangements in place with no exceptions.

The Chair welcomed the conclusion of the 2020/21 audit.

RESOLVED – That the Committee reviewed and noted the 2020/21 Signed Audit Certificate and the Letter Accompanying Audit Certificate 2020-21.

(b) **2021/22 Audit Completion Report Update Letter**

G Barker, Mazars, presented the 2021/22 updated letter to the Audit Completion Report (ACR). It was noted that it was similarly delayed and was close to completion. The follow up letter explained how all issues which were left incomplete on the Audit Report had been addressed.

The Audit was delayed due to issues around Infrastructure Assets, which was explained in the report. There was also a further delay due to receiving Pension Fund Disclosure because of the triennial pension review. It was confirmed that the Tyne and Wear Pension Fund was audited by another firm and arrangements were in place to seek assurance from them in terms of aspects of the fund that impacts on disclosures in NTCA accounts for pension liabilities. It was noted that the Pension Auditor did not report to Mazars until March 2023, ordinarily it would have been the November prior. Triennial review of the Pension Fund had therefore been carried out by that point and updated information was available which meant it needed to be reflected in the financial statements.

Mazars worked on the revised report and looked at any changes in actuarial assumptions and found there were no issues arising.

It was noted that assurance was sought from the Pension Fund Auditor in terms of the membership data that was used in the triennial review to ensure the information TWPF used in the evaluation was properly supported. A report was received from the Pension Fund Auditor in September, work was ongoing through the queries and an initial response was received yesterday. It was expected that Mazars would be in a position in the next week to issue the Audit Report on the 2021/22 financial statements. It was anticipated that an unqualified opinion would be issued on the financial statements and that the report and follow up letter would be taken to Cabinet for endorsement and the report issued thereafter.

The Chair queried the recommendation relating to ‘related party declarations’ and invited John Softly to comment.

J Softly stated he would welcome a further conversation and he assured the Committee that the requirements for registration of interests met the legal requirements imposed on all local authorities and in fact goes beyond that. G Barker confirmed that, as there had been no time for discussion prior to publication, it would be fair to revisit that recommendation and make any changes necessary following a discussion with the Monitoring Officer and advised that an updated letter would be provided to Committee thereafter.

In relation to the other recommendation relating to the recording of access request forms, K Laing stated that IT management system services were provided by a third party and suggested further discussion on that recommendation would also be required.

RESOLVED - That the Committee reviewed and noted the 2021/22 Updated Letter to the Audit Completion Report.

(c) 2021/22 Auditors Annual Report

G Barker, Mazars, presented the 2021/22 draft Auditors Annual Report. It would be finalised once the Audit Report was issued and unqualified opinion given, however a draft had been brought to Committee to provide the substance of the report before it was finalised.

The report explained the key areas audited; financial sustainability, governance and improving economy, efficiency and effectiveness. Mazars were required to report exceptions and identify any significant weaknesses. It was reported that no significant weaknesses have been found in the authority's arrangements.

The report highlights the Audit fees charged for 2021/22 which were in line with the previous year, the only exception was the additional work in relation to pension auditor assurance and revisions as a result of that.

RESOLVED - That the Committee reviewed and noted the 2021/22 Auditors draft Annual Report.

(d) 2022/23 Audit Strategy Memorandum

J Dafter, Mazars, presented the Audit Strategy Memorandum for 2022/23 which set out the approach in how the audit work would be carried out.

A summary of the work to be undertaken was outlined, which included looking at; audit opinion, value for money, fraud and wider reporting and electors' rights. The Committee was advised on the audit scope, approach and timeline. It was reported that the audit would begin in October 2023 with completion expected in December 2023 to January 2024.

It was acknowledged that Mazars were responsible for the audit of the Group consolidation, made up of; NTCA, Nexus and NECA. The work was carried out in strict order with the audit of Nexus carried out first, as that feeds into the core elements of NTCA and NECA. The NECA audit was carried out secondly, as it carried out the transport element on behalf of the JTC, and NTCA was the last piece

of audit work carried out. It was reported that the Nexus audit was well underway with conclusions expected in the next few weeks.

It was noted that there were some staffing challenges, but it was anticipated that completion would be by January 2024, however that was reliant on the Pension Fund audit coming back with assurance before that.

Committee was advised on the three significant risks assessed at this stage, which would be kept under constant review. It was noted that the risks were in line with previous years as management override of controls, revenue recognition (in relation to Tyne Tunnel tolls and grant income) and pension fund due to the size of the figures. The Strategy Memorandum also set out the planned response to how the audit would get that assurance.

Committee was advised on the three criteria areas that the audit would report under; financial sustainability, governance and improving economy, efficiency and effectiveness.

The Committee was directed to the statements within the Strategy Memorandum regarding the commitment to independence and the summary of initial materiality thresholds. Committee was also advised on the revised auditing standard on identifying and assessing the risks of material misstatement (ISA 315).

G Barker advised that there was a new team working on the Tyne and Wear Pension Fund Audit for 2022/23 and had indicated they would be reporting soon so assurance should be received before the report comes back to Committee. The Chair welcomed the indication that assurance would be received soon.

Councillor Ferguson questioned what the consequences would be if the timeline slipped and how would that be managed. It was confirmed that ultimately 2022/23 audit could not be signed off until everything was done to the right standards. The aim was January 2024, however there were staffing pressures so there was scope to shift, although it was acknowledged that it would not be a good year for things to be delayed. If timescales did slip beyond when NTCA ceased to be, the new combined authority would be responsible for the approval of the accounts. Councillor Ferguson made the point that accounts would need to be passed over for 2023/24, would it cause any more difficulty to do two years of accounts under those arrangements. It was acknowledged that audits really need to be brought up to date to ensure as far as possible that two audits were not open at the same time and therefore the focus was on removing the backlog.

The Chair advised that there would be a workshop in November time to look at 2022/23 figures with an aim to bring to Committee in January 2024. A further Committee date in April could be an opportunity to look at 2023/24 figures to make it easier for the new Mayoral Combined Authority to sign off the accounts.

G Barker made Committee aware that this was a national issue and proposals were developing with the DLUH around assist in getting rid of audit backlogs, details of the proposal were still unclear at present. It was noted that there were suggestions that this could mean issuing qualifications of accounts that were taking the time

which were often the least meaningful figures as they were estimates to a large extent. However, there was a lack of clarity around those proposals at present.

Councillor Castle questioned who would be accountable once NTCA ceased to be. J Softly confirmed the new authority would take on responsibility and liability for the two previous combined authorities, NTCA and NECA. However, in terms of arrangements regarding accounting, discussions were ongoing with government about specific provision to deal with accounting and audit arrangements due to the timings around year end in April and the new Mayoral combined authority being created in May, which would be clarified in legislation.

RESOLVED - That the Committee reviewed and noted the 2022/23 Audit Strategy Memorandum.

16 2021/22 STATEMENT OF ACCOUNTS

Submitted: Report of Director of Finance (previously circulated and a copy attached to the official records) to provide Audit and Standards Committee with the 2021/22 Audited Statement of Accounts for the year ending March 2022.

K Laing introduced the report and requested that Committee review the report, and it would be referred to Cabinet for final approval in November.

It was noted that the Statement has been prepared in compliance with the CIPFA Code to ensure a true and fair view of the financial position of the authority. A background of the audit was provided noting the delay relating to material infrastructure assets and the triennial revaluation of the TWPF.

Changes to the 2021/22 Statement of Accounts in terms of Infrastructure Assets, identified that there was insufficiently detailed information available to allow NTCA to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Committee was advised that this issue was entirely technical in nature and did not impact on resources available to NTCA or the level of usable reserves. It was noted that CIPFA guidance was issued that allowed authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements.

A further issue arose in April 2023 which led to a change to the Statement of Accounts for 2021/22. This related to the availability of more up-to-date information becoming available from the triennial revaluation of the TWPF, which needed to be reflected in the Statement. The way forward agreed was that authorities were to obtain updated valuation reports and amend the 2021/22 statements and Pension Fund Auditors were to complete testing on the reliability and accuracy of the update pension fund membership data used in the valuation. It was reported that NTCA embedded the changes to the updated pension figures through the 2021/22 Statement of Accounts including the Group Accounts.

Following the changes, it was reported that there was no change to the Movement in Reserves Statement (MRS), there was a small increase in terms of Consolidated Income and Expenditure (CIES) and this was reflected on the balance sheet in a

reduction on the pension fund liability. The movement resulted in a £0.354m reduction in the deficit position.

The Committee was reminded that the changes in the financial statements were technical in nature and do not impact on the reserves or real resources available to the Authority.

It was noted that the Pension Reserves sat within Unusable Reserves within the Statement of Accounts and could not be used to fund expenditure and were used to hold technical accounting balances.

The Chair questioned whether the movements in the pension figures were material and if not why could the current figures not be used for the 2022/23 account. It was confirmed that previous figures could not be used as new pension figures would be produced with different actuarial assumptions so assurance would still be required on 2022/23 figures.

Councillor Gray asked about how figures relating to Members allowances were presented in the report and whether they should be broken down further into allowances, and expenses claimed. K Laing confirmed that the Chief Officer Remuneration Table included Salary, Fees and Allowances the Members Allowances were only required to show Allowances. Councillor Gray suggested that going forward this should perhaps be listed out more clearly for transparency purposes. K Laing confirmed that further information on the £67,000, and what sits below that figure, would be provided.

The Chair confirmed that the Annual Governance Statement had not differed from what was previously circulated. No questions arose from the Annual Governance Statement.

K Laing presented the Narrative Report and advised that this provided a background to the NTCA and what the main objectives were for the year. It also provided a financial performance summary and a look ahead to 2022/23. It was noted that the report supported the Statement of Account and showed the outturn position as it was when reported to Cabinet in June 2022.

Councillor Gray questioned the reporting on job numbers, and suggested clarity was required to understand the number of jobs created and delivered, as well as methodology around that. K Laing confirmed further detail could be provided around this issue. Comments about the role of the Scrutiny Committee in relation to the work of the Audit Committee were made, including how the job figures were calculated. The Chair agreed that this would be a good point for the workshop to look at in terms of the business of the combined authority and understanding the role of the Audit Committee in relation to the Overview and Scrutiny Committee. Chair asked for members to respond to the skills survey to state that they would like to know more about the business of the combined authority.

Councillor Mulvenna asked whether the number of jobs created included those created by the local authorities. K Laing confirmed that this figure was purely around delivery of the work of the combined authority. Councillor Mulvenna commented that it was important to understand how the figures were sourced, to ensure there was

no double counting. It was agreed this would form part of the workshop in November.

RESOLVED – That the Committee reviewed and noted the 2021/22 Audited Statement of Accounts including the Narrative Report and Annual Governance Statement.

17 **STRATEGIC RISK REVIEW**

Submitted: Report of the Risk Advisor to NTCA (previously circulated and a copy attached to the official records) to provide Audit and Standards Committee with assurance that the most significant risks and opportunities have been identified, were being monitored and measures were being taken to mitigate them.

P Slater confirmed that the risk review had been carried out and any changes were highlighted within the report with the transition risks highlighted in blue and also extracted into a single appendix.

The Chair asked whether, aside from the transition risks, any risks had moved over the course of the year. P Slater confirmed that there was no significant movement with any of the risks. The Chair welcomed that the report clearly presented the risks and provided an appendix on ‘risks at a glance’.

RESOLVED – That the Committee;

- (i) Reviewed, challenged and accepted the outcomes of the strategic risk review.
- (ii) Noted the summary of the strategic risks identified by the North East LEP.
- (iii) Noted the summary of the strategic risks identified by the North East Joint Transport Committee (North East JTC).

18 **RISK MANAGEMENT POLICY AND STRATEGY**

Submitted: Report of the Risk Advisor to NTCA (previously circulated and a copy attached to the official records) to provide the Audit and Standards Committee with the NTCA Risk Management Policy and Strategy.

P Slater advised Committee that it was good practice to review policies and procedures and confirmed that there was no substantial change from previous years.

RESOLVED – That the Audit and Standards Committee endorsed the 2023/24 Risk Management Policy and Strategy.

19 **INTERNAL AUDIT SECOND QUARTER UPDATE ON THE AUDIT PLAN**

Submitted: Report of Interim Chief Internal Auditor (previously circulated and a copy attached to the official records) to provide the Audit and Standards Committee with the second quarterly progress update against the 2023/24 Audit Plan.

R Dunlop introduced the report and confirmed that the second quarter was fairly quiet. It was noted that the draft Net Zero Transition audit had been drafted and was awaiting management response. Work on the Information Governance audit has commenced and would be reported back to Committee in due course.

RESOLVED – That the Committee considered and noted the Internal Audit report. Work in progress

20 **NEMCA TRANSITION UPDATE (PRESENTATION)**

Presentation received providing the Audit and Standards Committee a Devolution update, building on the seven Portfolio areas set out in the Devolution Deal.

G Mansbridge, NTCA, presented to Committee, providing an outline of the breadth and scope of the Devolution Deal. The scope of the deal was noted based around the following areas:

- Transport
- Economy and Investment Fund
- Skills, Education and Inclusion
- Housing, Land and Digital Infrastructure
- Clean Energy and Net Zero
- Rural Economy and Sustainability
- Culture, Tourism and Place
- Business Growth and Inward Investment
- Health and Public Service Reform

The Portfolio Plans were discussed around the work which was ongoing to develop these portfolios building the connections between them. Four areas were identified as overarching the portfolios; Net Zero, ensuring this percolated through all the portfolios; inclusive growth, ensuring a fair and just society; quality of place should remain at the heart of communities and build on the good work already started and health and wellbeing, which was an opportunity for NEMCA to take convening role in that.

Each of the portfolio areas were discussed and emerging key priorities highlighted;

- Transport Portfolio – building on the work of TNE and the JTC, continuing work on the City Region Sustainable Transport Fund, Bus Service Improvement Plan and Electric Vehicle Infrastructure roll out. Publish a refreshed Regional Transport Plan that support NEMCA's vision and priorities.
- Finance and Investment Portfolio – developing an investment strategy which sets out what is targeted in order to have the greatest impact for the North East and ensuring investment was maximised as far as possible. It was noted that being proactive in terms of attracting inward investment was key as well as ensuring every part of the region sees the benefit. It would also be important to develop an assurance framework to set and monitor targets in order to feedback intelligence thus ensuring there were improvements and investment targeted.
- Rural and Environment Portfolio – ensuring rural parts of the region sit at the heart, as well as ensuring investment in coastal communities where there remains unique challenges in terms of deprivation.

- Culture, Creative, Tourism and Sport Portfolio – building on opportunities to invest in tourism and the visitor economy. Also, building on the work within the creative sector to establish greater opportunities for the region in terms of film, media and production. This would allow skill development so more businesses are attracted to the region.
- Economy Portfolio – developing individual strategies for key sectors that would drive the economy forward, with particular focus on innovation and inward investment in order to build an economic strategy for the whole region. This strategy would be the glue that holds everything together and provide the evidence base for what works and makes the most impact across the piece.
- Housing and Land Portfolio – ensuring there was an acceleration of pace of affordable housing in region. It was noted that the planning system alone could not deliver the number of homes needed so the combined authority would need to intervene alongside Homes England to make that happen. It was also a key priority to ensure there was investment in the region's high streets and town centres, with the eventual development of a Housing Strategy for the region.
- Education, Skills and Inclusion – building on the work the NTCA had already carried out in respect of developing education and skills budget.

The next steps were identified, including further development work on the portfolio plans and Medium-Term Financial Plan, which would be reported to Cabinet in November. Work was ongoing in terms of developing operational plans as well as work with Leaders around the vision for NEMCA. It was expected that there would be a clearer vision by November in terms of what success looks like. In addition, work was underway to ensure links between corporate plans for NEMCA, the delivery plan that was needed, the investment plan and setting of budgets so there was clarity in relation to where investment could be targeted to make the biggest impact.

The Chair acknowledged the large amount of work that was currently ongoing.

Councillor Gray questioned the transition arrangements for those projects already underway, in particular around staff who may move to new employment before the transition was completed, to ensure no good work was lost during the transition period. It was acknowledged that this was an opportunity to bring together a lot of good work and build on that. The Committee was reassured that delivery of projects and initiatives would continue from day one of the Combined Authority.

Councillor Ferguson questioned the position of the combined authority if the Mayoral vision and manifesto does not align with the vision of NEMCA. Committee was advised that ultimately decisions would be taken by Cabinet, the Mayor would be a member of the Cabinet and the priorities being developed were wide in scope and could flex to a focus agreed by Cabinet. The Corporate Plan would need to be confirmed by the new Cabinet when it first meets in May and at that point it would be important to have a real tangible evidence base in terms of what works for the region.

It was also confirmed that internal audit work was ongoing around the transition to NEMCA, this was primarily focused on providing assurance over business-as-usual activity. It was agreed that a briefing note would be brought back to Committee in January which would provide an update on that assurance work.

RESOLVED – That Committee noted the information presented.

21 **CHAIR'S ANNOUNCEMENTS**

The Chair reminded the Committee that a workshop would be held in November and requested that any members who have not already done so should respond to the Skills Survey to allow the event to be planned.

The Chair advised the Committee that it was Richard Dunlop's last meeting. On behalf of the Committee the Chair thanked him for his work and wished him well for the future.

22 **DATE AND TIME OF NEXT MEETING**

Tuesday 23 January 2024, 10.00am at North Tyneside Council