TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Tees Valley Combined Authority Audit & Governance Committee Agenda

www.teesvalley-ca.gov.uk

Date: 9th February 2023 at 1PM
Venue: Teesside Airport Business Suite, Teesside International Airport, Darlington DL2 1NJ

Membership:

Councillor Matt Storey – Chair (Middlesbrough Council)
Councillor Anne Watts – Vice Chair (Redcar and Cleveland Borough Council)
Councillor Robert Tiplady (Hartlepool Council)
Councillor Scott Durham (Darlington Borough Council)
Councillor Barry Woodhouse (Stockton Borough Council)
Angus Kidd (Independent Member)
Jonny Munby (Independent Member)
Iain Robson (Independent Member)
Andrew Evans (Independent Member)
Lee Webb (Independent Member)

AGENDA

1. **Welcome and Apologies for Absence**

2. **Declarations of Interest**
Attached

3. **Minutes of Previous Meetings and Action Tracker**
Attached

4. **Group Update**
Attached

5. **Subsidiary Audit Report 2021/22 (South Tees Development Limited)**
Attached

6. **Internal Audit Actions Update**
Attached

7. **Internal Audit Progress Report**
Attached

8. **Internal Audit Reports**
Attached

9. **Annual Financial Accounts 2021/22 for TIA, Goosepool and STDL**
Attached

10. **External Audit Annual Report**
Attached

11. **External Audit Annual Plan 2021/22 (Audit Strategy Memorandum)**
Attached

12. **External Audit Progress Update**
Verbal

13. **Forward Plan**
Attached

14. **PSAA Appointment of External Auditors Update**
Attached

15. **Subsidiary Audit Reports 2021/22 (Goosepool and TIA)**
Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

16. **Risk Management Report**
Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

17. **Committee Effectiveness & Skills Audit Results & Analysis**
Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

18. **Internal Audit Report**
Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

19. **Date & Time of Next Meeting**
May 2023 (Date and Time TBC)

Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the Combined Authority's Constitution under the "Code of Conduct for Members" (Appendix 8).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

   a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
      i. a member of your family;
      ii. any person with whom you have a close association;
      iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
      iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
      v. any body as described in paragraph 3 b) i) and ii) below.

   b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
      i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
      ii. any body which:
         - exercises functions of a public nature;
         - is directed to charitable purposes;
         - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict

of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

<u>Procedures for Declaring Interests</u>

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

<u>Sensitive Information</u>

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

Tees Valley Combined Authority (TVCA) Audit and Governance Committee

Tuesday 2nd August 2022 at 10.00am

These Minutes are in draft form until approved at the next Audit & Governance Committee meeting and are therefore subject to amendments.

PRESENT
Members
Councillor Jamie Bartch, (Darlington Borough Council) Councillor Barry Woodhouse (Stockton-on-Tees Borough Council) Councillor Anne Watts (Redcar and Cleveland Borough Council) Councillor Matt Storey (Middlesbrough Borough Council) Councillor Kevin Tiplady (Hartlepool Borough Council) Angus Kidd (Independent Member) James Stuart (Independent Member)
Apologies for Absence Jonny Munby (Independent Member) Councillor Scott Durham (Darlington Brough Council) Peter Judge (Group Chief Legal Officer, TVCA)
IN ATTENDANCE
Officers
Gary Macdonald (Group Director of Finance & Resources, TVCA) Victoria Smith (Group Financial Controller, TVCA) Natalie Robinson (Group Risk Manager, TVCA) Nicola Dean (Governance & Scrutiny Officer, TVCA) Eve Pritchard (Governance Support Officer, TVCA)
Also in Attendance Cameron Waddell (Mazars – External Auditors) via Teams Michael Gibson (RSM – Internal Auditors) Robert Barnett (RSM – Internal Auditors)

AGC 01/22	**WELCOME, INTRODUCTIONS & APOLOGIES FOR ABSENCE** Apologies for absence were submitted as detailed above.
AGC 02/22	**DECLARATIONS OF INTEREST** No declarations of interest were received.

AGC 03/22	**APPOINTMENT OF CHAIR & VICE CHAIR** Gary Macdonald, (GM), Group Director of Finance & Resources invited nominations or any volunteers for the position of Committee Chair for the forthcoming civic year: MS was nominated by BW, and this was seconded by JS. GM then invited nominations or any volunteers for the position of Committee Vice Chair for the forthcoming civic year: AW was nominated by BW, seconded by MS. It was confirmed that the appointment to these roles will be submitted to the next Cabinet to approve the nominations in October and an induction would be arranged with Members to cover the TVCA Group and its statutory Committee's.
AGC 04/22	**APPOINTMENT TO SOUTH TEES DEVELOPMENT CORPORATION, AUDIT & RISK COMMITTEE** The Committee took the view, as it had the previous year, that the position on the South Tees Development Corporation should be filled by the Committee member representing Redcar & Cleveland Borough Council. Therefore, the nomination was Cllr Anne Watts and was agreed unanimously by the Committee.
AGC 05/22	**MINUTES OF MEETING HELD ON 20th JANUARY 2022 AND ACTION TRACKER** The minutes of the previous meeting were agreed as a true record. The outstanding actions were discussed, and Members were advised that the actions were discharged as noted.
AGC 06/22	**GROUP UPDATE** Gary Macdonald (GM), Director of Finance & Resources, provided a summary of the Group Update to the Committee detailing the key activities of the Combined Authority since the last Committee meeting including the following areas: • Teesworks • Freeport • Teesside International Airport • One Public Estate • Business Investment • Education, Employment & Skills • Mayoral Development Corporations • Transport • Clean Growth & Innovation • Creative Place Members asked: • What is happening regarding the dead crustaceans being identified on the quay? GM advised that the purpose of getting an independent government review was for scientists to investigate this and determine the cause and this has been reported

	back. GM assured the Committee that all work on the quay is in line with best practice for the work being undertaken and the requirement to apply for licenses. • What engagement is there with Trade Unions on the site? Work is undertaken via contractors on the site and expect some things to come as standard, and if they have Union representation on those areas. • How does it all link to education and skills and having local people working on these sites? GM noted the strategic points – governance and the Skills Strategy covering priority areas and synergies (GM pointed to the Strategy on the TVCA website). It was recognised that there is a need to keep a feedback loop with providers as to the make up of those accessing education and the Education, Employment and Skills Advisory Group is the nominated group that reviews and considers such matters in addition to the TVCA Cabinet. Datasets are coming through and the Education, Employment and Skills Advisory Group is looking at impact and engagement on a regular basis. It was explained it's not just about skills but also about how to co-ordinate and make connections with employers – this is already happening with SeAH Wind. • Can this be tracked via the A&G Committee? GM explained there is quarterly reporting to Cabinet and there's access to that detail. Its Cabinet and Scrutiny's remit to assess performance but not the remit of the A&G Committee directly. • Why is training so slow to implement? South Bank was noted as having great deprivation and training is needed. GM recommended feeding that back to the Skills Team and Cllr Bob Cook as the EES Portfolio Lead, to get an understanding of what is happening in each of the localities. • What outcomes are being seen for the investment in skills? There are KPI's but compared to the UK average these are below that and the Skills strategy has considered this information and the most effective ways improve this. Data is being captured and worked up to go into Cabinet Reports. • What are the benefit of MDC's? GM advised with MDC get public and private sector leadership on the Board and, depending on powers selected, get powers/strategies in the DC area to transform that area and in the case of Middlesbrough and Hartlepool funding is propose via the TVCA Investment Plan to help enable that. • What if outcome of the MDC consultation is that the support/appetite isn't there? At the last Cabinet these approvals were agreed, subject to scrutiny and are subject to approval after consideration of the feedback which so far looks positive. • How is Middlesbrough Council linked to the DC? GM some implementation planning is required and now dealing with the strategic part first to determine how it would be delivered. • Is there a minimum level required on how many responses there should be on the consultation? VS advised a piece had been done to target engagement for a greater impact than normal in specific areas. It was advised there isn't a specific level required to pass consultation. • Does TVCA have oversight of any MDC? GM explained that the governance won't be much different to STDC so linked in the Group Structure, so connectivity and a link is there as it's a Mayoral Development Corporation. **RESOLVED that: Members noted the Report.**
AGC 07/22	**TVCA 2020/21 FINANCIAL STATEMENTS (LATEST POSITION)** The latest position of the TVCA 2020/21 Financial Statements were presented. VS advised it was unusual to bring both sets of Financial Statements to the Committee, but due to

	constraints in the audit market and the draft publication deadline for the 2021/22 accounts this is the position TVCA are in. VS discussed the status of the 2020/21 accounts. In January the set of accounts brought was as a 50/50 joint venture and the External Auditors had asked to change it to a subsidiary. The change was made but now the requirement is to record it as a joint venture. It was explained that this has resulted in not being able to ask the Committee to sign off the accounts. **RESOLVED that: Members noted the latest position of the Financial Statements.**
AGC 08/22	**TVCA DRAFT 2021/22 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT** A verbal update was provided to Members regarding the TVCA DRAFT 2021/22 Financial Statements and Annual Governance Statement. This was done in line with the draft deadline. Government agreed deadline is now the end of November for the audited accounts and the drafts were advised to be ready for audit and ensuring the November deadline would be complied with was dependent on the external auditors Mazars. VS advised at the next meeting will go through those accounts in detail and that the draft accounts had to be published by end of July and this has happened. **RESOLVED that: Members noted the latest position of the Financial Statements.**
AGC 09/22	**INTERNAL AUDIT PROGRESS UPDATE** Mike Gibson, (MG), RSM, provided an update on the progress of work on the Internal Audit and a summary of the final reports being presented to the Committee.
AGC 10/22	**INTERNAL AUDIT REPORTS** MG, summarised each Internal Audit area, noting the conclusion for each as follows: **HR Payroll** – 6 management actions identified comprising of 2 medium priority actions and 4 low priority actions. “Reasonable assurance” given in this area. GM advised the medium management areas were being reviewed and addressed by Senior Managers. **TIAL Reporting** – identified no issues or management actions and “substantial assurance” given. **Effectiveness of Partnership Arrangements** – 4 low priority management actions identified, with “substantial assurance” given. **Portfolio Structure** – 1 low priority action was agreed, and “substantial assurance” given. **RESOLVED that: Members noted the Internal Audit Reports.**
AGC 11/22	**INTERNAL AUDIT ANNUAL OPINION** Robert Barnett, (RB), RSM, updated the Committee that the Internal Audit Annual Opinion had found that the organisation had an “adequate and effective framework for risk management, governance and internal control”. The Committee noted that it recognised the work and effort having gone into achieving this by the respective teams as a positive achievement. **RESOLVED that: Members agreed the Annual Opinion.**

AGC 12/22	**INTERNAL AUDIT ANNUAL PLAN** The internal draft Plan for 2022/23 and the proposed areas of review were examined. It was noted that the Plan was flexible to add/move things around. The 3-year rolling programme was discussed, and the purpose of it taking into consideration sector updates. Members were asked to consider if the Plan covered the risks, the governance assurance and if the priorities were right. The Airshow was discussed. The committee asked if the risks were appropriately managed and discussed the reputational risk that arises. It was asked whether any lessons were identified and how have they been rolled out across the Group. GM advised that TVCA involvement in the management of the event was limited, noting it was a private sector led project. It was confirmed that lessons learnt had formed part of the subsequent report by the Airport Managing Director that was published on the website and the TIAL Executive Board and Goosepool are continuing to receive relevant updates on this. Members noted that there were implications at group level which raises the question whether internal systems manage the risks appropriately. The Committee asked for feedback on the assurance of the risk profiling element of this in future. The Chair noted that TVCA are the accountable body for any TVCA funding provided to the Airport, and as those arrangements did not work for that part of the airport, the Committee have the accountability role of taking that forward and addressing that. GM advised the Committee he would feedback to Management Team and discuss with RSM. It was suggested that the strategic Risks for the proposed MDC's also be covered in the plan. GM advised that if the MDC's area's are accepted, they would then need to pass through legislation to come into governance processes and the MDC's would need to be implemented to see how successful they are. It was explained that the Plan was done before the MDC's were proposed. RB suggested adding this into the 2nd year of the Plan and would update that. The Committee agreed this. The UKSPF was considered with some challenge on the funding levels and any differences on compliance requirements with funding UKSPF compared to what was received from Europe previously. GM explained the funding sources and that TVCA have to ensure compliance with guidelines and get independent assurance on the conditions of the grant on those things. It was agreed this could be added to the Internal Audit Plan in appropriate years but would need to be specific topics. It was agreed to put a placeholder in the Plan for UKSPF and suggested it may be useful to add in the scope of the Skills Strategy to the Internal Audit Plan to see how it's embedded and how effective it is. The progress of the implementation of management actions was queried. NR explained that actions remain 'open' until confirmation is received from RSM that they are suitable, but some actions are follow up items from previous audits. GM emphasised the need to be realistic with the timeframes for the actions and there is some work to do internally on that. **RESOLVED that: Members agreed the Annual Plan with the noted amendments.**
AGC 13/22	**INTERNAL AUDIT ACTIONS UPDATE** Natalie Robinson, (NR), Group Risk Manager presented a Report to the Committee on the position of current Internal Audit action plan progress as of June 2022.

	The Committee was asked to consider the analysis and audit progress set out in this paper and to acknowledge the annual audit schedule. The outstanding actions were reviewed - another 4 plans were noted as completed since the report was produced in June. NR noted that the automation tool for external audit is being carried over for internal audit also, so Managers can review and manage it. It was agreed this item will go ahead of the Internal Audit reports in future and an additional column to denote when things will happen, was agreed to be useful. The Committee asked if external audit actions could be tracked in the same way to flow into the detail of progress reports for both internal and external audit. This was agreed. **RESOLVED that: Members noted the Internal Audit Actions Update.**
AGC 14/22	**EXTERNAL AUDIT PROGRESS UPDATE** The 2020/21 The External Audit Progress Report was circulated to Members in advance of the meeting. It was advised that the substantive testing for the audit of the Development Corporation is complete, but the completion report is still outstanding. VS advised the subsidiaries that consolidate into the group have been filed with Companies House. VS advised the Committee that it would be necessary to arrange an extraordinary meeting for the new statements and noted that the meeting needs to be held in person. The extraordinary meeting was required due to TVCA previously presenting Teesworks as a joint venture and being advised by Mazars to change to a subsidiary. This was actioned, however communication prior to the Committee was received by Mazars requested the treatment be changed back to a joint venture. VS highlighted this was what management believed to be the best treatment and therefore would ensure this was updated and reflected in the final accounts. CW explained that there are other issues with consolidation to TVCA and not just treatment of Teesworks accounting though most work is completed on TVCA single entity. Still awaiting Group Instructions on Goosepool so can't conclude at present. VS noted Goosepool was filed with companies house in April and advised that Mazars reach out to Azets the subsidiary auditor to receive the instructions. STSC was noted to have been accounted for at a merger basis and so needs to be revisited. It was agreed that VS would catch up with CA on this. Communication improvements between Auditors and Management are to be made to ensure information shared at Committee is shared in advance between relevant parties. CW advised Mazars now had capacity to complete the 2021/22 audit by the November deadline providing the subsidiary accounts and audit work are concluded to timescale. The Committee agreed lessons need to be learnt from this to prevent this in the future and assurance is needed that processes are adopted so that it's agreed what the treatment is at the point of change. VS advised the Committee that if there are any significant transactions, they are trying to reach out in advance to agree the treatments so want to do this going forward, especially when Auditors have to send to internal technical team so it's referred earlier.

	With the complexity of organisation it was agreed there a need to bring a whole team together and Azets should also attend Committee meetings as the delays seem to be timing and sequence. VS will re-share the previous letter from Azets showing the improvements made. It was to be considered by GM if there would be benefit for the component Auditors to be invited to future meetings. CW advised that Mazars would like to have STDC and TVCA signed off this month and move forward for 2021/22 by the end of November deadline, providing component parts in place. Itemised agenda items for specific subsidiaries to see how they are performing through the course of the year was suggested so that the Committee can have oversight as it would be useful to hear from STDC/ Goosepool / TIAL on how the accounts are progressing. It was agreed that an item on progress against plan, noting key milestones would cover this. VS noted that this information is captured internally so can bring this to future meetings. **RESOLVED that: Members noted the External Audit Progress Update.**
AGC 15/22	**COMMITTEE EFFECTIVENESS & SKILLS AUDIT PROPOSAL** A Paper proposing a method to review the effectiveness of the Audit & Governance Committee was provided to Members along with a Skills Audit to ensure it has access to the necessary skills to discharge its function. **RESOLVED that: Members agreed the Effectiveness & Skills Proposal and timelines.**
AGC 16/22	**FORWARD PLAN** The Forward Plan was reviewed, and the work identified for the future, was agreed including adding the ToR review and Skills Assessment.
AGC 17/22	**A Resolution was passed to exclude the Press and public under paragraph 3 of part 1 of schedule 12a of the Local Government Act 1972 for following update to be delivered to the Committee.**
AGC 18/22	**RISK MANAGEMENT REPORT AND COMPLIANCE UPDATE** The Risk Management and Compliance Update was presented to the Committee. **RESOLVED that**: **Members agreed the Risk Management Framework & Compliance Update Reports**
AGC 19/22	**DATE & TIME OF NEXT MEETING** The next meeting would be an Extraordinary Meeting to be arranged as soon as possible. Civic Year Meeting dates TBC and dates to be sent to the Committee, along with a draft of the Forward Plan with standard and bespoke agenda items.
AGC 20/22	**FOR INFORMATION** **Group Governance Structure**

Tees Valley Combined Authority (TVCA) Audit and Governance Committee

Wednesday 24th August 2022 at 10.00am

Teesside Airport Business Suite, Teesside International Airport, Darlington DL2 1NJ

These Minutes are in draft form until approved at the next Audit & Governance Committee meeting and are therefore subject to amendments.

PRESENT
Members
Councillor Matt Storey – Chair (Middlesbrough Borough Council) Councillor Anne Watts – Vice Chair (Redcar and Cleveland Borough Council) Councillor Scott Durham, (Darlington Borough Council) Councillor Barry Woodhouse (Stockton-on-Tees Borough Council) Councillor Kevin Tiplady (Hartlepool Borough Council) James Stuart (Independent Member) Jonny Munby (Independent Member)
Apologies for Absence Angus Kidd (Independent Member)
IN ATTENDANCE
Officers
Gary Macdonald (Group Director of Finance & Resources, TVCA) Peter Judge (Group Chief Legal Officer, TVCA) Victoria Smith (Group Financial Controller, TVCA) Natalie Robinson (Group Risk Manager, TVCA) Nicola Dean (Governance & Scrutiny Officer, TVCA) Eve Pritchard Governance Support Officer, TVCA)
Also in Attendance Cameron Waddell (Mazars – External Auditors) Gareth Alexander (Senior Media Relations Officer)

AGC 21/22	**WELCOME & INTRODUCTIONS** The Chair welcomed the Committee and thanked them for their attendance at short notice. It was noted that there the minutes of the previous meeting would be reviewed as the next meeting as as this was an extraordinary meeting to look at the financial statements.

AGC 22/22	**APOLOGIES FOR ABSENCE** Apologies for absence were submitted as detailed above.
AGC 23/22	**DECLARATIONS OF INTEREST** No declarations of interest were received.
AGC 24/22	**EXTERNAL AUDIT COMPLETION REPORT** Members were provided with the External Audit Completion report in advance of the meeting. Issues that were raised at the last meeting were highlighted and Cameron Waddell (CW), Partner at Mazars, advised the Committee that their work was now nearly complete, and the instruction from Azets needed to be reviewed, making sure there were no follow up questions and to check final consolidation. The completion of the TVCA accounts required the sign off for South Tees Development Company (STDC) accounts to take place first. The Committee was advised the hope was to sign STDC today, subject to everything having been done that needed to be and it was proposed that the usual unmodified opinion be applied. The Committee were reminded in accounting terms, STDC is a subsidiary of TVCA. It was agreed the STDC Audit Completion report was to be circulated to the Committee following the meeting, as it highlights the issues encountered. CW summarised the main findings of the Completion Report including the following areas that are identified before any audit commences for review during the audit: • Management Override of Controls - not identified any material issues to bring to the Committee's attention • Pensions – identified to be a complicated model managed by MBC but looking at value of the liability concludes nothing significant to bring to the Committee's attention • Property, land and equipment – worked with Azets on this and nothing significant to raise currently. • Good Will – work done on the airport which supports a good will calculation, and the valuation of the airport needs to match goodwill. Mazars spent lots of time with Azets and there is a benefit to getting this to Azets earlier in the year. This was also concluded and confirmed that there was nothing to bring to the committee's attention other than the points raised here around timing of information. CW identified the quality of the draft accounts and the timeliness needed to be improved upon since there were too many changes through the process. It was confirmed that there had been no questions or objections from members of the public in relation to the accounts. It was noted that in relation to 21-22 audit there had been a query from a member of the public who was directed to TVCA for a response. GM informed the Committee that an enquiry had been received and had been responded to fullyby Officers who had also met with a member of the public, providing answers to their questions. VS gave context and assurance on the query that all Declarations of Interest were up to date and published and procurement processes followed.

	VFM was considered and it was explained that Mazars have 3 months to complete on this but have concluded no significant issues other than the volume of changes between draft and final accounts as set out above, and a conclusion will be brought to the next meeting. The Committee was informed that can't certify the completion of STDC and TVCA at the moment because these need to be consolidated into Whole of Government Accounts (WGA) which are subject to the National Audit Office (NAO) who then issue Group Instruction to Auditors. These were advised to have been issued a month ago and so can't complete until NAO complete their national work and identify any WGA transactions that require consolidation checks between public bodies but it is hoped this will happen soon. GM explained their materiality thresholds are high and depend on the transactions between public bodies, and these can be random sample selections. The Committee asked if this has an implication leaving the accounts open until the certification process. CW advised that it shouldn't, as the Audit has been undertaken thoroughly and properly so the chances of an inconsistency between the Accounts and the pack you have to compile is unlikely. It was emphasized that this doesn't stop finalisation; it just stops the certification. Members were assured that all similar organisations were in the same situation. The management response was noted by the Committee in how TVCA/STDC have responded to reflect the requirements. CW agreed on this point, noting that due to the nature of what TVCA/STDC does, as well as the joint ventures/subsidiaries and complicated structures, it is likely to make the accounts/group more complicated. It was agreed that learning had been identified that there needs to be sufficient capacity/expertise in place and that this has been already acknowledged and acted upon leading to improvements for 21/22. GM re-assured the Committee on the team being fully focused, wanting to minimise errors and there had already been improvements to 2021-22 accounts production processes. **RESOLVED THAT: Members noted the External Audit Completion Report**
AGC 25/22	**STDC EXTERNAL AUDIT FOLLOW UP LETTER** VS updated Committee that there is a timetable in place for external audits and this will be shared with the Committee at the next meeting with the hope to have subsidiary audits signed off by the end of September. Members were advised that Azets are to be invited to the closest meeting to those being signed off and it was felt that there isn't a need for them to come to every Committee with the focus on meetings where we sign the Accounts they will be invited. The Committee were assured Audits were noted to be going significantly better than before and the Airport one was nearly complete. CW explained that when Azets are finished they will issue group instructions and give expectations so will look to get those done asap. CW recognised Azets for being incredibly engaged and receptive to requests. **RESOLVED THAT: Members noted the External Audit Follow Up Letter**
AGC 26/22	**REVIEW & APPROVAL OF THE TVCA FINANCIAL STATEMENTS 2020/21 and ANNUAL GOVERNANCE STATEMENT** The Committee were provided with the TVCA financial statements for 2020/21 and were asked to review and approve the Group Director of Finance and Resources to sign the financial statements.

	Members asked for assurance that the adjustments would not have an impact on the running of the Combined Authority. GM agreed that the changes are treatments, categorisations and practical points but the net bottom line is not materially impacted and the changes do not affect the working of the Group. GM informed the Committee that as well as investments made in systems and processes, there was additional resource brought into the team as well as finance systems and monthly management of accounts introduced and brought DC group onto the same system. JS highlighted the importance of considering the journey and the outcome and the Committee agreed they understood the internal and external issues of getting to this point but felt assured lessons had been learnt with changes already being implemented to improve for 21/22. Outcomes in terms of recommendations/risk and the outcome as reported, was agreed to reflect the diligence applied and gave assurance that the organisation is functioning as it should. The Committee agreed they were happy to approve the recommendation to sign the financial statements. **RESOLVED THAT: The Committee approve the Financial Statements and Annual Governance Statement.**
AGC 27/22	**DATE & TIME OF NEXT MEETING** Dates will be agreed, along with a draft of the Forward Plan with indicative standard and bespoke agenda items which will be shared with the External and Internal Auditors to ensure correct, before circulating to the Committee before the next meeting.

ITEM X

TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER

2022-23

Meeting	Item	Action	Owner	Target Date	Update
2nd August 2022	TVCA 2020/21 Financial Statements (Latest Position)	Arrange an Extraordinary Meeting (in person) for the Committee to review & approve the TVCA 2020/21 Financial Statements	TVCA	August 2022	**Complete**
	TVCA 2021/22 TVCA Draft Financial Statements & Annual Governance Statement	Add 2021/22 TVCA Financial Statements & Annual Governance Statement to the Forward Plan	TVCA	August 2022	**Added to Forward Plan Complete**
	Internal Audit Plan	Feedback to be returned to the Committee on risk profiling following events related to the Airshow. To be raised with the Management Team and RSM.	TVCA	November 2022	**Complete – link to Investigation circulated**
	Internal Audit Plan	Add MDCs into the second year of the Internal Audit Plan	TVCA/RSM	Q1 2023	**Complete – added into 23-24 Audit Plan**
	Internal Audit Plan	Add a placeholder into the Internal Audit Plan on UKSPF – determining specific topics	TVCA/RSM	Q1 2023	**Complete**
	Internal Audit Plan	Add the scope of the Skills Strategy to the Internal Plan to see how it's embedded and how effective it is	TVCA/RSM	Q1 2023	**Complete**
	Internal Audit Actions Update	The Internal Audit Actions item will go ahead of the Internal Audit reports in future and an additional column be added to denote when things will happen	TVCA/RSM	November 2022	**Complete**

	External Audit Actions Update	The External Audit Actions to be tracked in the same way as Internal Audit Actions to give the same level of detail	TVCA	Commence in Q1 2023	**No External Audit Actions at present – will be brought to Committee when these arise**
	External Audit Actions Update	Mazars reach out to Azets the subsidiary auditor to receive the Group Instructions	Mazars	Complete	**Complete**
	External Audit Actions Update	Assurance is needed that communication is improved and processes are adopted so that it's agreed what the treatment is at the point of change	TVCA/Mazars	Complete	**Complete**
	External Audit Actions Update	Azets should be invited to attend future Committee meetings	TVCA/Azets	November 2022	**Complete - Chris Potter invited to February Meeting**
	External Audit Actions Update	A standard Agenda item on progress against plan, noting key milestones to cover the subsidiaries of STDC/TIAL/Goosepool would be added to future meeting Agenda's	TVCA	In Progress	**To be added as Agenda Item when external audit actions arise**
	Committee Effectiveness & Skills Audit Proposal	Undertake the Committee Effectiveness & Skills Audit with Members and roll out according to the timeline	TVCA	ASAP	**Complete**
	Forward Plan	Add Terms of Reference Review and Skills Assessment to Forward Plan	TVCA	ASAP	**Complete - added to Forward Plan**
	Date & Time of Next Meeting	Civic Year Meeting dates TBC and invites be sent to the Committee, along with a draft of the Forward Plan with standard and bespoke agenda items. To be shared with the External and Internal Auditors to ensure correct, before circulating to the Committee at the next meeting.	TVCA	ASAP	**DRAFT dates provisionally agreed and to be shared at next meeting**
24th August 2022	External Audit Completion Report	VFM conclusion to be brought to the next meeting (added to Forward Plan)	Mazars	March 2023	
		STDC Audit Completion report was to be circulated to the Committee following the meeting	TVCA	September 2022	**Complete**

	STDC External Audit Follow Up Letter	Members were advised that Azets are to be invited to the closest meeting to the sign off of the Accounts	TVCA	November 2022	**Complete – Chris Potter invited to next meeting**

Note: Actions pre 2022/23 have been archived and all actions were completed

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 4

REPORT TO THE TEES VALLEY

COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTTEE

9th FEBRUARY 2023

REPORT OF THE GROUP CHIEF EXECUTIVE

GROUP UPDATE

SUMMARY

This report provides a general update on the key activities of the Combined Authority since the last TVCA Audit & Governance Committee meeting, which are not covered in other reports to this meeting.

RECOMMENDATIONS

It is recommended that the Committee notes the report.

DETAIL

FREEPORT

1. The Full Business Case has been approved by government and has been published on the Tees Valley Combined Authority website

2. Work has been completed to enable the CSO operator, Casper Shipping, to apply for the Freeport Special Procedure Authorisation. It has enabled Teesside Freeport to achieve another first for the region in delivering the first customs customer through the Freeport.

3. The Teesside Freeport-supported Centre for Digital Trade and Innovation to commence recruitment for several positions based at Teesside University to develop the main research Hub of the centre. In addition, the Institute of Export has agreed to support the new centre and is looking to recruit up to three additional roles who will be co-located at the university.

4. Six of the eight English Freeports have been approved, with East Midlands and Humber to reach this stage in Q1 2023. Two successful bids for Scottish Green Freeports at Firth of Forth and Cromarty Firth.

TEESSIDE INTERNATIONAL AIRPORT

5. Teesside Airport has become the UK's first to be ready for new security rules coming into force in 2024 with the acquisition of a second state-of-the-art C3 security machine. This removes the requirement to take liquids and electronics out of cabin luggage and will help further speed up the process during the summer 2023 season, which will see a doubling of flights to Palma and the introduction of the Antalya route.

6. The first export has left the airport's cargo handling facility following more than a dozen import movements in just two weeks. It is currently establishing itself as the key hub for the swift turnaround of urgent or last-minute goods.

7. In December Loganair cancelled its services from Teesside to Belfast City and Dublin, however the airport has secured a second service to Majorca with TUI for summer 2023. The airline will also be launching a new route - to Dalaman, Turkey - from the airport in 2024 off the back of a strong 2022 performance and forward bookings for 2023. Ryanair is also reporting strong forward bookings for the upcoming summer season.

TEES VALLEY BUSINESS

8. The £826k Tees Valley Business Challenge pilot programme was funded through Government's Community Renewal Fund and ran from December 2021 to September 2022. The programme of support for Tees Valley SMEs was specifically aimed to level-up Tees Valley in terms of business density, business creation, business scaling, business productivity, business employment and skills. Support available was delivered through four core mechanisms: digital support; a programme of one-to-many support events and activities; a programme of support to smaller groups/cohorts and one-to-one support. 65 businesses signed up to the programme and scope of support identified. 40 businesses were also supported with grant offers to the value of £358,354, which will generate £47,185 private sector match.

9. More than £12million ERDF has been allocated to support Tees Valley SMEs' growth plans and job creation until June 2023. To date, 376 businesses have been supported with grant offers to the value of £7.6million, which will generate private sector match of £10.4million and is forecast to create 1,131 new jobs. In addition, there are 53 live referrals to the value of £1.7million and 33 applications currently in assessment to the value of £1.1million, which, if approved, will leave a balance of £1.5million.

10. The SMEs Energy Efficiency Scheme (SMEEs) is a £2.9million ERDF funded project that provides Tees Valley SMEs with energy efficiency audits & advice and capital grants for works undertaken to reduce emissions and lower energy consumption. To date 161 energy audits have been completed and 32 grants approved to the value of £742,429, which will generate £907,413 private sector match and achieve carbon savings of more than 1,060.10 tonnes. In addition, a further 9 energy audits are in the pipeline and 1 grant application is currently in assessment.

11. Made Smarter is a government backed initiative designed to improve the productivity of manufacturers through the adoption of Industrial Design Technologies (IDTs). Automation, robotics, sensor technology, IOT, 3D Printing, AI and VR are all proven catalysts of better business outcomes. Tees Valley Business is working in collaboration with the North-East LEP (NELEP) to deliver the 2022/23 Made Smarter Programme. The £800k allocation for 2022/23 delivery is funded through BEIS. Currently we have 30 manufacturing businesses on the programme. The programme consists of completing an online diagnostic, accessing a digital showcase to explore all the technology available along with one to one digital specialist support and workshops to develop a digital roadmap. Additional grant support is available for access to an IDT specialist as well as the purchasing of new digital technologies and equipment.

EDUCATION, EMPLOYMENT AND SKILLS

12 The Combined Authority continues to lead the local management of national skills funding, including Skills Bootcamps; a Wave 4 application for £4m of additional funding has now been approved by the Department for Education. This will ensure delivery will continue from April 2023. These provide short, bespoke employer-led training for both unemployed people and those in employment that wish to diversify or improve their skills with their employer's support. This will provide training routeways linked to future technical job roles.

13 Multiply, which launched in December 2022 has now had more than 500 Tees valley residents engage with the programme. Multiply provides soft skill development and innovative methods to engage people with low levels of numeracy to develop their functional number skills for life and work. The Combined Authority has secured £3.6m over a three-year period for this programme.

14 A programme of activity during this school term for our young people has been rolled out at the Teesworks Skills Academy on the Teesworks site. 30 school sessions are planned to raise awareness of the job opportunities being created on-site and the routes to take to gain careers within the sectors developing. Sessions to date have been well-received and feedback from schools is that we are changing the aspirations and ambitions of our young people by bringing this site to life.

CLEAN GROWTH AND INNOVATION

15 The Tees Valley Industrial Custer Decarbonisation Plan will be completed in March and the full report published shortly thereafter. The industrial group which has advised this work will continue to meet to ensure the plan is implemented.

16 Tees Valley's two housing retrofit programmes (Home Upgrade Grant - £3.2million and Social Housing Decarbonisation Fund (SHDF) £4.5million) are due to complete by the end of March 2023. A £80m bid for SHDF Phase 2 in partnership with the North East and Yorkshire Net Zero Hub and will be submitted.

17 Following the launch of the regions Net Zero Strategy at December Cabinet, work has started to map out the work plans to start implementation.

FINANCIAL IMPLICATIONS

18 There are no financial implications to this report.

LEGAL IMPLICATIONS

19 There are no legal implications to this report.

RISK ASSESSMENT

20 This report is an update and therefore is categorised as low risk.

Name of Contact Officer: Julie Gilhespie

Post Title: Group Chief Executive Officer

Telephone Number: 01642 528834

Email Address: julie.gilhespie@teesvalley-ca.gov.uk

AZETS

South Tees Developments Limited

Audit Highlights Memorandum for the Year Ended

31 March 2022

Contents

1. Executive Summary

Executive Summary

INTRODUCTION

Our audit work has been carried out in accordance with our audit plan communicated to you.

The purpose of this report is to:

- summarise our findings in respect of the audit for the year ended 31 March 2022 and to bring to the attention of the management significant points identified during the audit and to confirm how these were resolved; and
- promote effective two-way communication between you and us.

STATUS OF THE AUDIT

We have substantially completed our audit of the financial statements of the company. The following is a list of the outstanding items:

- Signed financial statements
- Signed letter of representation; and
- Audit completion procedures.

OUR AUDIT REPORT

Subject to satisfactory completion of the outstanding items, we do not expect to make any modifications to our audit report. However, our responsibilities in respect of the audit report extend up to the date it is signed. We will advise you of any changes to this position, if necessary.

MATERIALITY

We planned our procedures using a materiality of £348,612 calculated as 1.5% of gross assets.

The threshold for reporting audit differences has remained at £17,431 being 5% of the overall materiality figure.

Executive Summary

AREAS OF AUDIT FOCUS

During our audit planning we identified a number of specific areas of audit risk. This report sets out our observations and conclusions in relation to these original identified audit risks along with other matters identified during the course of the audit. These are summarised in Section 2.

ADJUSTED MISSTATEMENTS

We have discussed with management and asked them to correct certain misstatements we identified in the financial statements. We attach a schedule in Appendix 1 that records the adjusted misstatements.

UNADJUSTED MISSTATEMENTS

We attach a schedule in Appendix 2 that records the unadjusted misstatements. The schedule does not include matters we believe to be clearly trivial in the context of the financial statements. We have asked you separately to affirm in writing whether you believe the effects of the uncorrected misstatements to be immaterial individually and in aggregate to the financial statements as a whole.

OTHER MATTERS FOR FURTHER DISCUSSION

Section 3 includes other matters which we have highlighted from our audit work.

CONTROL RECOMMENDATIONS

We have identified a small number of performance improvement observations – details of which are shown in Section 4.

INDEPENDENCE

We considered our independence during the audit planning and continued to assess this throughout our work. We can confirm that there have been no changes or further threats identified (to our independence) arising during the audit.

Executive Summary

MANAGEMENT REPRESENTATIONS

Auditors normally seek a number of 'management representations' from the Board, which confirm a number of points that we have relied upon in undertaking the audit and in reaching our conclusions. Please ensure that the Management Representation Letter is read and approved prior to signing.

We would seek to draw your attention to the non-standard representations in this letter which are as follows:

(a) Bad debt provisions of [redacted] remain appropriate against amounts owed from [redacted] Limited respectively. We consider these amounts to be irrecoverable. The remaining amounts net of provisions of [redacted] are considered to be recoverable.

(b) At the reporting date no notice had been received from South Tees Development Corporation requesting repayment of the loan of £24,252,900 and it is therefore appropriate to report this as a creditor due after more than one year.

(c) A claim of [redacted] has been made against the [redacted] retention set aside at completion and no further matters have been identified that would lead to an additional claim being made.

(d) The valuation of the company's fixed assets is appropriate and is based upon all known information and decisions taken as at 31st March 2022.

2. Summary of Audit Findings

Summary of Audit Findings

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AUDIT RISKS IDENTIFIED AT THE AUDIT PLANNING STAGE

At the planning stage of the audit we identified a number of audit risks where we considered the focus of our work would be aimed. Our responses and conclusions in respect of these are documented below.

Management override of controls and income recognition are included below as there is a presumption within International Standards on Auditing (UK) for all audits that these are significant risks.

Significant Audit Risks	Responses and conclusions
Management override	**Audit Procedures:** We have reviewed all material items on the balance sheet and verified to supporting documentation. We have also performed specific testing on higher risk journal entries. Finally, we have reviewed overhead nominals for journal entries and ensured they have been processed for bona fide reasons. **Conclusion:** Following completion of our audit fieldwork, we did not identify any management bias or override that would impact on the financial statements results.
Risk of fraud in revenue recognition	**Audit Procedures:** Audit work carried out on a sample basis for all sources of income indicated no evidence of fraudulent transactions for the sample selected. We have reviewed the revenue recognition policies and concluded these to be appropriate. **Conclusion:** No material issues were identified following completion of our work.
Impairment of Land	**Audit Procedures:** The land valuations have been agreed to valuation reports from expert valuers. Valuation reports have been scrutinized and post year end activity reviewed to identify any impacts on valuations. **Conclusion:** No material issues were identified following completion of our work.

Summary of Audit Findings

AUDIT RISKS IDENTIFIED AT THE AUDIT PLANNING STAGE

At the planning stage of the audit we identified a number of audit risks where we considered the focus of our work would be aimed. Our responses and conclusions in respect of these are documented below.

Management override of controls and income recognition are included below as there is a presumption within International Standards on Auditing (UK) for all audits that these are significant risks.

Significant Audit Risks	Responses and conclusions
Retention creditor	**Audit Procedures:** We have obtained correspondence with solicitors negotiating the matter. They have identified that £75k of the £1m retention is no longer payable. An unadjusted audit error has been recorded regarding this. **Conclusion:** Following completion of our audit fieldwork, we did not identify any management bias or override that would impact on the financial statements results.

3. Other Matters

Other Matters

No other matters.

4. Internal Control Observations

Internal Control Observations

As part of the audit process, we consider the overall control environment and key controls that are observed or tested as part of the audit. During the audit, we identified some areas where the internal controls require to be strengthened. These areas are categorised as follows:

Status	Classification
Red	Fundamental issues which require the consideration of the Trustees
Amber	Significant matters which should reviewed by management
Green	These observations merit attention within an agreed timescale

Whilst these points are based on observations noted by our team during the audit fieldwork, they are merely recommendations for discussion with you. As recommendations they are therefore not a criticism of your current procedures.

In addition, we identified that some points which arose in the previous period still need to be actioned and an update on this is included in Appendix 3.

The audit does not involve a comprehensive review of all controls operating within the Company and as such, the following comments should not be assumed to be a complete statement of all weaknesses that may exist in the Company's control environment or within the detailed systems of internal control.

We would respectively reiterate the point that, it is the director's responsibility to ensure that systems, controls, practices and procedures are suitable for your organisation, having delegated the day-to-day control to a management team.

Internal Control Observations

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Land Registry	
Observation	It was noted during the fixed asset testing that two land registry title deeds for plots CE130906 and CE26409 are still in TATA Steels name rather than STDL. It was noted during the fixed asset testing two pieces of land (CE175027 and CE175030) show STDC as the owner rather than STDL.
Implication	Legal issues with regards to ownership and rights. This was queried with Neil Cuthbertson who advised all TATA land was transferred to STDL as part of the CPO, however there were some issues with regards to updating the land registry titles. STDL are working with the land registry to resolve these delays.
Recommendation	Ensure the land registry title deeds are updated to show that the STDL are the owners.
Benefit of control	Rights and ownership of land are correct.

VAT	
Observation	There is an £87k VAT debtor balance within the accounts relating to [redacted], however the invoices were not correctly accounted for on the VAT returns during the period and a late claim form is to be submitted by Neil Cuthbertson for these balances. There are also [redacted] from 2019 claimed this year.
Implication	The VAT debtor balance has not yet been claimed by STDL and therefore may not be recoverable.
Recommendation	Ensure that VAT is being claimed on invoices within at least the same financial period.
Benefit of control	VAT debtors are materially recoverable.

Appendices

Appendix 1a: Adjusted Misstatements

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South Tees Developments Limited

File ref: Journals		
Printed by: AN		Date:
Reviewed by:		Date:

Adjusting Journals
Accounting period ended 31/03/2022

Number	Code	Client code	Name	Agreed	WP Ref.	Profit and loss account Dr.	Profit and loss account Cr.	Balance sheet Dr.	Balance sheet Cr.	Profit rec.
			Loss per draft accounts							**(4,700,000.72)**
1	340	341.00	Audit fee Auditors remuneration fee	19/12/2022 by AN	L.04	8,750.00				(8,750.00)
1	821	807.00	Accrued expenses Auditors remuneration fee Error in fact	19/12/2022 by AN	L.04				-8,750.00	
			Loss per financial accounts							**(4,708,750.72)**

Appendix 1b: Profit Reconciliation

	Profit/(loss)	Comments
	£	
Profit/(loss) per draft	**(4,700,001)**	
Adjusted misstatements	(8,750)	As per Appendix 1a
Profit/(loss) per financial statements	**(4,708,751)**	

Appendix 2: Unadjusted Misstatements

AZETS

South Tees Developments Limited

Potential Journals - schedule of unadjusted errors Accounting period ended 31/03/2022	File ref: Journals Printed by: AN Date: Reviewed by: Date:

Number	Code	Client code	Name	Journal type	WP Ref.	Profit and loss account Dr.	Profit and loss account Cr.	Balance sheet Dr.	Balance sheet Cr.	Profit rec.
			Loss per financial accounts							**(4,708,750.72)**
2	820		Other creditors Reduce retention creditor	Adjusting journal	L.07			75,000.00		
2	240		Sundry expenses Reduce retention creditor Error in fact	Adjusting journal			-75,000.00			75,000.00
			Loss if above adjustments were made							**(4,633,750.72)**
			Profit adjustment not made	**-75,000.00**						
			Percentage of profit	**-1.59**						
			Overall materiality (100%)	**£244,028**						
			Level below which considered trivial	**£17,431**						

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 6

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

9th FEBRUARY 2023

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

INTERNAL AUDIT REPORT

SUMMARY

This report presents the position of current Internal Audit action plan progress as of January 2023.

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee

i. Consider the analysis and audit progress set out in this paper.
ii. Acknowledge the annual audit schedule.

DETAIL

iii. This report presents TVCA audit actions and their progress as of January 2023.

Process

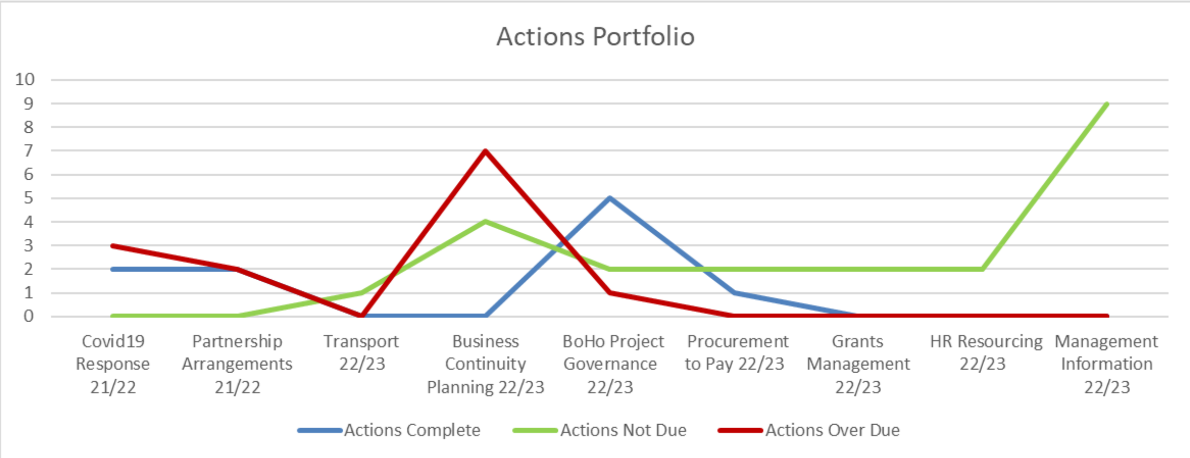
Using a risk-based approach, the internal audit schedule is agreed with the Senior Leadership Team and the Audit and Governance Committee, this ensures the TVCA Group are assessing the effectiveness and efficiency of controls mitigating key risks.

The process of internal audit is monitored by the Risk Management team, to ensure effective tracking of actions is in place. All actions are tracked via a spreadsheet which is shared with action owners for updates.

The Risk Management team facilitate reporting of internal audit actions and provide support to Risk Owners to drive delivery performance.

Overview of action portfolio

The current portfolio of actions includes those actions which are:
Those audits where actions were allocated have been tracked and are as follows (as of next report, all those audits with completed action plans will be archived)

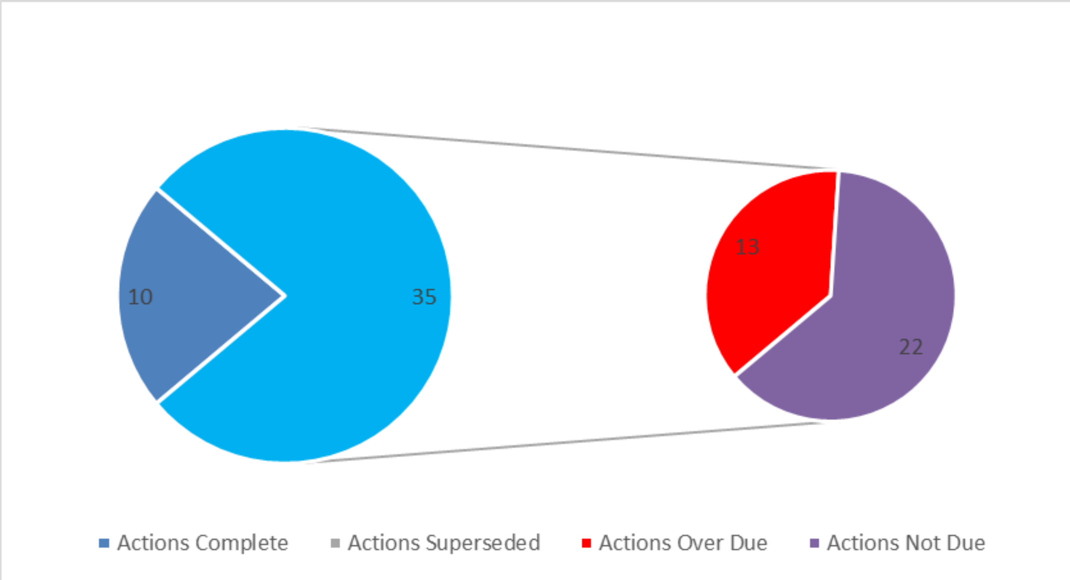


Audit Title	Action Plan Delivery	Original Delivery Date	Comments	Revised Delivery Date Overdue actions
Covid19 Response 21/22	In Progress	Sept-21	Reasonable Assurance. 5 actions assigned: 4 Low priority (1 complete) 1 Medium priority (Complete) No issues raised on track to deliver by revised delivery date.	Mar-23
Partnership Arrangements 21/22	In Progress	Sept-22 & Oct-22	Substantial Assurance. 4 low priority actions assigned (2 complete) No issues raised on track to deliver by revised delivery date.	Mar-23
Transport 22/23	In Progress	Mar-23	Substantial Assurance. 1 low priority action assigned.	N/A
Business Continuity Planning 22/23	In Progress	Dec-22, Mar-23 & Sept 23	The review was advisory and did not result in a formal level of assurance. 11 actions assigned: 5 low priority (4 overdue, 1 not due) 6 medium priority (3 overdue, 3 not due)	Jan-23

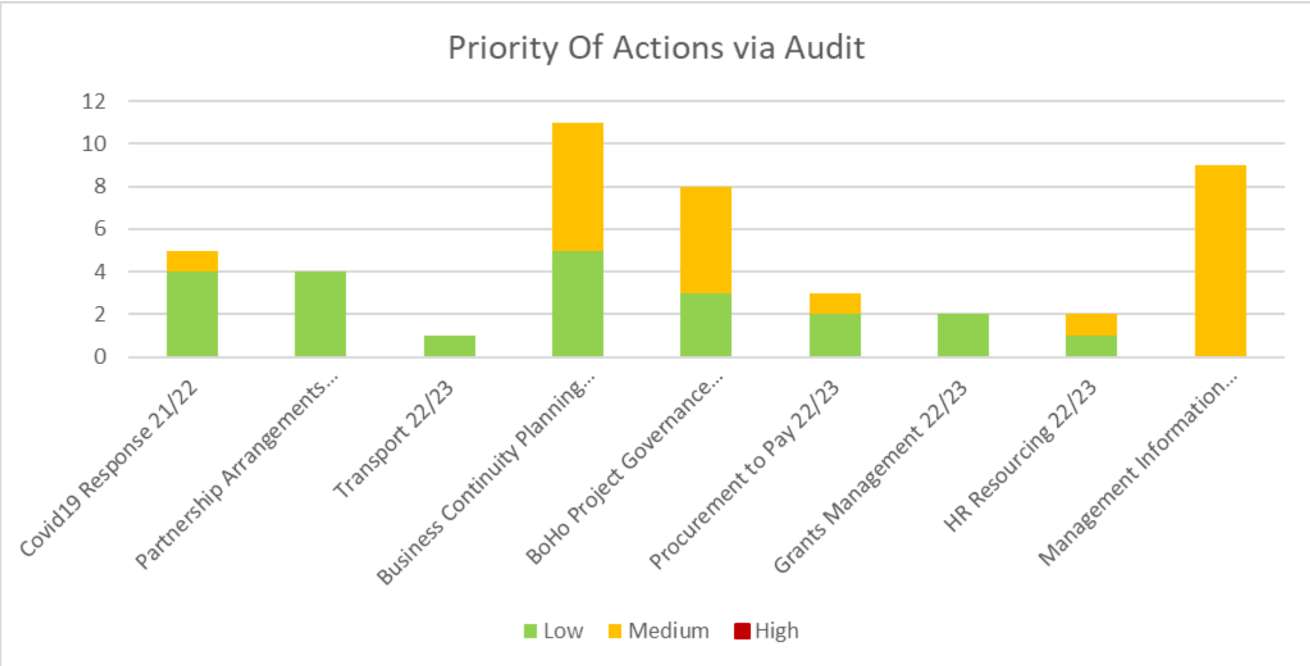
			No issues raised on track to deliver by revised delivery date.	
BoHo Project Governance 22/23	In Progress	Dec-22 & Jan-23	Partial Assurance. 8 actions assigned: 3 low priority (3 complete) 5 medium priority (2 complete, 1 overdue, 2 not due) No issues raised on track to deliver by revised delivery date.	Jan-23
Procurement to Pay 22/23	In Progress	Mar-23	Reasonable Assurance. 3 actions assigned. 2 low priority actions (1 complete) 1 medium priority	N/A
Grants Management 22/23	In Progress	Sept-23	Substantial Assurance. 2 actions assigned: 2 low priority	N/A
HR Resourcing 22/23	In Progress	Sept-23	Substantial Assurance 2 actions have been assigned: 1 Low Priority 1 Medium Priority	N/A
Management Information 22/23	In Progress	Mar-23	The review was advisory and did not result in a formal level of assurance. 9 actions have been assigned: 9 Medium Priority	N/A

Action progress

There are currently 9 action plans in progress.



As of January 2022, 25% of actions for open action plans have been implemented/superseded, with c28% of actions now overdue and 22 actions (c48%) not due.



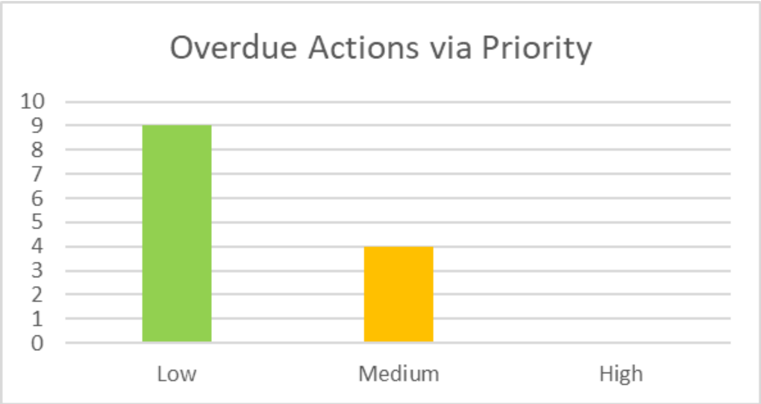
The above graph is an overview of all actions to date which have had action plans agreed.

As of next quarter, all those action plans with completed action plans will be archived and only those audits with open action plans will be reported. This is to reduce the risk that current audit portfolio is inflated.

Overdue actions

There are currently 0 high level actions which are open.

The process of reviewing audit actions and the systems used to do this, is currently being reviewed and improved, allowing for a much leaner approach, and encouraging accountability of action owners to drive delivery.



Low Priority overdue actions as of original plan

Audit	Original Delivery Date	Revised Delivery Date	Status	Action	Update
Covid 19 1	15/09/2021	31/03/2023	In progress	The Authority will ensure that all options presented for Cabinet approval have the same amount of data, to allow Cabinet to make an informed decision.	Action currently under review.
Covid 19 2	01/09/2021	31/03/2023	In progress	All relevant stakeholder consultation will be included in Cabinet papers, to provide assurance to the Cabinet that reasonable consultation has taken place.	This action is currently under review within the Governance team.
Covid 19 3	15/09/2021	31/03/2023	In progress	The requirement to ensure that delegated decision forms are accurately completed to record Tees Valley Management Group consultation and decisions will be reiterated to all relevant parties.	This action is currently under review within the Governance team.
Partnerships 2	30/09/2022	31/03/2023	In progress	TVCA will ensure an induction checklist is established and used to document the induction of new members of the Transport Advisory Group and EESAG. The induction checklist will include making the member aware of the Constitution, Assurance Framework and governance structure.	This action is currently under review within the Governance team.
Partnerships 3	31/10/2022	31/03/2023	In Progress	TVCA will consider whether the Terms of Reference for LEP, Transport Committee, EESAG and Transport Advisory Group need to be amended to include responsibilities in relation to obtaining assurance on the management of relevant partnership risks.	This action is currently under review within the Governance team.

BCP 2	31/12/2022	31/01/2023	In progress	When the BCP is revised and reissued, it will clearly define the plan owner and deputy with signatures and dates to ensure the continued validity of the plan. Any associated forums where key discussions of the BCP take place will be formally documented and outlined in the plan.	Action complete, awaiting sign off and approval process to be complete then the action can be closed.
BCP 4	31/12/2022	31/01/2023	In progress	During development of the BCP, the core BCP team members will be identified, and their roles and responsibilities defined and documented, so that all staff are aware of who to contact in the event of an incident warranting invocation of the BCP.	Action complete, awaiting sign off and approval process to be complete then the action can be closed.
BCP 6	31/12/2022	31/01/2023	In progress	When the BCP is revised, it will include an up-to-date version of the resources which will be identified and formally documented within the BCP to ensure that there are clear lines of required resource to minimise disruption to activities.	Appendix references are included within BCP as standard approach, where it is identified relevant support information is not available (e.g. standard operating procedures, these are highlighted and an action plan agreed with operation). Awaiting sign off and approval process to be complete then the action can be closed.
BCP 7	31/12/2022	31/01/2023	In progress	When the BCP is revised, any third-party arrangements will be formally documented within the BCP and supported by formal agreements.	Included as part of Impact Assessment and BCP with treatment action plans in place for any disruption to service.

Medium Priority overdue actions

Audit	Original Delivery Date	Revised Delivery Date	Status	Action	Update
BCP 1	31/12/2022	31/01/2023	In progress	TVCA will review and revise its BCP in line with the organisation's current location and arrangements, as well as industry best practice, for example, ISO 22301. The plan will take into account any arrangements already in place at the airport insofar as they are relevant to TVCA. The new BCP will incorporate version control and a next review date to ensure that there is on-going review and approval, on an annual basis (or following any major event / change which indicates that the BCP may need to be reviewed).	Action complete, awaiting sign off and approval process to be complete then the action can be closed.
BCP 3	31/12/2022	31/01/2023	In progress	TVCA will conduct and document a Business Continuity Impact Analysis exercise to assess the potential threats facing the organisation, their likely impact, and the measures the organisation may need to take to mitigate the risk. Following this impact assessment of potential threats, the BCP will be revised to document the impact per team / department and desired recovery times will be documented in line with the Department Heads to ensure that they are achievable in the event of an incident warranting invocation of the BCP	Impact analysis (IA) and BCP complete for Payroll, Supplier Payments and Banking. This also includes the completion of process maps to support IA. Awaiting sign off and approval process to be complete then the action can be closed. Impact Analysis template complete. BCP Template complete.
BCP 10	31/12/2022	31/01/2023	In progress	When the BCP is revised, TVCA will ensure that there is an appropriate level of senior leadership team involvement and support of the organisation's BCP arrangements, and that this is documented within the BCP.	BC Team members have been appointed and established within the BCP template and BCMS. This includes contact details and confirmation of accountability and responsibility pertaining to BC.
Boho Project 2	31/12/2022	31/03/2023	In progress	Management will ensure that a process is implemented to perform a reconciliation	The change request is now in progress.

				exercise for the BoHo 8 and X project elements between the Business Case and the Funding Agreement, and that this is documented, to ensure that the correct project evaluation mechanism, including all agreed outputs and outcomes have been included so that the delivery of actual outputs and outcomes can be monitored at the appropriate point.	

Audit Progress

A number of audits have been progressed through the month with progress shown below.

Process/Procedure	Status	Comments
Procurement to Pay Process 22/23	Final report received	Reasonable Assurance 3 actions have been assigned. (2 Low Priority, 1 Medium Priority)
Grants Management 22/23	Final report received	Substantial Assurance 2 actions have been assigned. (2 Low Priority)
HR Resourcing 22/23	Final report received	Substantial Assurance 2 actions have been assigned. (1 Low Priority, 1 Medium Priority)
Management Information 22/23	Final report received	The review was advisory and has not resulted in a formal level of assurance. 9 actions have been assigned. (9 Medium Priority)
Follow Up Activity 22/23	Final report received	RSM *"in our opinion the organisation has demonstrated good progress in implementing agreed management actions"*.

Audit Schedule

A number of audits have been rescheduled to accommodate staff at both TVCA and RSM.

The audit schedule for 22/23:

Process/Procedure	Fieldwork start date
KFC – Payroll (under review)	16/01/2023
Net Zero Teesside (under review)	20/03/2023

Automation

To support self-service and accountability, the risk team are working with the TVCA business intelligence team to develop an automated platform to track audit actions and store evidence.

This will provide action owners and the Senior Leadership Team with real time reporting and the facility to review actions and progress at any point.

We are using lessons learned and best practice following the implementation of the TVCA Risk Management platform to ensure a smooth, successful roll out of the system and training.

FINANCIAL IMPLICATIONS

iv. There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

v. There are no direct legal implications arising from this report.

RISK ASSESSMENT

vi. The content of this report is categorised as low to medium risk.

CONSULTATION & COMMUNICATION

vii. None required.

EQUALITY & DIVERSITY

viii. No impacts.

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TEES VALLEY COMBINED AUTHORITY

Internal Audit Progress Report

29 November 2022

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

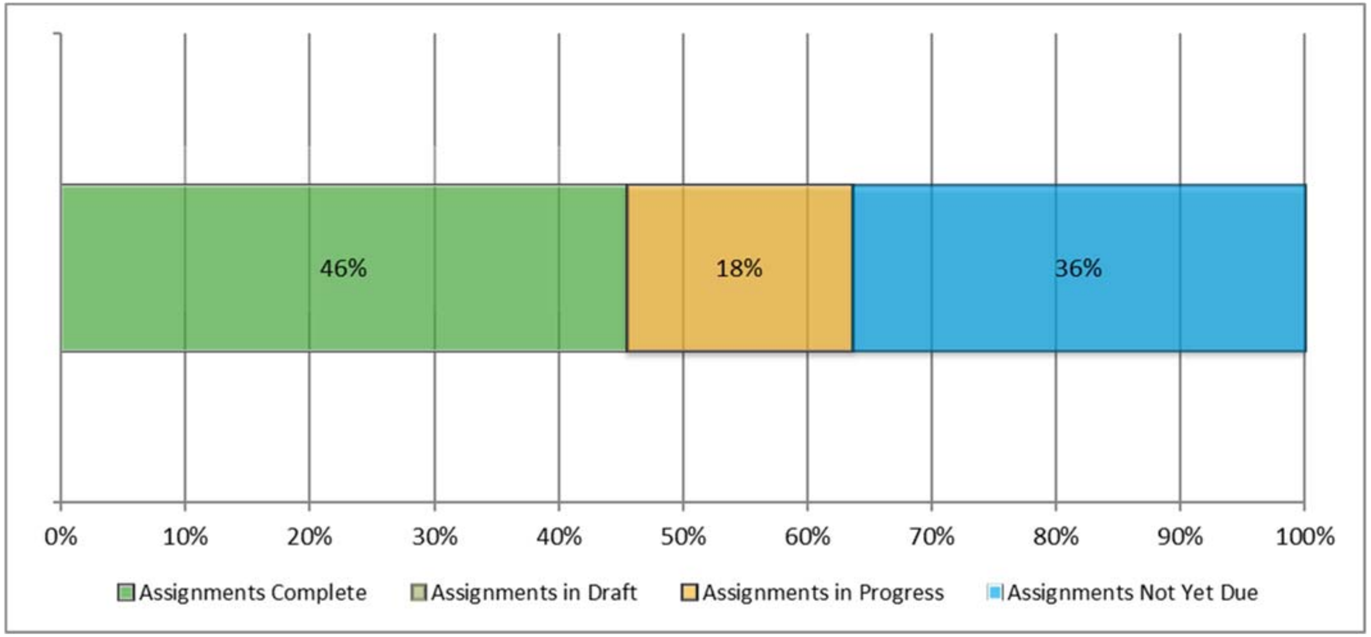
RSM

Contents

1 Introduction

The internal audit plan for 2022/23 was discussed and approved by the Audit and Governance Committee on 2 August 2022. Prior to this, the plan had been discussed and approved outside of the meeting by management.

The graphic below provides a summary update on progress against the 2022/23 plan.



2 Reports

2.1 Summary of final reports being presented to this committee

We have finalised the following reports since the previous meeting and these are detailed below:

Assignment	Opinion issued	Actions agreed		
		L	M	H
Business Continuity Planning Objective: The Authority has adequate and effective systems and processes in place to ensure the resilience of the organisation and minimise the impact on its operations caused by any adverse events. Risk: Risk 00001383: Pandemic Illness Outbreak: Impact on delivery.	N/A – it was agreed with management at the outset of this review to perform this review as an advisory piece of work.	5	6	0

Conclusion:

The review was advisory and has not resulted in a formal level of assurance.

We have discussed in detail with the Group Risk Manager the plans to develop the BCP and the management actions detailed in this report are intended to support management in the development of these arrangements.

We have agreed a total of **six medium** and **five low priority** management actions as a result of our work.

The five medium priority management actions are as follows:

- Through discussion with the Group Risk Manager, we confirmed that the Tees Valley Combined Authority (TVCA) currently does not have an up to date Business Continuity Plan (BCP) in place. Due to the office relocation to Teesside Airport the BCP was not considered to be a priority and the organisation accepted the associated risk without having a plan in place.
- TVCA has yet to conduct and document a Business Continuity Impact Analysis exercise to assess the potential threats facing the organisation, their likely impact, and the measures the organisation may need to take to mitigate the risk.

Assignment	Opinion issued	Actions agreed L	M	H

- There is a need for training to be developed and implemented for the core BCP team members to ensure that they have a clear understanding of the organisation's business continuity requirements and arrangements, and to ensure that best practice (for example the ISO 22301 Business Continuity Management standard) to ensure they have the appropriate knowledge and skills to make decisions and support others during the event of an incident warranting invocation of the BCP.
- We identified, following a discussion with the Group Risk Manager, that the organisation currently does not have a communication strategy in place for internal staff and their surrounding organisations to support its BCP arrangements.
- Currently, TVCA does not have any stress testing arrangements in place to ensure that its BCP arrangements meet the requirements of the organisation and will work if and when invoked.

Context:

We were advised by the Group Risk Manager that, following the organisation's recent office relocation to the Teesside International Airport site from its previous location in Stockton, its Business Continuity Plan (BCP) and related arrangements required a review, both to reflect the change in premises and also to ensure that they continue to reflect the Group's development and best practice. We noted that historical versions were available but of no relevance to the current organisation location or structure. Consequently, we agreed with management to undertake this review on an advisory basis only to support the organisation in the development of BCP arrangements.

Therefore, at the time of this review, TVCA was in the process of reviewing its business continuity arrangements. TVCA have acknowledged that, due to the office move, the development of the BCP was not considered a priority and have accepted the associated risk without having an up to date BCP in place.

The Group Risk Manager confirmed that the audit findings would be utilised in the development of the BCP and related arrangements.

Assignment	Opinion issued	L	M	H
Transport Programme	**Substantial Assurance**	1	0	0

Objective:

The Authority has adequate and effective systems and processes in place to ensure that the Tees Valley Strategic Transport Plan (STP) 2020 – 2030 and Integrated Transport Programme are delivered in accordance with its aims and objectives.

Assignment	Opinion issued	Actions agreed		
		L	M	H

Risk:

Risk 00001375: Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations.

Conclusion:

Taking account of the issues identified, the Cabinet can take **substantial assurance** that the controls upon which the Authority relies to manage this risk are suitably designed, consistently applied and effective.

As a result we agreed **one low priority** management action.

Context:

The Tees Valley Combined Authority (TVCA) has a Strategic Transport Plan in place whereby £256.7million was pledged to important transport projects across the region. A ten-year roadmap of how the money will be spent to grow the economy has been created and will have a vital impact on the transport system within the Combined Authority area. The focus of the plan is on improving the transport system for local people and businesses ensuring integration between different transport modes. The Authority's strategic priorities are clearly outlined within the plan and the internal control framework to manage these activities is clearly outlined within the Group Governance Structure and Assurance Framework.

The Transport & Infrastructure team in TVCA are responsible for all transport related projects. Transport Planning Managers are allocated a project and create business cases which provide full descriptions of the project which are required to go through the TVCA appraisal process before funding is allocated to the project.

We reviewed the systems and processes in place to ensure that the Tees Valley Strategic Transport Plan (STP) 2020 – 2030 and Integrated Transport Programme are delivered in accordance with its aims and objectives. A sample of five projects was selected focusing on the different transport areas detailed in the programme. We reviewed the Middlesbrough Rail Station, Electronic Vehicle Charging, Bus Corridors, Wheels to Work and Woodland Road (Cycling and Walking) projects.

Assignment	Opinion issued	Actions agreed L	M	H
Procurement To Pay	**Reasonable Assurance**	2	1	0

Objective:

The Authority has adequate and effective systems and processes in place to ensure that procurement activities are aligned with its strategic objectives and are managed in line with the UK Government's Prompt Pay and Value for Money requirements.

A parallel review of Procurement To Pay activities was performed at the same time within STDC. Details of these findings are included in a separate STDC report.

Conclusion:

Taking account of the issues identified, the Cabinet can take **substantial** assurance that the controls upon which the Authority relies to manage this risk are suitably designed, consistently applied and effective.

As a result of our findings, we have raised **one medium** and **two low priority management** actions. Details of the medium priority management action is as follows:

- Through discussion with the Group Procurement and Purchasing Manager, we confirmed that there is currently no overall process available within the Procurement team to generate the procurement related reporting or analysis on procurement activities within the Group to ensure that there is clear oversight through the Governance Structure of procurement cycle risks. Failure to have an adequate level of strategic reporting over supplier performance and supplier risk could lead to difficulties in monitoring compliance with policy, measuring the effectiveness of procurement activities and decision-making / planning in respect of procurement strategies.

Context:

The Group has a centralised Procurement team which is led by the Group Procurement and Purchasing Manager, who, with the support of the Procurement Officers, oversees the overall procurement process. Each entity within the Group is currently governed by the Group Procurement Policy, supported by the Contract Procedure Rules, Constitution document and set of delegated approvals for procurement activities to provide clear guidelines and methods for the procurement of services, goods and works. However, although procurement is managed centrally, day to day procurement activities are conducted by procuring managers within each entity. The procurement activities are conducted based on the Group Procurement Policy, which the Procurement team drafted in March 2022.

Assignment	Opinion issued	Actions agreed L	Actions agreed M	Actions agreed H
The Group also has a Procurement Strategy to support the achievement of the Group's Strategic Economic Plan. The Procurement Strategy was approved in July 2020. The policy is also part of the Group's Procurement Strategy Implementation Plan and is available for the next Board meeting to approve. As a public body, the Tees Valley Combined Authority (TVCA) has an obligation to comply with the UK Government's Prompt Pay and Value for Money requirements as well as ensuring that it has adequate governance over expenditure. Our review looked at the full end to end procurement to payment process over TVCA, with a separate, parallel review covering the South Tees Valley Development Corporation (STDC). Data analytics was used to assist in the review.				
BoHo Project Governance Objective: TVCA has an adequate and effective governance mechanism in place to ensure that it has sufficient oversight over the BoHo project to enable effective and timely decisions to be made. Risk: Risk 00001381: Failure to deliver the existing pipeline of funding commitments and achieve targeted spend.	**Partial Assurance**	3	5	0

Conclusion:

Taking account of the issues identified, the Cabinet can take **partial assurance** that the controls upon which the organisation relies to manage the risk are suitably designed, consistently applied and effective.

Action is needed to strengthen the control framework to manage the identified risk(s)..

As a result of these findings, we have agreed **five medium** and **three low priority** management actions. Detail of the medium priority management actions are as follows:

- The Business Case has 11 outputs and seven outcomes to achieve the overall project objectives, whereas the Funding Agreement, under "agreed outputs" sets out only three outputs and two outcomes. The Funding Agreement is the key document for TVCA, which sets out the rights and obligations of TVCA and MBC in respect of the project. If the stated objectives are not consistent, there could be a risk of difficulty in resolving any disputes that arise during the delivery of the project.

Assignment	Opinion issued	Actions agreed		
		L	M	H

- As part of the Funding Agreement specifications, Middlesbrough Council (MBC) was responsible for producing and agreeing a Monitoring and Evaluation Plan with TVCA. During the audit, we were not able to evidence that the plan had been sent to TVCA from the Council. Without this, there is a risk that key priorities are not outlined between TVCA and the Council in terms of accountability and oversight of the monitoring and evaluation of the project.
- We were informed by the Investment Planning team that no changes had been identified to the BoHo X project, and no change requests had been submitted by the Council in respect of the project. However, the Council's External Auditor's report for the year ended 31 March 2021, which was published in July 2022, suggested that the Council's Executive originally approved a 60,000 sq ft design for this project in March 2019 before approving a revised 20-floor, 100,000 sg ft design in March 2020. We could not evidence any documents regarding the difference in building floor space between the agreed Business Case and the External Auditor's report. During a discussion held with the Investment Planning Manager, it was agreed that TVCA needs to clarify with MBC, following their audit report, exactly what the variance is and, if there has been a change, complete the change request process.
- A Project Steering Group was established for the project which met on a quarterly basis, running parallel to the monitoring and evaluation process stipulated in the Funding Agreement, with meetings attended by representatives from TVCA. We recognise that it is the Council which set up the Steering Group and that TVCA members attend by invitation only. However, there is no set mechanism for reporting information back from the Steering Group meetings. Minutes from the meeting are very limited and are not circulated until confirmed at the next meeting (potentially three months afterwards) which further increases the risk that key information may not be relayed back to the relevant management personnel at TVCA on a timely basis.
- In the meeting minutes for the Steering Group, we found that there were actions that had been assigned to a member of the Council's Project Delivery team, and we noted that action plans are expected to be completed by the project sponsor (i.e. MBC) during project delivery. However, there was no formal assurance provided to TVCA that these actions are being completed and monitored.

Context:

As part of its Investment Plan 2019-29, each of the five local councils constituting the Authority was requested to identify a strategic, priority project to be funded by the Authority up to a total of £20m. Middlesbrough Council (MBC) identified its project to develop its "BoHo Zone", intended to be the digital, creative and business hub of the Tees Valley. As part of this broader project, the development of new modular units (Boho 8 and Boho X) to create well-connected office spaces for businesses in the digital sector was identified as the strategic project to be funded by TVCA. In total, the project is for £30m of capital investment, funded by:

- £20m TVCA investment grant.
- £6.2 Indigenous Growth Fund.
- £3.8m funded by Middlesbrough Council itself.

The overall BoHo project is the responsibility of Middlesbrough Council to deliver. Responsibility for project delivery is covered in the Funding Agreement between TVCA and MBC. BoHo 8 was completed and occupied during this audit, and BoHo X was nearing completion.

Assignment	Opinion issued	Actions agreed L	M	H

However, Ernst & Young's recent External Audit report on the Council's 2020/21 accounts raised concerns regarding governance arrangements within the Council. It referred explicitly to the BoHo X project, stating that design changes had occurred outside the Council's agreed Project and Programme Management Framework. Therefore, we were requested by management toperform this review, which was intended to determine whether the mechanisms within TVCA are sufficient to ensure that the outputs and outcomes are achieved as specified in the Business Case and the Funding Agreement.

Assignment	Opinion issued	L	M	H
Freeport Programme	**Substantial Assurance**	0	0	0

Objective:

The Authority has adequate and effective systems and processes in place to ensure that the Freeport Programme is delivered in accordance with its aims and objectives.

Risk:

Risk 00001401: Failure to deliver the Freeports Programme.

Conclusion:

Taking account of the issues identified, the Cabinet can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

Our review did not highlight any areas of exception and therefore we have not raised any management actions.

Context:

In March 2021 the Tees Valley was announced as being one of the first places to be awarded Freeport status under a new government policy to create several such Freeports across the country. The 4,500-acre site is the biggest in the country and is expected to create 18,000 jobs and generate a £3.2 billion boost to the local economy.

We noted that, at the time of preparing for this audit, this process of agreeing the exact specification of the Freeport Programme was ongoing. The Full Business Case was submitted on 31 January 2022 and was awaiting final Ministerial sign off. This was anticipated shortly. As a consequence, at the time we did our audit, the Freeport Programme was just at the point of transitioning from the Business Case to the Freeport operational phase during which the detailed workstreams would be developed.

Assignment	Opinion issued	Actions agreed		
		L	M	H
Our review focused on the governance arrangements in place around the Freeport Programme within TVCA to ensure that there is clear oversight of delivery against the key requirements of the Freeport programme before the this becomes fully operational. At the request of management, our review did not look at the management and delivery of individual project elements within the Freeport Programme, how the Authority manages external delivery partners, or any funding arrangements.				

Appendix A – Progress against the 2022/23 internal audit plan

Assignment	Status	Audit and Risk Committee reporting per approved internal audit plan	Actual reporting to the Audit and Risk Committee
Management Information	Fieldwork began week commencing 17 October 2022 **Draft report issued**	September 2022	February 2023*
HR: Resourcing	Fieldwork scheduled to start week commencing 21 November 2022 **Fieldwork underway**	September 2022	February 2023*
Grants Management	Fieldwork began week commencing 21 November 2023 **Fieldwork underway**	December 2022	February 2023*
Follow-Up	Fieldwork scheduled to start week commencing 9 January 2023	May 2023	May 2023
Key Financial Controls: Payroll	Fieldwork scheduled to start week commencing 16 January 2023	May 2023	May 2023
Net Zero Teesside	Fieldwork scheduled to start week commencing 20 March 2023	May 2023	May 2023

* Audit moved at request of management – see Appendix C

Appendix B: Key performance indicators (KPIs)

Delivery	Target	Actual	Quality	Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	*8 days (average)*	Conformance with PSIAS and IIA Standards	Yes	*Yes*
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	*As and when required*
Final report issued within 3 days of management response	3 days	*1 day (average)*	Response time for all general enquiries for assistance	2 working days	*2 working days (average)*
			Response for emergencies and potential fraud	1 working day	-

Appendix C: Other matters

Changes to the audit plan

Detailed below are the changes to the audit plan and other matters to note. Please note that some of these changes were already in progress or in discussion with management at the time of the previous Audit and Governance Committee meeting on 2 August 2022:

Note	Auditable area	Reason for change
1	Transport Programme	As part of the internal audit plan this review was scheduled to take place in week commencing 16 May 2022 but, owing to the delay in agreeing the plan, it was agreed with management to conduct this review in week commencing 18 July 2022.
2	Procurement To Pay Process	As part of the internal audit plan this review was scheduled to take place in week commencing 23 May 2022 but, owing to the delay in agreeing the plan, it was agreed with management to conduct this review in week commencing 8 August 2022.
3	Major Projects Logic Models	Following receipt of the External Auditor’s Report for Middlesbrough Council, we were requested by management to replace these two audits in the plan with the review of governance arrangements withn TVCA over the BoHo Project, which was conducted in week commencing 22 August 2022.
4	Management Information	As part of the internal audit plan this review was scheduled to take place in week commencing 15 August 2022. However, owing to the request from management to conduct the BoHo Project audit, it was necessary to delay this audit to week commencing 24 October 2022 Additionally, at the outset of this audit, it was agreed with management that this review would be conducted as an advisory review and, therefore, no overall assurance opinion will be provided.
5	Freeport Programme	At the request of management we agreed to move this audit from week commencing 1 August 2022 to week commencing 12 September 2022. Following this, we agreed with management that we could move this audit to week commencing 26 September 2022 to allow for Auditor availability.

6	HR: Resourcing	As part of the internal audit plan this review was scheduled to take place in week commencing 4 July 2022 but, following request from management regarding the availability of the Group HR Manager, it was agreed that we would delay this review to week commencing 28 November 2022.
7	Grants Management	As part of the internal audit plan this review was scheduled to take place in week commencing 12 September 2022. However, we were requested by management to delay this review to week commencing 21 November 2022.

For more information contact

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TEES VALLEY COMBINED AUTHORITY

Business Continuity Planning

Internal audit report 1.22/23

FINAL

23 August 2022

THE POWER OF BEING UNDERSTOOD
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1. EXECUTIVE SUMMARY

Why we completed this audit

The Group Risk Manager is responsible for the development, review and monitoring of the Business Continuity Plan, with the overall ownership from the Group Director of Finance and Resource.

This audit was commissioned as part of the 2022/23 internal audit plan to assess the impact on service delivery and how resilient the Tees Valley Combined Authority (TVCA) is to ensure that any impact on its ability to manage key projects is minimised. However, during preparation for this audit, we were advised by the Group Risk Manager that, following the organisation's recent office relocation to the Teesside International Airport site from its previous location in Stockton, its Business Continuity Plan (BCP) and related arrangements required a review, both to reflect the change in premises and also to ensure that they continue to reflect the Group's development and best practice. We noted that historical versions were available but of no relevance to the current organisation location or structure. Consequently, we agreed with management to undertake this review on an advisory basis only to support the organisation in the development of BCP arrangements.

The Group Risk Manager confirmed that the audit findings would be utilised in the development of the BCP and related arrangements. As TVCA had no evidence to support the development of the BCP as this has not yet began, we undertook a number of interview style discussions with the Group Risk Manager, to understand the means by which the organisation is planning to develop the BCP and how it will ensure that the appropriate people involved are trained and understand their roles and responsibilities in the continuity of business operations.

Conclusion

The review was advisory and has not resulted in a formal level of assurance.

At the time of this review, TVCA was in the process of reviewing its business continuity arrangements. TVCA have acknowledged that, due to the office move, the development of the BCP was not considered a priority and have accepted the associated risk without having an up to date BCP in place.

We have discussed in detail with the Group Risk Manager the plans to develop the BCP and the management actions detailed in this report are intended to support management in the development of these arrangements.

We have raised a total of **six medium** and **five low priority** management actions as a result of our work. Details of these actons can be found in section two below.

2. DETAILED FINDINGS AND ACTIONS

Area: Development and Approval of the Business Continuity Plan				
Findings summary	Through discussion with the Group Risk Manager, we confirmed that the Tees Valley Combined Authority (TVCA) currently does not have an up to date Business Continuity Plan (BCP) in place. Due to the office relocation to Teesside Airport the BCP was not considered to be a priority and the organisation accepted the associated risk without having a plan in place. We confirmed via the Group Risk Manager that the organisation is looking to implement an annual review and approval process to ensure the information recorded in the BCP is relevant and up to date. Tees Valley Combined Authority are aiming to utilise the feedback provided from this audit to assist in the development of its BCP and related arrangements. The organisation currently does not have a strategy or underlying plans associated with the BCP, but it will look to incorporate these in line with the arrangements in place at the airport to ensure that the plan will be effective in practice when completed. Failure to have an up to date and approved BCP and related arrangements could expose the organisation to the risk of service disruption, with the resultant reputational and financial impact.			
Management Action 1	TVCA will review and revise its BCP in line with the organisation's current location and arrangements, as well as industry best practice, for example, ISO 22301. The plan will take into account any arrangements already in place at the airport insofar as they are relevant to TVCA. The new BCP will incorporate version control and a next review date to ensure that there is on-going review and approval, on an annual basis (or following any major event / change which indicates that the BCP may need to be reviewed).	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Medium**

Area: Ownership of the Business Continutiy				
Findings summary	The BCP Team Leader is the Group Director of Finance and Resource and he is responsible for ensuring that the BCP is developed and maintained as well as being the key decision maker throughout the duration of any incident warranting vocation of the plan. The deputy is the Group Risk Manager, who is responsible for developing and updating and maintaining the BCP. The Group Risk Manager is responsible for reviewing the BCP on an annual basis to ensure that the details outlined within the document remain accurate and current. However, we noted that the previous versions of the plan available to us had not been signed and dated to evidence plan ownership and validity. Not having key responsibilities detailed in the BCP risks a lack of clarity in the event of an incident warranting vocation of the plan.			
Management Action 2	When the BCP is revised and reissued, it will clearly define the plan owner and deputy with signatures and dates to ensure the continued validity of the plan. Any associated forums where key discussions of the BCP take place will be formally documented and outlined in the plan.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Low**

Area: Impact Analysis				
Findings summary	The Group Risk Manager advised that TVCA will look to develop its BCP in line with the requirements of the ISO 22301 Business Continuity Management standard BCP. ISO 22301 provides guidance on how an organisation can adapt the requirements of the standard to manage their risks that threaten the smooth running of its business and its continuity in the event of disruption. The Group Risk Manager considered that utilisation of the ISO standard would enable TVCA to better identify and assess future threats and their impact across the business and any response will be clearly documented within the BCP. Until such an impact analysis is performed, the organisation is at risk of being exposed to unknown or unquantified risks which may disrupt its operations.			
Management Action 3	TVCA will conduct and document a Business Continuity Impact Analysis exercise to assess the potential threats facing the organisation, their likely impact, and the measures the organisation may need to take to mitigate the risk. Following this impact assessment of potential threats, the BCP will be revised to document the impact per team / department and desired recovery times will be documented in line with the Department Heads to ensure that they are achievable in the event of an incident warranting invocation of the BCP.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Medium**

Area: Business Continuity Plan responsibilities				
Findings summary	From discussions with the Group Risk Manager, and review of previous versions of TVCA's BCP, we noted that the document set out at the start the core business continuity team members. These are made up of the following: • BCP Team Leader; • BCP Coordinator; • Deputy BCP Coordinator; • Chief Executive; • Commercial and Delivery Director; and • Business and Skills Director. When the new BCP is developed, TVCA will need to ensure that the core BCP team members are identified and their roles and responsibilities defined and documented, so that all staff are aware of who to contact in the event of an incident warranting invocation of the BCP. Failure to define and document key BCP responsibilities could give rise to the risk that elements of the plan do not work as effectively as required in the event of an incident warranting invocation of the BCP.			
Management Action 4	During development of the BCP, the core BCP team members will be identified and their roles and responsibilities defined and documented, so that all staff are aware of who to contact in the event of an incident warranting invocation of the BCP.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Low**

Area: Training on the BCP				
Findings summary	TVCA aim to incorporate a training workshop or programme module to ensure that the appropriate members of staff outlined in the BCP can develop their understanding and share best practice across the wider organisation. If key staff responsible for business continuity arrangements are not provided with adequate training there is a risk that they will not be aware of the organisation's requirements or have the appropriate knowledge and skills to make decisions during the event of an incident warranting invocation of the BCP to be able to apply its arrangements to the required standard or support others across the wider organisation.			
Management Action 5	Training will be developed and implemented for the core BCP team members to ensure that they have a clear understanding of the organisation's business continuity requirements and arrangements, and to ensure that best practice (for example the ISO 22301 Business Continuity Management standard) to ensure they have the appropriate knowledge and skills to make decisions and support others during the event of an incident warranting invocation of the BCP.	**Responsible Owner:** Group Risk Manager	**Date:** 31 March 2023	**Priority:** **Medium**

Area: Resource required to resume work				
Findings summary	Through discussion with the Group Risk Manager, we confirmed that the previous version of the BCP included a directory of responsibilities for each person who is responsible in aiding the resumption of work, along with their contact details and the areas for which they are responsible. The Group Risk Manager confirmed that the directorate structure set out within this document would be utilised across the new BCP once developed. However, we obtained a copy of the BCP and confirmed that it was dated from September 2019 and is no longer relevant to the organisation, and will therefore require updating to reflect the organisation's current location and circumstances. If staff roles and responsibilities are not defined and documented, and current contact details not available, there is a risk that the organisation could experience undue delay in the resumption of services in the event of an incident.			
Management Action 6	When the BCP is revised, it will include an up to date version of the resources which will be identified and formally documented within the BCP to ensure that there are clear lines of required resource to minimise disruption to activities.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Low**

Area: Third Party Recovery arrangements				
Findings summary	Following a discussion with the Group Risk Manager, we have been led to understand that TVCA no longer has any third party BCP arrangements as the organisation now performs all required aspects of business continuity and recovery internally. However, as noted above, TVCA is currently in the process of re-developing its BCP and, should this require the use of any third party arrangements, they should be formally documented within the BCP and supported by formal agreements. If third party arrangements are not formally documented within the BCP and supported by formal agreements, there is a risk that the organisation could experience undue delay in the resumption of services in the event of an incident.			
Management Action 7	When the BCP is revised, any third-party arrangements will be formally documented within the BCP and supported by formal agreements.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Low**

Area: Communication Strategy				
Findings summary	We identified, following a discussion with the Group Risk Manager, that the organisation currently does not have a communication strategy in place for internal staff and their surrounding organisations to support its BCP arrangements. A communications strategy is important to ensure that the risks of an incident warranting invocation of the BCP are minimised and, in the event of such an incident, staff are promptly made aware of what is happening, what they need to do and with whom they need to communicate. As TVCA have recently moved offices to Teesside Airport, a communication strategy is important to ensure that staff are aware of the new arrangements, as well as the airport. Failure to have a communications strategy to support BCP arrangements could give rise to a risk that the organisation could experience undue delay in the resumption of services in the event of an incident or that the effects of the incident are exacerbated.			
Management Action 8	A communications strategy will be developed to support the organisation's BCP arrangements and ensure that there are clear processes for communication with staff and the airport. The communication strategy will set out clear lines of reporting to and from internal and external organisations to provide clear communication on incidents.	**Responsible Owner:** Group Risk Manager	**Date:** 31 March 2023	**Priority:** **Medium**

Area: Stress Testing				
Findings summary	Currently, TVCA does not have any stress testing arrangements in place to ensure that its BCP arrangements meet the requirements of the organisation and will work if and when invoked. Development of an annual stress testing plan should be an integral part of the organisation's BCP arrangements and support the BCP. Mock events and drills should be agreed and outlined with the Directors. The stress testing plan should outline the expected dates and times the mock events will occur which will need to be appropriately signed off by the Directors. Following the mock events or drills, the organisation should utilise the opportunity to update its BCP arrangements if required, communicate lessons learnt to the wider business and highlight possible areas where additional training is required. Failure to have a BCP stress testing plan could lead to the risk that the organisation's BCP arrangements do not meet the requirements of the organisation and / or do not work if and when invoked.			
Management Action 9	TVCA will develop and implement an annual BCP stress testing plan per annum to support the maintenance and review of its BCP arrangements and ensure that any mock events or drills are agreed and completed in accordance with the Directors' authorisation.	**Responsible Owner:** Group Risk Manager	**Date:** 30 September 2023	**Priority:** **Medium**

Area: Leadership Team				
Findings summary	Best practice dictates that there should be an appropriate level of representation from an organisation's senior leadership team within the group of "core" BCP team members to ensure that they are actively involved in the business continuity process and to ensure that effective and timely decisions can be made to support the wider organisation in the event of an incident warranting invocation of the BCP. Additionally, following the results of stress testing, the senior leadership team should meet to discuss the findings and possible implications on the wider business and its BCP arrangements. Failure to ensure senior leadership team involvement and support of an organisation's BCP arrangements could lead to a risk that mitigating actions are delayed or ineffective in the event of an incident warranting invocation of the BCP.			
Management Action 10	When the BCP is revised, TVCA will ensure that there is an appropriate level of senior leadership team involvement and support of the organisation's BCP arrangements, and that this is documented within the BCP.	**Responsible Owner:** Group Risk Manager	**Date:** 31 December 2022	**Priority:** **Medium**

Area: Reporting				
Findings summary	Best practice dictates that reporting on an organisation's BCP arrangements should be completed at a company wide level, to the Board and cascaded down as required through departmental and team meetings and from the senior leadership team and managers to staff. Those directly involved in the organisation's BCP arangements should receive updates from regular meetings (for example, quarterly) of the organisation's core BCP team. During the development of the BCP, or periods when the BCP has been invoked, such meeting and reporting arrangements may need to take place on a more frequent basis, particularly between the senior leadership team and the BCP team. At least on a quarterly basis the senior leadership team standing agenda should include reference to the organisation's BCP arrangements, any incidents and testing results, to ensure that they have appropriate oversight of the process and expectations. Following stress testing mock events or drills, a full report should be compiled for submission to the Board to outline the areas in which the organisation has failed to follow the business continuity plan and the risks this poses. The report should also highlight the areas of lessons learnt and how this has impacted changes within the BCP process. An annual review of the BCP plan and stress testing plan should be undertaken by the Board to ensure the accuracy and completeness of local and organisation wide plans. Failure to have in place appropriate reporting and review arrangements risks undermining the effectiveness of an organisation's BCP arrangements, meaning that measure in place d not work as expected when required.			
Management Action 11	In line with the development of the new BCP, TVCA will review its reporting arrangements to ensure that they meet best practice and are formally documented within the BCP.	**Responsible Owner:** Group Risk Manager	**Date:** 30 September 2023	**Priority:** **Low**

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

The scope was planned to provide you with the advisory input you require on the controls and mitigations in place relating to the objective.

Objective of the risk under review	Risks relevant to the scope of the review	Risk source
The Covid-19 pandemic has caused widespread national disruption and its economic impact could inhibit organisational ability to deliver on key projects and outcomes. Our review will consider how the pandemic has impacted on service delivery (particularly through any loss of resource) and how resilient the organisation is to ensure that any impact on its ability to manage key projects is minimised.	Pandemic Illness Outbreak: Impact on delivery	Corporate risk register

When planning the audit, the following areas for consideration and limitations were agreed:

The assignment will consider the following:

- How responsibilities for managing each business continuity element in the event of a disaster or major incident have been allocated and how staff are made aware of their responsibilities.
- Training on deploying the Business Continuity Plan has been provided to appropriate staff.
- The development, approval and communication of the Business Continuity Plan (or equivalent) and any associated action plans/strategies.
- Testing / stress testing of the Business Continuity Plan is performed with lessons learned shared appropriately.
- Whether business continuity arrangements are based upon an impact analysis to assess factors such as threats to the organisation, impact and required service recovery times / points.
- The resources (equipment or staff) required to resume activities have been formally identified and documented.
- Ownership for business continuity arrangements and any dedicated forums for which business continuity, and review of the Business Continuity Plan is undertaken.
- Any links established for shared business continuity and disaster recovery arrangements with other bodies are set out within the plan and supported with formal agreements.
- The leadership team are actively engaged in the business continuity process.
- There is a Communications Strategy in place to support the business continuity process.

- Reporting of business continuity arrangements throughout the organisation. This includes whether the Board or alternative forum receives updates as to the adequacy and completeness of local and organisation-wide plans, results of any testing and undertakes any review of the plans on a periodic basis.

Limitations to the scope of the assignment:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this review will be compliance based and sample testing only.
- Our work does not provide a guarantee that business continuity / disaster recovery arrangements will work in the event of a disaster event.
- We will not review the IT Disaster Recovery arrangements in place other than to confirm that they form part of the overall business continuity process and system dependencies have been considered by the individual departments.
- We will not provide assurance that actions identified within any plans are appropriate or that measures stated will actually assist in the job in which the plan is set out to achieve.
- We will not guarantee that all appropriate individuals have read and reviewed plans in place and that staff fully understand the importance of business contingency planning.
- Training sessions and the performance of evacuation drills will not be reviewed.
- We will not interview all Business Continuity Plan owners as part of this review.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.
- Following our initial discussions with the client, this review has been performed as an advisory review and a formal assurance opinion is not provided.

Debrief held	19 July 2022	**Internal audit Contacts**	Rob Barnett, Head of Internal Review Philip Church, Senior Manager Michael Gibson, Client Manager Naomi Longstaff, Auditor
Draft report issued	12 August 2022		
Responses received	23 August 2022		
Final report issued	23 August 2022	**Client sponsor**	Gary MacDonald, Group Director of Finance and Resources Natalie Robinson, Group Risk Manager
		Distribution	Gary MacDonald, Group Director of Finance and Resources Natalie Robinson, Group Risk Manager

TEES VALLEY COMBINED AUTHORITY

Transport Programme

Internal audit report 2.22/23

FINAL

23 August 2022

THE POWER OF BEING UNDERSTOOD
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1. EXECUTIVE SUMMARY

Why we completed this audit

The Tees Valley Combined Authority (TVCA) has a Strategic Transport Plan in place whereby £256.7million was pledged to important transport projects across the region. A ten-year roadmap of how the money will be spent to grow the economy has been created and will have a vital impact on the transport system within the Combined Authority area. The focus of the plan is on improving the transport system for local people and businesses ensuring integration between different transport modes. The Authority's strategic priorities are clearly outlined within the plan and the internal control framework to manage these activities is clearly outlined within the Group Governance Structure and Assurance Framework.

The Transport & Infrastructure team in TVCA are responsible for all transport related projects. Transport Planning Managers are allocated a project and create business cases which provide full descriptions of the project which are required to go through the TVCA appraisal process before funding is allocated to the project.

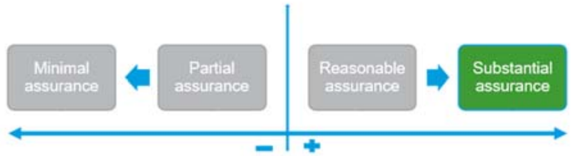
The purpose of our review was to determine whether TVCA has in place adequate and effective systems and processes in place to ensure that the Tees Valley Strategic Transport Plan (STP) 2020 – 2030 and Integrated Transport Programme are delivered in accordance with its aims and objectives. A sample of five projects was selected focusing on the different transport areas detailed in the programme. We reviewed the Middlesbrough Rail Station, Electronic Vehicle Charging, Bus Corridors, Wheels to Work and Woodland Road (Cycling and Walking) projects.

Conclusion

We found that the Authority has adequate and effective systems and processes in place, which are well understood by all relevant parties, to deliver its aims and objectives in accordance with the Tees Valley Strategic Plan 2020 – 2030. However, our review did highlight one exception and as a result we have raised **one low priority** management action, details on the action raised can be found in section 2 of this report.

Internal audit opinion:

Taking account of the issues identified, the Cabinet can take **substantial assurance** that the controls upon which the Authority relies to manage this risk are suitably designed, consistently applied and effective.



Key findings

We identified the following findings that have resulted in one management action being raised:

TVCA have in place an overarching City Region Sustainable Transport Settlement (CRSTS) programme business case which supports the Strategic Transport Plan. As part of the business case an appendix was created that lists each of the projects that are currently being worked on in the TVCA Transport Programme. Through discussion with the Transport Assistant Director, it was confirmed that, although this documentation was put in place to support the business case, it is currently not used to track all current programmes within TVCA. There is a risk that there is no centralised log in place which details all active Transport Programme projects which could impact on management's ability to oversee the progression of projects and provide support if required. (**Low**)

Our audit review also identified that the following controls are suitably designed, consistently applied, and are operating effectively:

The Tees Valley Strategic Plan (STP) 2020 – 2030 was appropriately authorised at the Tees Valley Combined Authority (TVCA) Cabinet on Friday 31 January 2020.

Discussion with the Transport Assistant Director confirmed that delivery of the Strategic Transport Plan is managed by Tees Valley Combined Authority alongside the five constituent Local Authorities. Some of the project works will be delivered by the Combined Authority or Local Authority, and others will be delivered by, or in partnership with, other organisations. This is detailed throughout the Strategic Transport Plan specifically in section four "How will the plan be delivered"

TVCA have an Assurance Framework in place that sets out the roles and responsibilities of the Combined Authority and Local Enterprise Partnership. It was confirmed through discussion with the Transport Assistant Director that the Transport Programme is required to operate within the Assurance Framework to manage projects. The Assurance Framework was approved by Cabinet in July 2021 which was confirmed through a review of minutes.

Business Cases are created for all projects within the Transport Programme which provide full descriptions of the project and are required to go through the TVCA appraisal process before funding is granted. There is a set template that TVCA use for business cases which provides justification for undertaking a project, it evaluates the benefits, costs and risk with rationale on why the project should be selected.

From a sample of five projects, it was identified that for four projects there was a risk register in place that captured relevant risks to the project, risk scores provided and mitigating actions captured to minimise risk to TVCA. In the remaining case there was no risk register created yet as that project (Bus Corridors) was not at that stage in the process.

Transport Planning Managers meet regularly with the necessary key stakeholders involved in each project. Frequency of these meetings will depend on the multiple factors relating to the project such as size of the project, funding or number of districts impacted. From a sample of five projects, it was identified that, in all cases, the projects were reviewed with the relevant stakeholders at the necessary frequency based on the size of the project.

From a sample of five projects, it was identified that in three cases a formal agreement was in place between TVCA and the delivery partner, which had been signed by both parties and had clear roles and responsibilities detailed throughout the agreement. In one case the project was not at the stage to agree any formal arrangements with any delivery partners as the project was still in the planning stage of the process (Bus Corridors). In the last case (for the Woodland Road project), there was a funding agreement in place between the district and TVCA which had been signed by both parties and detailed clear roles and responsibilities.

Where delivery partners have agreed to perform services for TVCA and have signed a formal agreement detailing the level of service they will provide, these are monitored by the Transport Planning Manager. From a sample of five projects, it was identified that in all cases sufficient monitoring against key performance indicators was in place.

Governance structures are in place for all projects within the Transport Programme, any matters that require escalation / cascade are completed through this governance structure. A review of the latest three Transport Committee meeting minutes confirmed that there was representation from TVCA and all the local authorities with updates on project progression being discussed as part of the agenda.

From a sample of five projects, it was identified that in three projects there were relevant action trackers in place which captured the action, relevant owners, date required, and any further comments required relating to the action. In the remaining two cases, it was identified that an action tracker was in place and board/committee minutes had been taken to record key discussions/decisions.

Through interviews with the Transport Planning Managers, it was confirmed that for the five projects sampled, when decisions are made these will be made through project meetings with the relevant stakeholders. Therefore, will not necessarily be communicated out as they have been agreed verbally via meetings. It was advised that any actions relating to these decisions would be captured through the action tracker process or captured through the relevant board/committee meetings minutes.

Discussion with the Transport and Infrastructure Manager confirmed that reporting on project progress is in place depending on the governance structures of each project. If the project does not have a board or committee, progress is reported into the Transport Committee as part of the wider Transport Programme. A review of the meeting minutes confirmed that there is reporting on project progress in place relating to the projects and this is detailed at the required levels as per the governance structure.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Risk: Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations.				
Control	**Missing Control** The Authority has an overarching business case in place to support the overall Strategic Plan (STP) 2020 – 2030 for all projects which includes a Scheme List that shows key information on each of the projects the Transport Team are currently working on.		**Assessment:** **Design** **Compliance**	× -
Findings / Implications	The Tees Valley Combined Authority have in place a City Region Sustainable Transport Settlement (CRSTS) programme business case which supports the Strategic Transport Plan. As part of the business case an appendix was created that lists each of the projects that are currently being worked on in TVCA Transport Programme. The List details (but is not limited to): • Project Name • Project Description • Type of Intervention • Location • Start Date • Costs • Risks Through discussion with the Transport Assistant Director, it was confirmed that although this documentation was put in place to support the business case, it is currently not used to track all current programmes within TVCA. There is currently a corporate investment dashboard being created that will list all of the current active projects at the Authority, including all the transport projects. However, without this centralised log being in place, which details all active Transport Programme projects, there is a risk that this could impact on management's ability to oversee the progression of projects and provide support if required.			
Management Action 1	TVCA will create a dashboard that details all the projects currently active which will provide key information regarding the project such as (but not limited to): timescales; milestone dates and dependencies.	**Responsible Owner:** Investment Planning Manager	**Date:** 31 March 2023	**Priority:** **Low**

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations.	1	(13)	0	(13)	1	0	0
Total					**1**	**0**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal review assignment has been scoped to provide assurance on how the Authority manages the following risk.

Objective of the area under review	Strategic risk relevant to the scope of the review	Risk source
The Authority has adequate and effective systems and processes in place to ensure that the Tees Valley Strategic Transport Plan (STP) 2020 – 2030 and Integrated Transport Programme are delivered in accordance with its aims and objectives.	*Risk 00001375: Transport specific funding secured from government is not sufficient to meet TVCA programme aspirations.*	Corporate Risk Register

1.1 Scope of the review

The Tees Valley Strategic Transport Plan (STP) 2020 – 2030 sets out how Tees Valley Combined Authority (TVCA) will deliver a world-class transport system and provides the framework for transport investment. The funding stream is a key element of the Authority's Strategic Economic Plan. Our review will consider how decisions are made regarding funding achieved and how project elements are developed and monitored.

Our review will focus on:

- The Tees Valley Strategic Transport Plan (STP) 2020 – 2030 has had appropriate authorisation in line with the Authority's Constitution.
- Ownership for Transport Plan elements is clearly set out and well understood by all parties concerned.
- There is a clear and well understood assurance framework to govern decision-making and monitoring of projects which is understood by all relevant parties.
- There is a clear log for each project showing key factors such as target dates, timescales, dependencies, gateway criteria.

- Each project has clearly defined objectives, timescales, dependencies, gateways and assigned responsibilities.
- Key risks relating to each project are identified, recorded and considered at the appropriate level / forum and risk registers updated on a timely basis. Mitigating actions are logged and tracked.
- Each project is subject to a periodic review conducted by / attended by those with the knowledge and authority to make effective decisions.
- Where work is undertaken by delivery partners, formal arrangements are in place setting out a clear understanding of responsibilities.
- Work done by delivery partners is subject to the same level of review and decision-making as work delivered in-house.
- Any matters requiring escalation / cascade throughout the governance structure are managed in line with those governance arrangements.
- All key discussions are recorded and decisions authorised in line with the governance mechanism.
- When decisions are made, these are communicated effectively and on a timely basis to all who need to be made aware.
- There is sufficient reporting on the progress of plan elements at each level of the governance framework to ensure that informed and timely decisions can be made.

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the risk and objectives set out for this review.
- Any testing undertaken as part of this review will be compliance based and sample testing only.
- Our work does not provide a guarantee that project elements will be delivered in line with their objectives.
- We will not consider the broader area of TVCA budgeting and monitoring during the course of this review.
- We will not review funding arrangements or meet with funding providers during the course of this review.
- We will not review the procurement or monitoring of contractors.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	5 August 2022	**Internal audit Contacts**	Rob Barnett, Head of Internal Audit Philip Church, Senior Manager Mike Gibson, Client Manager Samuel Hammond, Internal Auditor
Last response to queries received			
Draft report issued	19 August 2022		
Responses received	22 August 2022		
Final report issued	23 August 2022	**Client sponsor**	Gary MacDonald, Group Director of Finance and Resources Tom Bryant, Transport Assistant Director Natalie Robinson, Group Risk Manager
		Distribution	Gary MacDonald, Group Director of Finance and Resources Tom Bryant, Transport Assistant Director Natalie Robinson, Group Risk Manager

TEES VALLEY COMBINED AUTHORITY

Procurement to Pay Process

Internal audit report 3.22/23

Final

3 November 2022

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1. EXECUTIVE SUMMARY

Why we completed this audit

As a public body, the Tees Valley Combined Authority (TVCA, the "Authority") has an obligation to comply with the UK Government's Prompt Pay and Value for Money requirements as well as ensuring that it has adequate governance over expenditure. Our review looked at the full end to end procurement to payment process over TVCA.

The Procurement team, led by the Group Procurement and Purchasing Manager, with the support of the Procurement Officers, is responsible for oversight of all procurement activities within the TVCA Group, including the continual monitoring of expenditure with reference to contract values and agreed contracts, as well as to ensure that any contractual extensions or amendments are managed appropriately. However, although procurement is managed centrally, day to day procurement activities are conducted by procuring managers within each entity.

The Group has set out a Group Procurement Strategy that covers all Group entities, which sets out principles that seek to guide the direction of procurement within the Group and ensures that the procurement function aligns to the Group's strategic objectives.

The Group also has a comprehensive Group Procurement Policy and set of delegated approvals for the procurement activities and to provide clear guidelines and methods by which all entities within the Group procure services, goods and works and ensure that approval methods are adhered to throughout the procurement process. The Group's Procurement Strategy is designed to support the achievement of the Group's Strategic Economic Plan. The Procurement Strategy was approved in July 2020. The policy is also part of the Group's Procurement Strategy Implementation Plan and, at the time of our audit, was available for the next Board meeting to approve.

Our review focused on the different services, works and supplies that were procured by TVCA. These works varied from land and buildings through to consultancy, selection requirements and procurement of essential supplies. A separate, parallel review covering the South Tees Combined Authority (STDC) has also been performed. A separate report has been produced for STDC.

Conclusion

We found that the Authority has adequate and effective systems and processes in place, which are well understood by all relevant parties, to deliver its aims and objectives in accordance with the Tees Valley Strategic Plan. However, our review did highlight three exceptions relating to the current lack of strategic reporting in respect of procurement activities and reliance upon manual processes to identify purchases outside of policy. As a result, we have raised **one medium** and **two low priority** management actions, details on the action raised can be found in section 2 of this report.

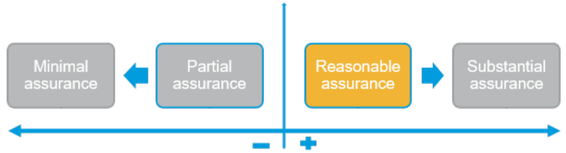
We recognise that the Group is in the process of developing a phased Implementation Plan to manage the transition to working under the new Group Procurement Strategy. It is anticipated that the matters identified in this report will assist the Group in developing changes or additions (such as the inclusion of a formal procurement activity reporting structure) to its existing control framework.

Two of the issues reported affect the whole Group but will need to be addressed centrally. Actions in respect of these matters have been raised in this report have also been referred to in the STDC report (but the actions themselves have not been duplicated in the STDC report). We would also recommend that management reviews the results of our Data Analytics work reported in Appendix B.

Internal audit opinion:

Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area(s).



Key findings

We identified the following findings that have resulted in one medium priority management action being raised:

Through discussion with the Group Procurement and Purchasing Manager, we confirmed that there is currently no overall process available within the Procurement team to generate the procurement related reporting or analysis on procurement activities within the Group to ensure that there is clear oversight through the Governance Structure of procurement cycle risks. Failure to have an adequate level of strategic reporting over supplier performance and supplier risk could lead to difficulties in monitoring compliance with policy, measuring the effectiveness of procurement activities and decision-making / planning in respect of procurement strategies. **(Medium)**

For details of the low priority management actions, please see section two of this report.

Our audit review also identified that the following controls are suitably designed, consistently applied, and are operating effectively:

The Tees Valley Strategic Plan (STP) 2016 – 2016 was appropriately authorised at the Tees Valley Combined Authority (TVCA) Cabinet. Tees Valley have a group Procurement Strategy. The strategy covers 2020 – 2029 and aims to clearly set out a framework for committing spend and undertaking procurement activities.

The TVCA Constitution sets out the basis of how decisions will be taken within the Combined Authority, in keeping with principles of democracy and transparency, with effective and efficient decision-making. The Authority has a Procurement Policy which outlines the principles by which the Group will comply with its statutory and regulatory requirements in relation to procurement and has been produced following approval of the Group Procurement Strategy in July 2020.

- The Group Procurement Policy also provides a transparent overview of the roles and responsibilities within the Procurement function, ensuring that key staff with procurement responsibilities are well informed of their key areas of authority and levels of segregation of duties.

- A detailed training matrix is held by the Group Procurement and Purchasing Manager which details all staff members within the Procurement team and their completed training elements. We concluded that staff have received necessary training elements to perform their procurement function activities for the Group.

- From a sample of 10 procured contracts. It was identified that in all 10 cases the contract had been signed between two entities before the commencement of the project. as per the Procurement Policy. Direct award suppliers must sign and return a form of tender indicating their acceptance of the appropriate Terms and Conditions of contract for the service, works or goods being procured.

- From a sample of 20 of the Group's purchases we concluded that the date upon which the invoice had been approved, predated the date in which payments had been released. We further concluded that for all 20 sample items reviewed a director had approved all of our sampled purchases which exceeded £10,000 and a budget holder had approved all purchases sampled under £10,000.

- From a sample of 20 purchases, we concluded that, for all sample items reviewed, evidence was retained to ensure that appropriate goods received notes or services received confirmations had been evidenced prior to the release of payment and these goods / services directly reflect those within the purchase order.

- From a sample of 20 purchases, we concluded that, for all sample items reviewed, evidence was retained to ensure that all goods and services were paid in line with the defined delegated authority limits within the Group

- From a sample of 20 purchases, we concluded that all sample items reviewed evidence was retained to ensure that the invoice amount agreed to the order value. However, there was an instance within our sample where the amount stated on the goods received note was three times smaller than the invoice (£3,266.13 compared to £9,171.77), through system review and discussion with the Finance Manager at the Group it was evidenced that this increase had been approved by the Head of Transport and a workflow diagram from the Agresso system was provided to evidence this authorisation.

- For a sample of five contract extensions, we evidenced that in all sample items reviewed the appropriate levels of approvals had been obtained and we ensured that, including where there were any extensions available for more than 50% of the contract value, however, we noted that there were no contracts in place where an approved extension / variance had been applied that went above the 50% threshold.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Procurement to Pay				
Control	TVCA has a Group Procurement Strategy which covers the years 2020 to 2029. The Strategy is fully aligned with and supports the achievement of the TVCA Investment Plan. The Authority has a Procurement Policy. The Policy outlines the principles by which the Group will comply with their statutory and regulatory requirements in relation to procurement and has been produced following approval of the Group Procurement Strategy in July 2020. The Group have a Procurement Implementation Plan. The document states the aims and objectives for the Group to achieve and the dates by which these are to be achieved.		**Assessment:** **Design** **Compliance**	 ✓ ×
Findings / Implications	We obtained both the Group Procurement Policy and the Group Procurement Strategy. Through review of these documents, we aimed to confirm that the Procurement Policy was aligned with the Procurement Strategy and that appropriate approval had been granted for each. The objectives outlined within the Group's Procurement Policy include: • To provide clear guidelines and methods by which 'the 'Group'' procure, services goods and works. • Award contracts that achieve best 'Value for Money'. • Promote robust contract and supplier management systems. • To ensure that social value is considered and explicitly evaluated via the procurement process where appropriate. • Promote open and transparent competition. • Encourage market engagement. The final Group Procurement Policy was drafted but had not yet been signed by the Board at the time of our fieldwork. We were informed by the Group Procurement and Purchasing Manager that the Procurement Policy was scheduled for review and approval at the next Board meeting in September 2022. However, this had not yet had formal approval from the Board by the time we concluded our work on this review. Without formal approval of the Procurement Policy it may be difficult to hold relevant staff accountable for the consistent application of processes and controls in relation to procurement activities.			
Management Action 1	Management will ensure that the Group Procurement Policy is formally approved by the Board and then published on the intranet and cascaded to all relevant staff.	**Responsible Owner:** Group Risk Manager	**Date:** 31 October 2022	**Priority:** **Low**

Area: Procurement to Pay				
Control	**Missing Control** Performance metrics are defined, reported, and monitored by management to evaluate the effectiveness of procure to pay operations.		**Assessment:** **Design** × **Compliance** -	
Findings / Implications	Through discussion with the Group Procurement and Purchasing Manager, we confirmed that there is currently no overall process available within the Procurement team to generate the procurement related reporting required to allow for the analysis of procurement performance to facilitate monitoring of compliance across the Group's procurement activities (e.g. reporting of supplier performance, expenditures outside the policy) and support Group decision-making. During our discussions the Group Procurement and Purchasing Manager advised that an initiative was underway for the creation of some reporting dashboards to help with procurement reporting and that this work is schedule to commence in November 2022. Without adequate procurement reporting capabilities there is a risk that this could result in difficulties in monitoring compliance with policy, measuring the effectiveness of procurement activities and decision-making / planning procurement strategies.			
Management Action 2	Management will ensure that the reporting of procurement activities within the Procurement team is developed to include key dashboards and related KPI figures which can be directly reported through the governance structure as required (such as but not limited to: supplier performance, expenditure outside of policy).	**Responsible Owner:** Group Procurement and Purchasing Manager	**Date:** 31 March 2023	**Priority:** Medium

Area: Procurement to Pay				
Control	**Partially Missing Control** A monthly report is pulled from the Agresso system of all spend throughout the month. This report is then analysed internally by the Group to identify expenditure outside of policy,		**Assessment:** **Design** × **Compliance** -	
Findings / Implications	Through discussion with the Group Procurement and Purchasing Manager we found that there is currently no automated reporting process in place at the Group. Given this, the Group Procurement and Purchasing Manager generates monthly expenditure reports from the Agresso system which are then analysed for potential spend in breach of policy. All purchases relating to a contract in place are assigned a procurement number to ensure that there is clear oversight within the Finance System to review overall contractual spend, procurement numbers are allocated through delegated levels of authority dependant on the value, these being: • Those purchases which are under £5,000 are automatically assigned a procurement number. • Purchases over £5,000 must be manually assigned a procurement number following analysis and review of the proposed spend by the Procurement team. • Purchases over £10,000 must be approved by a director prior to the Procurement team allocating a procurement number The Group Risk Manager explained that any order over £5,000 without a procurement number would be rejected. However, the current process requires a considerable degree of manual intervention to operate, and it also reduces the ability of the Procurement team to mitigate the potential risk of multiple orders being raised at values below the £5,000 threshold in order to circumvent delegated authority limits, although we observed no such instances during our testing. In addition, we found that the only way, currently, to identify potential duplicate purchases is for the Finance team to manually review purchases to identify, investigate and escalate potential duplicates. The presence of manual intervention stages in key controls could give rise to the risk that exceptions to policy are not identified on a timely basis or at all.			
Management Action 3	The purchase requisition approval process will be reviewed to determine whether any controls which mitigate or deter duplicate or inappropriate purchase requisitions from being raised can be automated	**Responsible Owner:** Group Procurement and Purchasing Manager	**Date:** 31 March 2023	**Priority:** Low

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Procurement.	2	(13)	1	(13)	2	1	0
Total					**2**	**1**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: DATA ANALYTICS

The following is a summary of findings from our analytical work which we have discussed with management.

Analytics Findings:

The following is a summary of findings from our data analytics work which we have discussed with management. This has involved us sharing the data analytics spread sheets which detail the findings for further consideration and checking.

For the purpose of our findings, we have used a '*pause*' and '*tick*' approach to highlight at a glance which areas require further investigation following our findings.

Area: Individual expenditure levels at or around delegated authority thresholds	
Criteria:	Analysis undertaken to review expenditure under £10,000 (from £9,500 to £9,999.99) to identify any split payments.
Source Data/Reports:	Creditor Report 01.04.21 – 30.06.22
Period Covered:	2021 / 2022
Testing Undertaken:	Analysis undertaken to review expenditure under £10,000 (from £9,500 to £9,999.99) to identify any split payments.
Issues identified:	The creditor report for TVCA included 7,421 individual transactions. Of these transactions, 27 invoices were processed between £9,500 and £9,999.99. We selected a sample of five transactions between these amounts to determine whether they were legitimate transactions which had not been split to be under delegated authority levels. Through system review with the Finance Manager, we were able to confirm that in all five sample items reviewed there was sufficient evidence to justify that the respective orders had not been split in order to be below delegated authority levels.
Overall Conclusion:	No further investigation required

Area: Duplicate invoices	
Criteria:	Identify potential duplicate invoices.
Source Data/Reports:	Creditor Report 01.04.21 – 30.06.22
Period Covered:	2021 / 2022
Testing Undertaken:	Analysis of invoice transactions by invoice number, date, amount, and supplier ID.
Issues identified:	The creditor report for TVCA included 6,240 individual transactions. Analysing the report for duplicate invoice numbers identified 274 potential duplicate records. We selected a sample of five transactions with duplicate invoice numbers and through system review and discussion with the Finance Manager we were able to evidence that the duplicate invoices by number had been appropriately raised in all cases with supporting evidnece taken directly from the Financne system and appropriate credit notes where applicable. Further analysis of the transactions for duplicates using invoice date, amount and supplier ID identified 2,970 potential duplicates. We selected a sample of five transactions with duplicate invoice date, amount and supplier ID and through system review and discussion with the Finance Manager we were able to evidence that the duplicate invoices by number had been appropriately raised in all cases with with supporting evidnece taken directly from the Financne system and appropriate credit notes where applicable.
Overall Conclusion:	We would recommend that due to the overall number of duplicates identified against the sample amount reviewed, the Finance team should undertake further analysis against the additional duplicates to provide the Group with overall assurance to ensure that duplicates within the system are appropriate with due regard to the purchase made.

Area: Duplicate suppliers	
Criteria:	Identify potential duplicate suppliers
Source Data/Reports:	Supplier List for RSM
Period Covered:	2021 / 2022
Testing Undertaken:	Identify potential duplicate suppliers by bank account details and supplier name.
Issues identified:	The supplier list included included 1,687 individual supplier records. Analysing the report for potential duplicates based on bank account details only identified 145 potential duplicate records. When analysing the report for duplicates based on bank account details and supplier names identified 24 potential duplicate records. We selected a sample of five potential duplicate suppliers and through system review and discussion with the Finance Manager we have evidenced that there is adequate evidence that the suppliers on the database have a legitmate reason for being duplicated, this was evidenced with System screenshots and supporting commentary within the system for the duplicate suppliers.
Overall Conclusion:	We would recommend that due to the overall number of duplicates identified against the sample amount reviewed, the Procurement team should undertake further analysis against the additional duplicates to provide the Group with overall assurance that ensure duplicates within the system are appropriate with due regard to the supplier details available.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal review assignment has been scoped to provide assurance on how the Authority manages the following risk.

Objective of the area under review
The Authority has adequate and effective systems and processes in place to ensure that procurement activities are aligned with its strategic objectives and are managed in line with the UK Government's Prompt Pay and Value for Money requirements.

Scope of the review

As a public body, the Tees Valley Combined Authority (TVCA, the "Authority") has an obligation to comply with the UK Government's Prompt Pay and Value for Money requirements as well as ensuring that it has adequate governance over expenditure. Our review will look at the full end to end procurement to payment process over TVCA, with a separate, parallel review covering the South Tees Development Corporation (STDC). Data analytics will be used to assist in the review.

Our review will focus on:

- A procurement strategy exists which is in line with the Authority's Strategic Economic Plan.
- A procurement policy / strategy exists which is in line with the procurement strategy and has been regularly reviewed and approved.
- The Authority's Constitution, Governance Framework and financial regulations support the procurement policy and have been regularly reviewed and approved.
- Responsibilities and accountabilities for procurement activities are clear and communicated to all relevant staff.
- Staff responsible for procurement activities have received an appropriate level of training.
- A register of supplier contracts is maintained, clearly showing the start and end dates, expected contract value and any contract extension options (and whether exercised).
- A list of preferred suppliers is maintained and the decision to use a new supplier is subject to an appropriate degree of scrutiny and approval.

- Procurement activities are being conducted in compliance with the Group's processes, Government Procurement Regulations (2015) and OJEU processes – i.e. whether supplier selection decisions have been made in line with these requirements and appropriate evidence retained to evidence those decisions.
- New supplier set up is subject to appropriate checking and review.
- Amendments to supplier details (e.g. address, bank details) is subject to appropriate checking and review.
- Day to day purchasing activities are conducted in line with the Group's Constitution and financial regulations, i.e.:
    - Only invoices which have been appropriately authorised and released for payment are paid.
    - Invoices released for payment are supported by evidence of goods / service received and an appropriately authorised purchase order.
    - Purchase orders are checked and authorised in line with agreed delegated authority limits.
    - Purchases not made through appropriate channels (e.g. non-preferred supplier) are identified for further scrutiny.
    - Invoices which differ in value from authorised purchase orders are identified for further scrutiny.
- Contract extensions are subject to a review and approval process. We will consider increase spend or contract scope expansion and how these impact on the Authority's and OJEU thresholds.
- Reporting of procurement activities is sufficient to enable:
    - The identification and management of key supplier dependencies (e.g. single suppliers for business-critical goods or services).
    - Analysis of supplier performance, including feedback to inform supplier decisions and supplier management.
    - Expenditure outside of policy.
- Governance arrangements, internally and externally (i.e. with suppliers), are sufficient to enable:
    - Procurement decisions which support the Group's overall strategic objectives.
    - The identification and mitigation of risks to the Group's overall strategic objectives.
    - The identification and management of supplier performance issues.
- Our work will incorporate the use of Computer Assisted Audit Techniques (CAATs) using the IDEA software package in order to:
    - Analyse expenditure with suppliers to inform the selection of samples to check compliance with the Group's policy, standing orders and external regulation, where appropriate.
    - Identify individual expenditure elements at or around policy and delegated authority thresholds.
    - Identify duplicate entries such as suppliers, bank accounts or invoices.

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this review will be compliance based and sample testing only.
- Our work will not consider which supplier has been chosen for a particular expenditure stream, only whether the correct process has been used to evaluate and select that supplier.
- We will not re-perform tender evaluation or value for money decisions.
- Our work will not guarantee service or value for money objectives will be achieved.
- Our review will not include expenditure via credit cards or employee expenses.
- We will not review business continuity plans in relation to supplier monitoring and performance.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	7 September 2022	**Internal audit Contacts**	Rob Barnett, Head of Internal Audit Philip Church, Senior Manager Mike Gibson, Client Manager Darren Yarnold, Senior Auditor James Butler, Auditor
Last response to queries received	7 October 2022 and 11 October 2022		
Draft report issued	18 October 2022		
Responses received	20 and 21 October 2022		
Revised Draft report issued	31 October 2022		
Further comments received	3 November 2022		
Final report issued	3 November 2022	**Client sponsor**	Gary MacDonald, Group Director of Finance and Resources Jackie Noteyoung, Group Procurement and Purchasing Manager Natalie Robinson, Group Risk Manager
		Distribution	Gary MacDonald, Group Director of Finance and Resources Jackie Noteyoung, Group Procurement and Purchasing Manager Natalie Robinson, Group Risk Manager

TEES VALLEY COMBINED AUTHORITY

Freeport Programme

Internal audit report 5.22/23

FINAL

25 October 2022

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

1. EXECUTIVE SUMMARY

Why we completed this audit

In March 2021 the Tees Valley was announced as being one of the first places to be awarded Freeport status under a new government policy to create several such Freeports across the country. The 4,500-acre site is the biggest in the country and is expected to create 18,000 jobs and generate a £3.2 billion boost to the local economy. A Freeport is a special customs zone within which certain rules are relaxed, reducing tax and administrative burdens and allowing for easier movement of goods whilst they remain within that zone. However, establishing the Freeport area both in terms of the physical location and infrastructure, and the systems and processes to enable it, is a complex process, overseen by a Freeport Board, established to provide oversight. The Freeport Board oversees activities across both the Tees Valley Combined Authority (TVCA, the “authority”) and its subsidiary, South Tees Development Corporation (STDC).

We note that, at the time of preparing for this audit, this process of agreeing the exact specification of the Freeport Programme is ongoing. The Full Business Case was submitted on 31 January 2022 and is currently awaiting final Ministerial sign off. This is anticipated shortly. As a consequence, at the time we did our audit, the Freeport Programme was just at the point of transitioning from the Business Case phase to the Freeport operational phase during which the detailed workstreams would be developed.

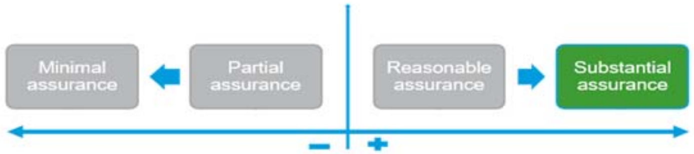
Our review focused on the governance arrangements in place around the Freeport Programme within TVCA to ensure that there is clear oversight of delivery against the key requirements of the Freeport programme before the this becomes fully operational. As part of our review, we looked at the governance and assurance framework, workstream programmes, key risks, and reporting on the Freeport activities both within the Group and to central government. At the request of management, our review did not look at the management and delivery of individual project elements within the Freeport Programme, how the Authority manages external delivery partners, or any funding arrangements.

Conclusion

We found that the Authority has adequate and effective governance systems and processes in place, which are well understood by all relevant parties, to ensure that there is a clear level of oversight over delivery of the Freeport Programme aims and objectives in accordance with the Tees Valley Freeport Business Case. Our review did not highlight any areas of exception and therefore we have not raised any management actions.

Internal audit opinion:

Taking account of the issues identified, the Cabinet can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



Key findings

Our audit review identified that the following controls are suitably designed, consistently applied, and are operating effectively:

- TVCA has developed a Full Business Case (FBC) which was submitted to Government for initial review in January 2022. In March 2022 the Government returned the FBC listing several critical actions to be reviewed and addressed to which TVCA responded in April 2022. All critical actions have been addressed throughout the intervening few months and the FBC is currently awaiting final Ministerial approval.

  The FBC clearly sets out the Freeport Programme and is split out into six key areas of focus.

  A review of the Teesside Freeport Full Business Case v1.0 confirmed that there is a clearly documented table which outlines the governance structure of the Freeport Programme and outlines the 17 key areas of the Programme and the dedicated responsibility of each organisation to oversee the project in its entirety.

- “Ownership” for the Freeport Programme is clearly defined within the FBC as resting with the Freeport Board, documented within the FBC with a detailed organisation structure and reporting levels, and a comprehensive breakdown of roles and responsibilities, detailed within a clear Terms of Reference, ensuring all parties involved with the Programme understand the governance and structure.

- The governance and assurance framework are mapped out within the Terms of Reference for the Teesside Freeport Board, this provides the overall group with a clear oversight of membership of the Board and the dedicated quoracy and purpose of the Board and responsibilities of key individuals.

- The Freeport Board Terms of Reference was approved by the TVCA Cabinet in January 2021.

The Freeport Board meets every two months with a set agenda. All key decisions relating to the Freeport Programme are discussed and approved in line with the quoracy rules to ensure that key decisions are made appropriately and in a timely manner. All meeting minutes are retained, and Board packs are generated and presented to members prior to the meeting being held. Where meetings have not taken place, members are still provided with Board packs to provide a continues oversight of progress between meetings. All decisions arising from meetings are logged and tracked and actions are carried forward to the following meetings to ensure that there is a continual review process in place.

Dedicated Workstreams Groups support the Freeport Board. These are: Strategy Accountability for Public Money; Inward Investment and Innovation; and Assurance and Compliance. Each is led by a senior TVCA Director, each workstream is a standard agenda item within the Freeport Board meetings ensuring Board members have a clear oversight of all movement and updates relating to the Freeport Programme. At the time of our audit these workstreams were in the process of being realigned as the Programme transitions into the operational phase.

Additionally, the Group has a comprehensive delivery plan which provides Board members with key areas of development of the Freeport Programme outlining key implementation dates of and related risks.

Key areas of risks are a standard agenda item within the Freeport Board meetings with full oversight and review every two months.
TVCA holds specific risk registers for the Freeport Programme which are reviewed and updated monthly within the Power Apps platform between the Freeport Director and the Group Risk Manager to ensure that all risks are reviewed and updated accordingly.

All Freeport key actions and deliverables are detailed within the Overview and Scrutiny Committee prior to being reported to Cabinet as part of the standard agenda items.

There are clear lines of reporting into Cabinet, Overview and Scrutiny Committee and Audit and Governance Committee and this is undertaken on an annual basis or as and when escalation / reporting is required for discussion of more urgent matters.

Workstream meetings are undertaken and chaired by the Redcar & Cleveland Borough Council Leader monthly which outlines key decisions which in turn form part of the agenda papers for the Freeport Board to ensure that all members are aware of key decisions made.
TVCA has a detailed Delivery Plan document in place that forms part of the agenda papers for the Freeport Board which provides a comprehensive overview of key Programme activities and defined key Programme milestones.

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Risk 00001401: Failure to deliver Freeports programme.	0	(11)	0	(11)	0	0	0
Total					**0**	**0**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal review assignment has been scoped to provide assurance on how the Authority manages the following risk.

Objective of the area under review	Strategic risk relevant to the scope of the review	Risk source
The Authority has adequate and effective systems and processes in place to ensure that the Freeport programme is delivered in accordance with its aims and objectives.	Risk 00001401: Failure to deliver Freeports programme.	Corporate Risk Register

In March 2021 the Tees Valley was announced as being one of the first places to be awarded Freeport status under a new government policy to create several across the country. The 4,500-acre site is the biggest in the country and is expected to create 18,000 jobs and generate a £3.2 billion boost to the local economy. A Freeport is a special customs zone within which certain rules are relaxed, reducing tax and administrative burdens and allowing for easier movement of goods whilst they remain within that zone. However, establishing the Freeport area both in terms of the physical location and infrastructure, and the systems and processes to enable it, is a complex process, overseen by a Freeport Board, established to provide oversight. The Freeport Board oversees activities across both the Tees Valley Combined Authority (TVCA, the “authority”) and its subsidiary, South Tees Development Corporation (STDC).

We note that, at the time of preparing for this audit, this process of agreeing the exact specification of the Freeport programme is ongoing. The Full Business Case was submitted on 31 January 2022 and the organisation has since been responding to Government review panel questions.

Our review is intended to look at the broader governance processes covering the Freeport programme and will focus on:

- The objectives of the Freeport programme have been clearly set out in a business case discussed between the authority and the Government.
- Ownership for the Freeport programme is clearly set out and well understood by all parties concerned.
- There is a clear governance and assurance framework covering the Freeport programme which is well understood by all relevant parties.
- The Freeport Board has a clearly defined Terms of Reference which has been approved by the TVCA Cabinet.

- Membership, standard agenda items and meeting frequency of the Freeport Board is sufficient for it to be able to make appropriate decisions on a timely basis.
- There is a clear log for each programme element showing key factors such as target dates, timescales, dependencies, gateway criteria, which is discussed at each meeting of the Freeport Board.
- Minutes are retained and any decisions made or actions arising are logged and tracked.
- Key risks relating to each programme element are identified, recorded and considered at the appropriate level / forum and risk registers updated on a timely basis. Mitigating actions are logged and tracked.
- There is an adequate level of reporting on Freeport activities to other oversight bodies within TVCA (i.e. Cabinet, Overview and Scrutiny Committee, Audit and Governance Committee) to ensure transparency of actions and decision-making.
- Any matters requiring escalation / cascade throughout the governance structure are managed in line with those governance arrangements.
- When decisions are made, these are communicated effectively and on a timely basis to all who need to be made aware.

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the risk and objectives set out for this review.
- Any testing undertaken as part of this review will be compliance based and sample testing only.
- At the request of management, our review will not look at the management and delivery of individual project elements within the Freeport programme.
- Our review will not consider how the authority manages external delivery partners.
- We will not review funding arrangements or meet with funding providers during the course of this review.
- We will not review the procurement or monitoring of contractors.
- Our review will also not consider “business as usual” activities of TeesPort.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	30 September 2022
Last response to queries received	19 October 2022
Draft report issued	25 October 2022
Responses received	25 October 2022
Final report issued	25 October 2022

Internal audit Contacts	Rob Barnett, Head of Internal Audit Philip Church, Senior Manager Mike Gibson, Client Manager Darren Yarnold, Senior Auditor
Client sponsor	Gary MacDonald, Group Director of Finance and Resources Nolan Gray, Freeport Director Natalie Robinson, Group Risk Manager
Distribution	Gary MacDonald, Group Director of Finance and Resources Nolan Gray, Freeport Director Natalie Robinson, Group Risk Manager

Registration number: 02020423

TEESSIDE INTERNATIONAL AIRPORT LIMITED

Annual Report and Financial Statements

for the Year Ended 31 March 2022

Teesside International Airport Limited

Contents

Teesside International Airport Limited

Company Information

Directors	Ms Alison Anne Fellows Mr Barrie Cooper Mr James Michael Rowlandson Cllr Doris Mary Jones Cllr Eileen Johnson Cllr Glyn Nightingale Mr Richard Andrew Bell Mr Philip Robert Forster Ms Kathryn Willard Mr Andrew Laundon Mr Rob Cook
Company secretary	Endeavour Secretary Limited
Registered office	Teesside International Airport Limited Darlington Durham DL2 1LU
Solicitors	Endeavour Partnership Tobias House St Mark's Court Teesdale Business Park Teesside TS17 6QW
Auditor	Azets Audit Services Chartered Accountants & Statutory Auditor 1 Massey Road Thornaby Stockton-on-Tees TS17 6DY

Teesside International Airport Limited

Strategic Report for the Year Ended 31 March 2022

The directors present their strategic report for the year ended 31 March 2022.

Principal activity

The principal activity of the company is the operation of Teesside International Airport and the provision of associated facilities and services.

Fair review of the business

Over the 2021/22 period the airport continued to feel the aftereffects of the Covid 2019 pandemic, which persisted for longer than the industry originally expected. It was only in Spring 2022 that the airport started to see passengers really wanting to travel again, as reflected in the passenger statistics in the table below.

In terms of airport terminal developments: -

- the airport successfully delivered its extensive planned terminal developments to support the delivery of new routes and enhance the airport experience for customers. These developments included a new landside café, refurbished check-in desks, new gate facilities, a new passenger lounge, three new airside bars, the opening of a new landside first floor Sky Bar in June 2022, a World Duty Free store and an airside spa; and
- new office space was also created for the Tees Valley Combined Authority, who moved out of their office accommodation in Stockton and into their new accommodation at the airport in March 2022.

The outturn for the financial year 2021/22 is an EBITDA loss of £9.6m and an overall loss of £11.9m, which is in line with the 2021/22 budget. While the results are a loss, they are in line with other airports and operators within the aviation sector, as the industry continued to be impacted by the global pandemic. TIA had scaled up to accommodate the new flight schedule that had been agreed with airlines. However, because of the extended period of the pandemic and continued complications with foreign travel, elements of the new flight schedule were suspended. The loss for the year is ultimately attributable to the under-achievement of revenue and increased scale-up fixed costs. TIA still incurred significant fixed unavoidable overheads due to the nature of the industry, and specifically the need to remain open throughout the pandemic period.

During the year the airport was able to access UK Government assistance of £433,242 provided through the Airport and Ground Operations Support Scheme. This grant was provided by the Department for Transport for the purpose of business rates during the current financial period.

A valuation of TIA's investment properties was carried out at the 31 March 2022 by an independent valuer. This resulted in a fair value uplift of £3,786,853. A full review of contracts was carried out by TIA and as a result contracts were terminated to ensure future cost savings. This resulted in an onerous contract provision of £2m being recognised.

Business development

Based on TIA's ongoing discussions with airlines, following the pandemic our intention remains to increase passenger numbers. Because the travel industry continued to be severely impacted in summer 2021 (due to only some countries being open and the constraints of different countries' travel requirements), the Summer 2022 season is TIA's first real opportunity to demonstrate to airlines that there is passenger demand to travel from the airport.

In terms of route development: -

- Last year a new five-year deal was signed with KLM Royal Dutch Airlines, to continue its service to Amsterdam Schiphol. Flights will increase to 3x daily later in 2022.
- A seven-year agreement was signed last year with Ryanair with summer flights to Palma de Mallorca and Alicante, and now with the addition of Faro and Corfu. Dialogue continues with the company to add other potential routes for Summer 23.
- Loganair provides regular flights to Aberdeen, Belfast, Dublin and Newquay. Loganair had also introduced flights to Heathrow, which were well received by passengers, but unfortunately these became unsustainable when Heathrow's take-off and landing charges increased, along with increases in aviation fuel costs, and the decision was taken to discontinue this route in 2022.
- TUI offers flights to Majorca for Summer 2022, together with (from 2023) Antalya, Turkey. Again, dialogue continues with this company about other potential holiday destinations.
- TIA has also worked with a range of other companies to offer specific seasonal destinations, including Balkan Holidays (Bourgas), Transun (Lapland), Newmarket Holidays (Italian breaks), and Jersey with a range of operators.
- The airport continues discussions with airlines with a view to delivering more airline partnerships, routes and services, and continuing to grow our passenger numbers.

The airport's customer marketing strategy addresses the requirement to drive awareness, primarily focused on business-to-consumer given the significant capacity of summer destinations.

TIA is also looking to grow its income from its business parks and this is a key part of the airport's income growth projections. The estate is large and, alongside the specific projects mentioned below there are opportunities to remove old, unsuitable accommodation and create development platforms for the aviation sector and also general business/employment investment.

- Northside - a masterplan for the Northside has now been agreed, to attract new business investment and deliver new jobs and growth. Throughout the last year TIA has been working with several existing tenants on the northside estate to support their growth plans. TIA has invested jointly with international company Willis Lease Finance Corporation in the refurbishment of Hangar 2 for use as a Maintenance, Repair and Overhaul facility, which involved Willis and FedEx swapping hangars, with both tenants now in improved and more suitable premises. TIAL has also commenced the construction of a new hangar for Draken (due to be completed Summer 2022), adjacent to its existing facility. This will enable Draken to expand its operational capacity and deliver a new training contract for the MOD.
- Southside - this major logistics, manufacturing and commercial business park will cover 3.4 million square feet across 270 acres of the land at the southside of the airport. Once complete, the development has the potential to create 4,400 jobs and deliver extra revenue to reinvest into the airport. Construction on the main access road into the development and other infrastructure started in Spring 2022, and a planning application was submitted for the phase 1 buildings in June 2022.

TIA has historically handled very little air freight business. Looking forward, the development of a new Freight Strategy, involving new cargo handling facilities and the growth of the cargo business, is a key element of the airport's strategy for growth.

- TIA is investing in a new Regulated Agent facility, with a purpose-built 21,000 sq.ft hangar offering security screening, temporary storage and freight forwarding, with direct landside and airside access; and
- much of the airport's business park estate is located within the Tees Valley Freeport area, offering additional customs zone incentives for businesses to locate or do business here.

TIA continues to develop other revenue sources to reduce reliance on the passenger-related elements of scheduled and charter flying. These include ground-handling and fuelling to commercial, general aviation and military customers.

Community and Environment

The Teesside Airport Foundation is now up and running and the new trustees are working on setting the Foundation's long-term strategy, and designing its case for support and its charitable fundraising activities. It will work to ensure people living in the region reach their potential and go on to find a successful and rewarding career in the Tees Valley.

Work has commenced on a Net Zero strategy for the TIA business, alongside collaborative engagement with the aviation industry on the sector's approach to reducing emissions from aircraft. TIA can introduce practical measures for its own business – such as using green energy and electric/hydrogen fleet vehicles (as demonstrated by the recent hydrogen vehicle trials at the airport) – and, given the Tees Valley's leading role in green technology and process innovation, can bring parties together on matters such as Sustainable Aviation Fuel and green jet engine technology. In respect of the TIA estate, proposals are progressing for a major solar farm which will provide green energy for our business and our business tenants, and also for supply to the national grid.

Regulatory environment

The airport is subject to economic regulation by the Civil Aviation Authority ('CAA'), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.

Principal risks and uncertainties

The principle risks facing TIA continue to be those associated with the underlying recovery of the aviation market. the ongoing pandemic has had a devastating impact on the aviation industry in general and while restrictions have been removed, it was only in Spring 2022 that we started to see passengers really wanting to fly again.

TIA will continue to work closely with its airline customers, retailers and wider stakeholders to build confidence and offer services that meet the changing needs of our customers.

Passenger numbers can be affected by external factors that TIA have limited control over. For example, severe weather or the increased price of variable costs e.g. fuel and air passenger duty, as this can drive up flight prices. The invasion of Ukraine by Russia is affecting worldwide markets and is having a significant effect on the price of energy, including aviation fuel. Passengers are also facing significant cost of living increases, which may increasingly impact their spending choices.

Competition from other airports both within the UK and across the world for passengers remains a risk; many passengers make marginal choices about which route to fly. Our focus remains to offer a safe, efficient and enjoyable passenger experience in order to continue to compete in the market.

While aviation continues to recover, the airport is well positioned to capitalise on new opportunities in the aviation market.

Future developments

Significant progress has already been made in terms of securing signed contracts for flight programmes, as set out above. TIA continues to work to grow its flight offering all year round.

Also as set out above:-

- TIA is developing its freight strategy, including through investment in new cargo handling facilities as part of the new Freeport designated area; and
- development of TIA's wider estate continues. Plans are approved to build industrial and logistical units on the Southside. The Northside area is being developed to allow aviation growth (including through the potential expansion of Willis's operations at the airport, including a new Jet Centre), logistics distribution, solar energy, IT infrastructure and other sustainable businesses.

Approved and authorised by the Board on 1st Dec '22 and signed on its behalf by:

....
Mr Philip Robert Forster
Director

Teesside International Airport Limited

Directors' Report for the Year Ended 31 March 2022

The directors present their report and the financial statements for the year ended 31 March 2022.

Directors of the company
The directors who held office during the year were as follows:

Ms Alison Anne Fellows
Mr Barrie Cooper (appointed 7 June 2021)
Mr James Michael Rowlandson (appointed 22 June 2021)
Cllr Brenda Loynes (resigned 23 March 2022)
Cllr Matthew Storey (resigned 7 June 2021)
Cllr Doris Mary Jones
Cllr Eileen Johnson
Cllr Glyn Nightingale
Cllr Kevin Joseph Shaw (resigned 22 June 2021)
Cllr Carl Marshall (resigned 22 June 2021)
Mr Richard Andrew Bell (appointed 23 September 2021)
Mr Philip Robert Forster
Mr David John Soley (resigned 11 March 2022)
Ms Kathryn Willard (appointed 11 March 2022)
Mr Martin Vincent Perks (resigned 25 May 2021)
Mr Shaun Andrew Woods (resigned 21 September 2021)
Mr Andrew Laundon (appointed 18 May 2021)

The following director was appointed after the year end:

Mr Rob Cook (appointed 22 June 2022)

Financial instruments

Objectives and policies

The company finances its activities with a combination of group borrowings and cash and short term deposits. Overdrafts are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

Price risk, credit risk, liquidity risk and cash flow risk

Price risk
Price risk is the risk that changes in raw material prices have the potential to impact on the profitability of the company. The company does not consider that it is materially exposed to price risk.

Credit risk
Credit risk is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Company policies are aimed at minimising such losses and require customers to satisfy credit worthiness procedures prior to acceptance of contracts. The company does not consider that it is materially exposed to credit risk.

Cash flow and liquidity risk
Cash flow and liquidity risk is the risk that a company's available cash will not be sufficient to meet its financial obligations. The company actively manages its cash flow position including collection of debts and timely payment of creditors. This, coupled with funding provided by group is deemed sufficient to minimise the Company's exposure to cash flow and liquidity risk.

Foreign Exchange risk
Foreign exchange risk refers to the potential for loss from exposure to foreign exchange rate fluctuations. Company policies are aimed at minimising this risk. The company does not consider that it is materially exposed to foreign exchange risk.

Teesside International Airport Limited

Directors' Report for the Year Ended 31 March 2022 (continued)

Future developments
See disclosures in the Strategic Report relating to future developments.

Going concern
The financial statements have been prepared on a going concern basis.

As at 31 March 2022 the company has net current liabilities of £52,259,542 (2021 - £27,487,008) and net liabilities of £10,039,281 (net assets 2021 - £1,843,408). The company meets its day to day working capital requirements through cash generated from operations and utilisation of a loan facility ultimately provided by the Tees Valley Combined Authority. The loan facility is approved for an amount of up to £34.4m which can be drawn down as required over the period to 31 March 2029. On the 22nd July 2022 the Tees Valley combined Authority cabinet approved a further £20m to this loan facility, taking the total approved amount to £54m. A facility for an amount of £23.6m which is to be used to fund the Southside development is in place. The total amount drawn down at the year end under both facilities was £44m and further draw downs are forecast to be made over the next 2-3 years in line with the company's development and expansion plans. The facility is repayable on demand and the directors have received a letter from Tees Valley Combined Authority confirming their continued support for a period of not less than 12 months from the date of signing these financial statements.

The directors have prepared both short term and long term forecasts which indicate that, taking into account reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent, Tees Valley Combined Authority, to meet its liabilities as they fall due for that period. These forecasts include short term reductions in respect of reduced activity as a result of COVID-19 and the directors are confident that the medium to long term forecasts will be met based on the success of securing new long term arrangements with airlines as discussed in the Strategic Report.

Disclosure of information to the auditor
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditor
Azets Audit Services Limited, trading as Azets Audit Services, were appointed auditor to the company following their acquisition of the trade of Tait Walker LLP, trading as MHA Tait Walker, on 1 May 2022.

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Azets Audit Services as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved and authorised by the Board on 1st Dec '22 and signed on its behalf by:

....
Mr Philip Robert Forster
Director

Teesside International Airport Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Teesside International Airport Limited

Independent Auditor's Report to the Members of Teesside International Airport Limited

Opinion
We have audited the financial statements of Teesside International Airport Limited (the 'company') for the year ended 31 March 2022, which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, and Notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities [set out on page 8], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Independent Auditor's Report to the Members of Teesside International Airport Limited (continued)

Because of the field in which the client operates, we identified the following areas as those most likely to have a material impact on the financial statements: Health and Safety; employment law (including the Working Time Directive); anti-bribery and corruption; and compliance with the UK Companies Act.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). For instance, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

....
Christopher Potter BA(HONS) ACA (Senior Statutory Auditor)
For and on behalf of
Azets Audit Services
Statutory Auditor
Chartered Accountants

1 Massey Road
Thornaby
Stockton-on-Tees
TS17 6DY

Date:02/12/2022

Azets Audit Services is a trading name of Azets Audit Services Limited

Teesside International Airport Limited

Income Statement for the Year Ended 31 March 2022

	Note	2022 £	2021 £
Turnover	3	7,686,643	4,812,505
Cost of sales		(13,867,309)	(10,814,775)
Gross loss		(6,180,666)	(6,002,270)
Administrative expenses (including exceptional charges of £2,393,000 (2021 - £2,739,104) - see Note 6)		(8,341,713)	(8,336,450)
Other operating income	4	551,798	923,778
Operating loss	5	(13,970,581)	(13,414,942)
Gain on financial assets at fair value through profit and loss account	14	3,786,853	473,083
Other interest receivable and similar income	7	962	80
Interest payable and similar expenses	8	(1,699,923)	(690,249)
Loss before tax		(11,882,689)	(13,632,028)
Taxation	12	-	727,580
Loss for the financial year		(11,882,689)	(12,904,448)

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

The notes on pages 15 to 30 form an integral part of these financial statements.

Teesside International Airport Limited

(Registration number: 02020423)
Statement of Financial Position as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Tangible assets	13	10,596,363	5,782,035
Investment property	14	30,254,000	20,872,151
Investments	15	2	2
Other financial assets	16	6,000,950	6,000,000
		46,851,315	32,654,188
Current assets			
Stocks	17	875,718	122,979
Debtors	18	5,486,420	2,785,562
Cash at bank and in hand		1,615,212	909,522
		7,977,350	3,818,063
Creditors: Amounts falling due within one year	19	(60,236,892)	(31,305,071)
Net current liabilities		(52,259,542)	(27,487,008)
Total assets less current liabilities		(5,408,227)	5,167,180
Creditors: Amounts falling due after more than one year	19	(1,631,054)	(1,721,915)
Provisions for liabilities	20	(3,000,000)	(1,601,857)
Net (liabilities)/assets		(10,039,281)	1,843,408
Capital and reserves			
Called up share capital	22	19,417,166	19,417,166
Share premium reserve	23	31,627,276	31,627,276
Profit and loss account	23	(79,191,995)	(67,309,306)
Capital contribution reserve	23	18,108,272	18,108,272
Total equity		(10,039,281)	1,843,408

Approved and authorised by the Board on 1st Dec '22 and signed on its behalf by:

....
Mr Philip Robert Forster
Director

The notes on pages 15 to 30 form an integral part of these financial statements.

Teesside International Airport Limited

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital £	Share premium £	Capital contribution reserve £	Profit and loss account £	Total £
At 1 April 2020	19,417,166	31,627,276	18,108,272	(54,404,858)	14,747,856
Loss for the year	-	-	-	(12,904,448)	(12,904,448)
Total comprehensive income	-	-	-	(12,904,448)	(12,904,448)
At 31 March 2021	19,417,166	31,627,276	18,108,272	(67,309,306)	1,843,408

	Share capital £	Share premium £	Capital contribution reserve £	Profit and loss account £	Total £
At 1 April 2021	19,417,166	31,627,276	18,108,272	(67,309,306)	1,843,408
Loss for the year	-	-	-	(11,882,689)	(11,882,689)
Total comprehensive income	-	-	-	(11,882,689)	(11,882,689)
At 31 March 2022	19,417,166	31,627,276	18,108,272	(79,191,995)	(10,039,281)

The notes on pages 15 to 30 form an integral part of these financial statements.

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is Teesside International Airport Limited, Darlington, Durham , DL2 1LU.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and the Companies Act 2006'.

Basis of preparation
These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

These financial statements are prepared in sterling which is the functional currency of the entity.

Summary of disclosure exemptions
The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

(a) Disclosures in respect of each class of share capital have not been presented.
(b) No cash flow statement has been presented for the company.
(c) Disclosures in respect of financial instruments have not been presented
(d) No disclosure has been given for the aggregate remuneration of key management personnel.

2 Accounting policies (continued)

Going concern
The financial statements have been prepared on a going concern basis.

As at 31 March 2022 the company has net current liabilities of £52,259,542 (2021 - £27,487,008) and net liabilities of £10,039,281 (net assets 2021 - £1,843,408). The company meets its day to day working capital requirements through cash generated from operations and utilisation of a loan facility ultimately provided by the Tees Valley Combined Authority. The loan facility is approved for an amount of up to £34.4m which can be drawn down as required over the period to 31 March 2029. On the 22nd July 2022 the Tees Valley combined Authority cabinet approved a further £20m to this loan facility, taking the total approved amount to £54m. A facility for an amount of £23.6m which is to be used to fund the Southside development is in place. The total amount drawn down at the year end under both facilities was £44m and further draw downs are forecast to be made over the next 2-3 years in line with the company's development and expansion plans. The facility is repayable on demand and the directors have received a letter from Tees Valley Combined Authority confirming their continued support for a period of not less than 12 months from the date of signing these financial statements.

The directors have prepared both short term and long term forecasts which indicate that, taking into account reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent, Tees Valley Combined Authority, to meet its liabilities as they fall due for that period. These forecasts include short term reductions in respect of reduced activity as a result of COVID-19 and the directors are confident that the medium to long term forecasts will be met based on the success of securing new long term arrangements with airlines as discussed in the Strategic Report.

Although the forecasts prepared taking into account of the matters above support the ability of the company to remain a going concern and to be able to trade and meet its debts as they fall due, the full ongoing impact of COVID-19, the continued level of government support and the underlying trading assumptions used in forecasting are extremely judgemental and difficult to predict and could be subject to significant variation.

However, based on the factors set out above, the directors believe that there is no material uncertainty in relation to going concern and that the company has adequate financial resources to continue in operational existence for at least twelve months from the date of signing of the financial statements and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

2 Accounting policies (continued)

Judgements
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and assumptions are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies which effect the amounts recognised in the financial statements are:.

Assessing indicators of impairment - In assessing whether there have been indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. In prior years the tangible fixed assets held by the company were significantly impaired on the basis that the underlying operations of the company were loss making. The directors have considered the carrying value of the company's fixed assets and whether any impairment reversals were appropriate in the current year. After considering the current operational performance of the company and the sale proceeds, net of selling costs, of the tangible fixed assets the directors concluded that no reversals were appropriate at this stage.

Taxation - Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Key sources of estimation uncertainty
Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Valuation of investment properties – investment properties are carried at fair value based on valuations performed by independent qualified professional valuers and application of their methodologies which have been adopted by the directors. The values are based on a combination of the rental yields on the properties and the estimated resale value of land for commercial development purposes. The assumptions applied are inherently subjective and so are subject to a degree of uncertainty. The carrying amount is £30,254,000 (2021 - £20,872,151).

Carrying value of provisions – the company holds a number of provisions, including those relating to onerous contracts, relating to the best estimates of future costs associated with liabilities which existed at the year end. The values are based on the directors best estimates of the likely future cost, utilising third party reports where relevant. The carrying amount is £3,000,000 (2021 - £1,601,857).

Revenue recognition
Turnover comprising airport charges, rental and other income represents amounts receivable by the company in respect of facilities and services provided during the year and is recognised as the services are provided. Turnover is shown net of value added tax.

2 Accounting policies (continued)

Government grants
Government grants are recognised based on the accruals model and are measured at the fair value of the asset received or receivable. Grants are classified as related either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of the grant relating to an asset is deferred, it is recognised as deferred income.

Other operating income includes UK Government assistance of £118,556 provided through the Coronavirus Job Retention Scheme during the Covid-19 pandemic. Other operating income also includes £433,242 regarding an Airport and Ground Operations Support Scheme grant provided by the Department for Transport for the purpose of business rates during the current financial period.

Other grants
Grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met.

Tax
The tax for the period comprises deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements. Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets
Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation
Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	**Depreciation method and rate**
Runways, lighting & car parks	5 to 100 years
Plant & machinery	5 to 20 years
Fixtures & fittings	3 to 30 years
Motor vehicles	4 to 20 years
Office equipment	2 to 20 years

The runway, terminal buildings and other fixed assets relating to airport operations were fully impaired in previous years.

2 Accounting policies (continued)

Investment property
Investment property is measured at fair value. The fair value is based on valuations performed by independent qualified professional valuers and application of their methodologies which have been adopted by the directors. Changes in fair values are recognised in profit or loss.

Investments
Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment. Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Trade debtors
Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Stocks
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions
Provisions are recognised when the company has an obligation at the reporting date as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Teesside International Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Defined benefit pension obligation

The company made enhanced defined benefit obligations to 4 retiring employees whilst the company was a contributing employer to the local authority pension scheme. This obligation is a unfunded liability and the annual contributions payable by the company are calculated by the scheme actuary. The company contributions should be sufficient to cover the future obligation. Any movements in excess of the contributions will be accounted in line with FRS 102.

3 Turnover

The analysis of the company's revenue for the year from continuing operations is as follows:

	2022 £	2021 £
Airport operations and provision of associated facilities and services	7,686,643	4,812,505

The analysis of the company's turnover for the year by market is as follows:

	2022 £	2021 £
UK	7,686,643	4,812,505

4 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2022 £	2021 £
Government grants	551,798	886,278
Miscellaneous other operating income	-	37,500
	551,798	923,778

The company has received government assistance via the Coronavirus Job Retention Scheme of £118,556 (2021 - £407,439). This was claimed against the staff costs of the company as reported gross in Note 9 below.

The company also received government assistance via the Airports and Ground Operations Support Scheme of £433,242 (2021 - £478,839).

5 Operating loss

Arrived at after charging/(crediting)

	2022 £	2021 £
Depreciation expense	602,114	102,457
(Profit)/loss on disposal of property, plant and equipment	(4,366)	22,000

6 Exceptional administrative expenses

Exceptional administrative expenses of £2,393,000 (2021 - £2,739,104) represent contract termination costs incurred by Teesside International Airport Limited in exiting contracts in the year, and an increase in contractual obligations in relation to maintaining a rail halt. This has resulted in the recognition and increase of onerous provisions.

7 Other interest receivable and similar income

	2022 £	2021 £
Other finance income	962	80

8 Interest payable and similar expenses

	2022 £	2021 £
Interest payable on amounts owed to group undertakings	1,699,923	690,249
	1,699,923	690,249

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2022 £	2021 £
Wages and salaries	3,659,345	2,874,293
Social security costs	335,658	266,930
Pension costs, defined contribution scheme	179,478	152,549
	4,174,481	3,293,772

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2022 No.	2021 No.
Administration	40	27
Airport operations	75	62
	115	89

Teesside International Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022 £	2021 £
Remuneration	202,435	197,474
Contributions paid to money purchase schemes	10,150	12,179
	212,585	209,653

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2022 No.	2021 No.
Accruing benefits under money purchase pension scheme	4	3

11 Auditor's remuneration

	2022 £	2021 £
Audit of the financial statements	25,000	25,000
Other fees to auditors		
Taxation compliance services	2,250	2,250
All other assurance services	3,000	-
	5,250	2,250

12 Taxation

Tax charged/(credited) in the income statement

	2022 £	2021 £
Deferred taxation		
Arising from origination and reversal of timing differences	-	(742,343)
Deferred tax adjustment to prior periods	-	14,763
Total deferred taxation	-	(727,580)

12 Taxation (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £	2021 £
Loss before tax	(11,882,689)	(13,632,028)
Corporation tax at standard rate	(2,241,371)	(2,590,085)
Effect of revenues exempt from taxation	(327,149)	(7,381)
Effect of expense not deductible in determining taxable profit (tax loss)	(717)	366
UK deferred tax expense relating to changes in tax rates or laws	-	87,335
Increase from tax losses for which no deferred tax asset was recognised	2,569,237	1,767,422
Increase in UK and foreign current tax from adjustment for prior periods	-	14,763
Total tax credit	-	(727,580)

Deferred tax

Deferred tax assets and liabilities

2022	**Liability** **£**
Revaluation of investment properties	3,771,980
Tax losses	(3,771,980)
	-

2021	**Liability** **£**
Revaluation of investment properties	2,366,149
Tax losses	(2,366,149)
	-

There are £35,291,233 of unused tax losses (2021 - £18,412,634) and £Nil of unused tax credits (2021 - £1,219,111) for which no deferred tax asset is recognised in the Statement of Financial Position due to uncertainty over future recoverability. Applying the rate of tax of 25% which will be in force from 1 April 2023, these losses would, if recognised, represent an asset of £8,822,808.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the main corporation tax rate would increase from 19% to 25%. This new law was deemed substantially enacted on 24 May 2021. The deferred tax balances at 31 March 2022 have been calculated based on this rate.

13 Tangible assets

	Land and buildings freehold £	Runways, lighting & car parks £	Plant & Machinery £	Motor vehicles £	Fixtures & Fittings £	Office equipment £	Assets under construction £	Total £
Cost or valuation								
At 1 April 2021	19,838,926	22,760,327	4,489,959	5,815,486	973,607	825,652	4,620,815	59,324,772
Additions	-	20,464	448,471	75,273	1,739,064	130,684	2,995,429	5,409,385
Disposals	-	-	(2,895,970)	(788,126)	(717,139)	(166,336)	-	(4,567,571)
Transfers	-	10,000	3,756,811	-	635,863	-	(4,402,674)	-
At 31 March 2022	19,838,926	22,790,791	5,799,271	5,102,633	2,631,395	790,000	3,213,570	60,166,586
Depreciation								
At 1 April 2021	19,838,926	22,331,287	4,298,317	5,713,786	726,376	314,688	319,357	53,542,737
Charge for the year	-	114,566	288,403	10,992	131,501	56,652	-	602,114
Eliminated on disposal	-	-	(2,903,027)	(788,126)	(717,139)	(166,336)	-	(4,574,628)
Transfers	-	-	319,357	-	-	-	(319,357)	-
At 31 March 2022	19,838,926	22,445,853	2,003,050	4,936,652	140,738	205,004	-	49,570,223
Carrying amount								
At 31 March 2022	-	344,938	3,796,221	165,981	2,490,657	584,996	3,213,570	10,596,363
At 31 March 2021	-	429,040	191,642	101,700	247,231	510,964	4,301,458	5,782,035

13 Tangible assets (continued)

Impairment
The runway and terminal assets were fully impaired in previous years due to the company incurring large losses. Given the ongoing uncertain recovery from the Covid-19 pandemic and the Russia - Ukraine crisis there remains significant uncertainty over the impact on travel and airports, therefore the directors believe that it would not be prudent to consider any reversal of impairments at this stage. Amounts capitalised in the current year relate to new assets and developments which the directors consider will create economic benefit going forward.

Contractual commitments for the acquisition of tangible assets
Contractual commitments for the acquisition of tangible assets were as follows:

	2022 £	2021 £
Assets under construction	1,087,000	50,000

14 Investment properties

	2022 £
At 1 April	20,872,151
Additions	5,594,996
Fair value adjustments	3,786,853
At 31 March	30,254,000

Investment properties have been valued at fair value based on valuations performed by independent qualified professional valuers and adoption of their methodologies by the directors. Changes in fair values are recognised in profit or loss.

15 Investments

	2022 £	2021 £
Investments in joint ventures	2	2

Joint ventures	**£**
Cost	
At 1 April 2021	2
At 31 March 2022	2
Provision	
At 1 April 2021	-
At 31 March 2022	-
Carrying amount	
At 31 March 2022	2
At 31 March 2021	2

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held 2022	2021
Joint ventures				
Teesside International Airport Business Park Limited	Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY United Kingdom	Ordinary	50%	50%

Joint ventures

Teesside International Airport Business Park Limited

The principal activity of Teesside International Airport Business Park Limited is property management and development.

16 Other financial assets

In a prior year cash was paid into a designated bank account in order that the company could comply with its obligations under an agreement to develop land on the Southside of the airport. In the event certain conditions are not met this sum is payable to other parties to the agreement.

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

17 Stocks

	2022 £	2021 £
Raw materials and consumables	322,988	122,979
Work in progress	552,730	-
	875,718	122,979

18 Debtors

Current	Note	2022 £	2021 £
Trade debtors		2,456,574	1,222,224
Amounts owed by related parties	25	1,087,590	-
Other debtors		612,229	319,764
Prepayments		1,330,027	1,243,574
		5,486,420	2,785,562

19 Creditors

	2022 £	2021 £
Due within one year		
Trade creditors	4,059,903	1,499,366
Amounts owed to group undertakings	53,821,789	26,817,106
Social security and other taxes	79,991	72,853
Other creditors	219,087	944,214
Accrued expenses	2,056,122	1,971,532
	60,236,892	31,305,071
Due after one year		
Deferred income	1,631,054	1,721,915

Amounts due to group undertakings consists of a working capital facility granted by the immediate parent, Goosepool 2019 Limited. Interest on this facility is charged at 5.09%. All amounts outstanding are repayable on demand. The facility is secured by a fixed and floating charge over the company's land and buildings.

20 Provisions for liabilities

	Onerous contracts £	Other provisions £	Total £
At 1 April 2021	994,857	607,000	1,601,857
Additional provisions	2,000,000	-	2,000,000
Movement in existing provisions	(994,857)	393,000	(601,857)
At 31 March 2022	2,000,000	1,000,000	3,000,000

Onerous Provision
Onerous contact provisions relate to the expected future costs arising from contracts which have been exited. These provisions will unwind over the next two years.

Other provisions relate to contractual obligations between the company and Network Rail to maintain a rail halt. The estimated costs of repair are £1,000,000.

21 Pension and other schemes

Defined contribution pension scheme
The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £179,478 (2021 - £152,549).

Contributions totalling £32,944 (2021 - £Nil) were payable to the scheme at the end of the year and are included in creditors.

21 Pension and other schemes (continued)

Defined benefit pension schemes

Defined benefit

On 30 November 2017 the Company's participation in the Local Government Pension Scheme (LGPS) ceased and all past service liabilities of the Company's employees transferred back to the Local Authorities who were both original majority shareholders of the Company and also participants of the particular pension fund (the Teesside Pension Fund') within the LGPS.

The company made enhanced defined benefit obligations to 4 retiring employees whilst the company was a contributing employer to the local authority pension scheme. This obligation is a unfunded liability and the annual contributions payable by the company are calculated by the scheme actuary. The company contributions should be sufficient to cover the future obligation.

As at 31 March 2022 the actuarial valuation calculated the unfunded liability as £85,000 (2021 - £79,000). This has been included in other creditors at the year end.

The date of the most recent comprehensive actuarial valuation was 31 March 2019. The latest actuarial valuation of the scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2022 was prepared by Hymans Robertson LLP for Middlesbrough Borough Council in accordance with IAS 19 and FRS 102.

22 Share capital

Allotted, called up and fully paid shares

	2022 No.	2022 £	2021 No.	2021 £
'A' ordinary shares of £0.01 each	54,091,420	540,914	54,091,420	540,914
'B' ordinary shares of £0.01 each	6,625,000	66,250	6,625,000	66,250
Deferred shares of of £0.01 each	1,881,000,200	18,810,002	1,881,000,200	18,810,002
	1,941,716,620	19,417,166	1,941,716,620	19,417,166

23 Reserves

Share capital

This reserve records the nominal value of share capital issued.

Share premium

This reserve records amount paid above nominal value on the issue of share capital.

Capital contribution reserve

As part of a change in ownership an amount of £18,108,272 was settled as part of the sale and purchase agreement. This amount was due to the previous shareholder and has been reflected as a capital contribution following settlement.

Profit and loss account

This reserve records retained earnings and accumulated losses.

24 Financial guarantee contracts

The ultimate parent undertaking, Tees Valley Combined Authority, holds a fixed and floating charge over the over the company's land and buildings in relation to borrowings of the immediate parent, Goosepool 2019 Limited.

25 Related party transactions

The company has taken advantage of the exemptions contained in s33.11 of FRS 102 and has not disclosed details of transactions and balances with other entities under the control of Tees Valley Combined Authority.

During the year the company was charged consultancy fees of £40,224 (2021: £23,232) by Willard KGM Ltd, at the year end creditors include £3,600 owed to Willard KGM Ltd. Willard KGM Ltd is controlled by Ms K C L Willard who is a director of Goosepool 2019 Limited, this company’s immediate parent.

During the year the company purchased goods to the value of £29,696 (2021: £2,102) from Camerons Brewery Limited, at the year end creditors included £3,297 owed to Camerons Brewery Limited. Camerons Brewery Limited is controlled by Mr D J Soley, a director of this company.

During the year the company purchased services to the value of £31,628 (2021: £76,640) from Woods Bros Cleaning Contractors Ltd. Woods Bros Cleaning Contractors Ltd is controlled by Mr J T Woods, a close family member of Mr S Woods, director of this company.

During the year the company incurred costs of £Nil (2021 - £1,500,000) related to London Southend Airport Limited. At the year end the company owed £Nil (2021 - £1,500,000) to London Southend Airport Limited. London Southend Airport Limited is a subsidiary of Stobart Aviation Limited. Stobart Aviation Limited is a shareholder in Goosepool 2019 Limited, this company's immediate parent.

During the year the company purchased services to the value of £6,683 (2021 - £Nil) from Ward Hadaway LLP. At the year end, creditors include £2,172 (2021 - £Nil) owed to Ward Hadaway LLP. A close family member of Ms A Fellows, a director of this company, is a partner at the firm.

During the year the company purchased services to the value of £152,982 (2021: £Nil) from Mark Reynolds Consulting Limited, at the year end creditors included £13,176 owed to Mark Reynolds Consulting Limited. Mark Reynolds was appointed as a director of TIA post year-end.

26 Parent and ultimate parent undertaking

The company's immediate parent is Goosepool 2019 Limited, incorporated in England and Wales.

The most senior parent entity producing publicly available financial statements is Tees Valley Combined Authority. These financial statements are available upon request from Teesside Airport Business Suite, Teesside International Airport Limited, Darlington, Durham, DL2 1NJ.

Registration number: 11800179

GOOSEPOOL 2019 LIMITED

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2022

Goosepool 2019 Limited

Contents

Goosepool 2019 Limited

Company Information

Directors	Ms Kathryn Charlotte Louise Willard Mrs Julie Gilhespie Mrs Emma Dixon Mr Tom Bryant
Company secretary	Endeavour Secretary Limited
Registered office	Teesside Airport Business Suite Teesside International Airport Darlington DL2 1NJ
Auditor	Azets Audit Services Chartered Accountants & Statutory Auditor 1 Massey Road Thornaby Stockton-on-Tees TS17 6DY

Goosepool 2019 Limited

Strategic Report for the Year Ended 31 March 2022

The directors present their strategic report for the year ended 31 March 2022.

Principal activity

The principal activity of the Company during the year was the continued majority ownership of Teesside International Airport (TIA) after the acquisition of the airport in February 2019.

Fair review of the business

The company has continued to provide both financial and strategic support to TIA with its airport turnaround plan.

Over the 2021/22 period the airport continued to feel the aftereffects of the Covid 2019 pandemic, which persisted for longer than the industry originally expected. It was only in Spring 2022 that the airport started to see passengers really wanting to travel again, as reflected in the passenger statistics in the table below.

The subsidiary company's key financial and other performance related indicators during the full 12-month period were as follows:

	2022	2021	%
Passenger numbers	48,281	14,521	232%
Revenue	£7.7m	£4.8m	60%
Loss before tax	(£11.9m)	(£13.6m)	(29%)

While the results are a loss, they are in line with other airports and operators within the aviation sector, as the industry continued to be impacted by the global pandemic. TIA had scaled up to accommodate the new flight schedule that had been agreed with airlines. However, because of the extended period of the pandemic and continued complications with foreign travel, elements of the new flight schedule were suspended. The loss for the year is ultimately attributable to the under-achievement of revenue and increased scale-up fixed costs. TIA still incurred significant fixed unavoidable overheads due to the nature of the industry, and specifically the need to remain open throughout the pandemic period.

During the year the airport was able to access UK Government assistance of £433,242 provided through the Airport and Ground Operations Support Scheme. This grant was provided by the Department for Transport for the purpose of business rates during the current financial period.

A valuation of TIA's investment properties was carried out at the 31 March 2022 by an independent valuer. This resulted in a fair value uplift of £3,786,853. A full review of contracts was carried out by TIA and as a result contracts were terminated to ensure future cost savings. This resulted in an onerous contract provision of £2m being recognised.

Business development

During this challenging time, we have supported TIA in maintained a strong focus on operational performance, improving the passenger experience and diversifying TIA revenue streams. Following the pandemic our intention remains support TIA in its focus to increase passenger numbers. Because the travel industry continued to be severely impacted in summer 2021 (due to only some countries being open and the constraints of different countries' travel requirements), the Summer 2022 season is TIA's first real opportunity to demonstrate to airlines that there is passenger demand to travel from the airport.

In terms of route development: -

- Last year a new five-year deal was signed with KLM Royal Dutch Airlines, to continue its service to Amsterdam Schiphol. Flights will increase to 3x daily later in 2022.
- A seven-year agreement was signed last year with Ryanair with summer flights to Palma de Mallorca and Alicante, and now with the addition of Faro and Corfu. Dialogue continues with the company to add other potential routes for Summer 23.
- Loganair provides regular flights to Aberdeen, Belfast, Dublin and Newquay. Loganair had also introduced flights to Heathrow, which were well received by passengers, but unfortunately these became unsustainable when Heathrow's take-off and landing charges increased, along with increases in aviation fuel costs, and the decision was taken to discontinue this route in 2022.
- TUI offers flights to Majorca for Summer 2022, together with (from 2023) Antalya, Turkey. Again, dialogue continues with this company about other potential holiday destinations.
- TIA has also worked with a range of other companies to offer specific seasonal destinations, including Balkan Holidays (Bourgas), Transun (Lapland), Newmarket Holidays (Italian breaks), and Jersey with a range of operators.
- The airport continues discussions with airlines with a view to delivering more airline partnerships, routes and services, and continuing to grow our passenger numbers.

The airport's customer marketing strategy addresses the requirement to drive awareness, primarily focused on business-to-consumer given the significant capacity of summer destinations.

TIA is also looking to grow its income from its business parks and this is a key part of the airport's income growth projections. The estate is large and, alongside the specific projects mentioned below there are opportunities to remove old, unsuitable accommodation and create development platforms for the aviation sector and also general business/employment investment.

- Northside - a masterplan for the Northside has now been agreed, to attract new business investment and deliver new jobs and growth. Throughout the last year TIA has been working with several existing tenants on the northside estate to support their growth plans. TIA has invested jointly with international company Willis Lease Finance Corporation in the refurbishment of Hangar 2 for use as a Maintenance, Repair and Overhaul facility, which involved Willis and FedEx swapping hangars, with both tenants now in improved and more suitable premises. TIAL has also commenced the construction of a new hangar for Draken (due to be completed Summer 2022), adjacent to its existing facility. This will enable Draken to expand its operational capacity and deliver a new training contract for the MOD.
- Southside - this major logistics, manufacturing and commercial business park will cover 3.4 million square feet across 270 acres of the land at the southside of the airport. Once complete, the development has the potential to create 4,400 jobs and deliver extra revenue to reinvest into the airport. Construction on the main access road into the development and other infrastructure started in Spring 2022, and a planning application was submitted for the phase 1 buildings in June 2022.

TIA has historically handled very little air freight business. Looking forward, the development of a new Freight Strategy, involving new cargo handling facilities and the growth of the cargo business, is a key element of the airport's strategy for growth.

- TIA is investing in a new Regulated Agent facility, with a purpose-built 21,000 sq.ft hangar offering security screening, temporary storage and freight forwarding, with direct landside and airside access; and
- much of the airport's business park estate is located within the Tees Valley Freeport area, offering additional customs zone incentives for businesses to locate or do business here.

Goosepool continues to provide support to TIA to develop other revenue sources to reduce reliance on the passenger-related elements of scheduled and charter flying. These include ground-handling and fuelling to commercial, general aviation and military customers.

Community and Environment

The Teesside Airport Foundation is now up and running and the new trustees are working on setting the Foundation's long-term strategy, and designing its case for support and its charitable fundraising activities. It will work to ensure people living in the region reach their potential and go on to find a successful and rewarding career in the Tees Valley.

Work has commenced on a Net Zero strategy for the TIA business, alongside collaborative engagement with the aviation industry on the sector's approach to reducing emissions from aircraft. TIA can introduce practical measures for its own business – such as using green energy and electric/hydrogen fleet vehicles (as demonstrated by the recent hydrogen vehicle trials at the airport) – and, given the Tees Valley's leading role in green technology and process innovation, can bring parties together on matters such as Sustainable Aviation Fuel and green jet engine technology. In respect of the TIA estate, proposals are progressing for a major solar farm which will provide green energy for our business and our business tenants, and also for supply to the national grid.

Regulatory environment

Goosepool's subsidiary company TIA is subject to economic regulation by the Civil Aviation Authority ('CAA'), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.

Goosepool 2019 Limited

Strategic Report for the Year Ended 31 March 2022 (continued)

Principal risks and uncertainties

The principal risks facing Goosepool, continue to be those associated with the underlying recovery of the aviation market. The on-going pandemic has had a devastating impact on the aviation industry in general and while restrictions have been removed, it was only in Spring 2022 that TIA started to see passengers really wanting to fly again.

TIA will continue to work closely with its airline customers, retailers and wider stakeholders to build confidence and offer services that meet the changing needs of their customers.

Passenger numbers can be affected by external factors that TIA have limited control over. For example, severe weather or the increased price of variable costs e.g. fuel and air passenger duty, as this can drive up flight prices. The invasion of Ukraine by Russia is affecting worldwide markets and is having a significant effect on the price of energy, including aviation fuel. Passengers are also facing significant cost of living increases, which may increasingly impact their spending choices.

Competition from other airports both within the UK and across the world for passengers remains a risk; many passengers make marginal choices about which route to fly. Our focus remains to offer a safe, efficient and enjoyable passenger experience in order to continue to compete in the market.

While aviation continues to recover, the airport is well positioned to capitalise on new opportunities in the aviation market.

Future developments

Significant progress has already been made in terms of securing signed contracts for flight programmes, as set out above. TIA continues to work to grow its flight offering all year round.

Also as set out above Goosepool continues to help:-

- TIA is developing its freight strategy, including through investment in new cargo handling facilities as part of the new Freeport designated area; and
- development of TIA's wider estate continues. Plans are approved to build industrial and logistical units on the Southside. The Northside area is being developed to allow aviation growth (including through the potential expansion of Willis's operations at the airport, including a new Jet Centre), logistics distribution, solar energy, IT infrastructure and other sustainable businesses.

Approved and authorised by the Board on ...05/12/2022.. and signed on its behalf by:

....
Mrs Julie Gilhespie
Director

Goosepool 2019 Limited

Directors' Report for the Year Ended 31 March 2022

The directors present their report and the consolidated financial statements for the year ended 31 March 2022.

Directors of the group
The directors who held office during the year were as follows:

Ms Kathryn Charlotte Louise Willard
Mrs Julie Gilhespie
Mr David John Soley (resigned 28 April 2022)
Ms Alison Anne Fellows (resigned 31 March 2022)

The following directors were appointed after the year end:

Mrs Emma Dixon (appointed 14 July 2022)
Mr Tom Bryant (appointed 28 April 2022)

Financial instruments

Objectives and policies

The group finances its activities with a combination of group borrowings and cash and short term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the group's operating activities.

Price risk, credit risk, liquidity risk and cash flow risk

Price risk
Price risk is the risk that changes in raw material prices have the potential to impact on the profitability of the group. The group does not consider that it is materially exposed to price risk.

Credit risk
Credit risk is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Group policies are aimed at minimising such losses and require customers to satisfy credit worthiness procedures prior to acceptance of contracts. The company does not consider that it is materially exposed to credit risk.

Cash flow and liquidity risk
Cash flow and liquidity risk is the risk that a group's available cash will not be sufficient to meet its financial obligations. The group actively manages its cash flow position including collection of debts and timely payment of creditors. This, coupled with funding provided by the ultimate parent, Tees Valley Combined Authority, is deemed sufficient to minimise the group's exposure to cash flow and liquidity risk.

Foreign Exchange risk
Foreign exchange risk refers to the potential for loss from exposure to foreign exchange rate fluctuations. Group policies are aimed at minimising this risk. The group does not consider that it is materially exposed to foreign exchange risk.

Future developments
See disclosures in the Strategic Report relating to future developments.

Going concern
The financial statements have been prepared on a going concern basis.

As at 31 March 2022 the company and group has net current liabilities of £47,159,834 and £99,419,376 respectively (2021 - £44,777,496 and £72,263,684) and net liabilities of £13,543,729 and £43,502,987 (2021 - £11,161,391 and £27,488,698). The group meets its day to day working capital requirements through cash generated from operations and utilisation of a loan facility ultimately provided by the Tees Valley Combined Authority. The loan facility is approved for an amount of up to £34.4m which can be drawn down as required over the period to 31 March 2029. On the 22nd July 2022 the Tees Valley combined Authority cabinet approved a further £20m to this loan facility, taking the total approved amount to £54m. A facility for an amount of £23.6m which is to be used to fund the Southside development is in place. The total amount drawn down at the year end under both facilities was £44m and further draw downs are forecast to be made over the next 2-3 years in line with the company’s development and expansion plans. The facility is repayable on demand and the directors have received a letter from Tees Valley Combined Authority confirming their continued support for a period of not less than 12 months from the date of signing these financial statements.

The directors have prepared both short term and long term forecasts which indicate that, taking into account reasonably possible downsides, the group and company will have sufficient funds, through funding from its ultimate parent, Tees Valley Combined Authority, to meet its liabilities as they fall due for that period. These forecasts include short term reductions in respect of reduced activity as a result of COVID-19 and the directors are confident that the medium to long term forecasts will be met based on the success of securing new long term arrangements with airlines as discussed in the Strategic Report.

However, based on the factors set out above, the directors believe that there is no material uncertainty in relation to going concern and that the company has adequate financial resources to continue in operational existence for at least twelve months from the date of signing of the financial statements and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

Disclosure of information to the auditor
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor
Azets Audit Services Limited, trading as Azets Audit Services, were appointed auditor to the company following their acquisition of the trade of Tait Walker LLP, trading as MHA Tait Walker, on 1 May 2022.

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Azets Audit Services as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved and authorised by the Board on 05/12/2022 and signed on its behalf by:

....
Mrs Julie Gilhespie
Director

Goosepool 2019 Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Goosepool 2019 Limited

Independent Auditor's Report to the Members of Goosepool 2019 Limited

Opinion
We have audited the financial statements of Goosepool 2019 Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Consolidated Income Statement, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, and Notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Goosepool 2019 Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities (set out on page 8), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Goosepool 2019 Limited (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Because of the field in which the client operates, we identified the following areas as those most likely to have a material impact on the financial statements: Health and Safety; employment law (including the Working Time Directive); anti-bribery and corruption; and compliance with the UK Companies Act.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). For instance, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

....

Christopher Potter BA(Hons) ACA (Senior Statutory Auditor)
For and on behalf of Azets Audit Services
Statutory Auditor
Chartered Accountants

1 Massey Road
Thornaby
Stockton-on-Tees
TS17 6DY

Date: 06/12/22

Azets Audit Services is a trading name of Azets Audit Services Limited

Goosepool 2019 Limited

Consolidated Income Statement for the Year Ended 31 March 2022

	Note	2022 £	2021 £
Turnover	3	7,686,643	4,812,505
Cost of sales		(13,867,309)	(10,814,775)
Gross loss		(6,180,666)	(6,002,270)
Administrative expenses (including exceptional charges of £2,393,000 (2021 - £2,739,104) - see Note 6)		(10,115,975)	(10,308,097)
Other operating income	4	551,798	923,778
Operating loss	5	(15,744,843)	(15,386,589)
Gain on financial assets at fair value through profit and loss account		3,786,853	473,083
Other interest receivable and similar income		962	80
Interest payable and similar expenses	7	(4,057,261)	(2,904,745)
Loss before tax		(16,014,289)	(17,818,171)
Taxation	10	-	278,575
Loss for the financial year		(16,014,289)	(17,539,596)
Profit/(loss) attributable to:			
Owners of the company		(14,707,193)	(16,120,107)
Non controlling interests		(1,307,096)	(1,419,489)
		(16,014,289)	(17,539,596)

The group has no recognised gains or losses for the year other than the results above.

The notes on pages 17 to 35 form an integral part of these financial statements.

Goosepool 2019 Limited

(Registration number: 11800179)
Consolidated Statement of Financial Position as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	11	13,696,128	15,444,570
Tangible assets	12	10,596,363	5,782,035
Investment property	13	30,254,000	20,872,151
Investments	14	2	2
Other financial assets	15	6,000,950	6,000,000
		60,547,443	48,098,758
Current assets			
Stocks	16	875,718	122,979
Debtors	17	5,487,420	2,786,562
Cash at bank and in hand		1,615,212	909,522
		7,978,350	3,819,063
Creditors: Amounts falling due within one year	19	(107,397,726)	(76,082,747)
Net current liabilities		(99,419,376)	(72,263,684)
Total assets less current liabilities		(38,871,933)	(24,164,926)
Creditors: Amounts falling due after more than one year	19	(1,631,054)	(1,721,915)
Provisions for liabilities	20	(3,000,000)	(1,601,857)
Net liabilities		(43,502,987)	(27,488,698)
Capital and reserves			
Called up share capital	22	1,000	1,000
Profit and loss account	23	(42,399,666)	(27,692,473)
Equity attributable to owners of the company		(42,398,666)	(27,691,473)
Non controlling interests		(1,104,321)	202,775
Total equity		(43,502,987)	(27,488,698)

Approved and authorised by the Board on .05/12/2022.... and signed on its behalf by:

....
Mrs Julie Gilhespie
Director

The notes on pages 17 to 35 form an integral part of these financial statements.

Goosepool 2019 Limited

(Registration number: 11800179)
Statement of Financial Position as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Investments	14	33,616,105	33,616,105
Current assets			
Debtors	17	46,788,991	20,818,150
Creditors: Amounts falling due within one year	19	(93,948,825)	(65,595,646)
Net current liabilities		(47,159,834)	(44,777,496)
Net liabilities		(13,543,729)	(11,161,391)
Capital and reserves			
Called up share capital		1,000	1,000
Profit and loss account		(13,544,729)	(11,162,391)
Total equity		(13,543,729)	(11,161,391)

The company made a loss after tax for the financial year of £2,382,338.

Approved and authorised by the Board on ...05/12/2022... and signed on its behalf by:

Julie Gilhespie
....
Mrs Julie Gilhespie
Director

The notes on pages 17 to 35 form an integral part of these financial statements.

Goosepool 2019 Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2022
Equity attributable to the parent company

	Share capital £	Profit and loss account £	Total £	Non-controlling interests £	Total equity £
At 1 April 2020	1,000	(11,572,366)	(11,571,366)	1,622,264	(9,949,102)
Loss for the year	-	(16,120,107)	(16,120,107)	(1,419,489)	(17,539,596)
Total comprehensive income	-	(16,120,107)	(16,120,107)	(1,419,489)	(17,539,596)
At 31 March 2021	1,000	(27,692,473)	(27,691,473)	202,775	(27,488,698)

	Share capital £	Profit and loss account £	Total £	Non-controlling interests £	Total equity £
At 1 April 2021	1,000	(27,692,473)	(27,691,473)	202,775	(27,488,698)
Loss for the year	-	(14,707,193)	(14,707,193)	(1,307,096)	(16,014,289)
Total comprehensive income	-	(14,707,193)	(14,707,193)	(1,307,096)	(16,014,289)
At 31 March 2022	1,000	(42,399,666)	(42,398,666)	(1,104,321)	(43,502,987)

The notes on pages 17 to 35 form an integral part of these financial statements.

Goosepool 2019 Limited

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital £	Profit and loss account £	Total £
At 1 April 2020	1,000	(8,498,070)	(8,497,070)
Loss for the year	-	(2,664,321)	(2,664,321)
Total comprehensive income	-	(2,664,321)	(2,664,321)
At 31 March 2021	1,000	(11,162,391)	(11,161,391)

	Share capital £	Profit and loss account £	Total £
At 1 April 2021	1,000	(11,162,391)	(11,161,391)
Loss for the year	-	(2,382,338)	(2,382,338)
Total comprehensive income	-	(2,382,338)	(2,382,338)
At 31 March 2022	1,000	(13,544,729)	(13,543,729)

The notes on pages 17 to 35 form an integral part of these financial statements.

Goosepool 2019 Limited

Notes to the Financial Statements for the Year Ended 31 March 2022

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is Teesside Airport Business Suite, Teesside International Airport, Darlington, DL2 1NJ.

These financial statements were authorised for issue by the Board on ....

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and the Companies Act 2006'.

Basis of preparation
These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

These financial statements are prepared in sterling which is the functional currency of the entity.

Summary of disclosure exemptions
The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

(a) Disclosures in respect of each class of share capital have not been presented.
(b) No cash flow statement has been presented for the group.
(c) Disclosures in respect of financial instruments have not been presented.
(d) No disclosure has been given for the aggregate remuneration of key management personnel.

Basis of consolidation
The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2022.

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The company made a loss after tax for the financial year of £2,382,338 (2021 - loss of £2,664,321).

2 Accounting policies (continued)

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination.

2 Accounting policies (continued)

Going concern
The financial statements have been prepared on a going concern basis.

As at 31 March 2022 the company and group has net current liabilities of £47,159,834 and £99,419,376 respectively (2021 - £44,777,496 and £72,263,684) and net liabilities of £13,543,729 and £43,502,987 (2021 - £11,161,391 and £27,488,698). The group meets its day to day working capital requirements through cash generated from operations and utilisation of a loan facility ultimately provided by the Tees Valley Combined Authority. The loan facility is approved for an amount of up to £34.4m which can be drawn down as required over the period to 31 March 2029. On the 22nd July 2022 the Tees Valley combined Authority cabinet approved a further £20m to this loan facility, taking the total approved amount to £54m. A facility for an amount of £23.6m which is to be used to fund the Southside development is in place. The total amount drawn down at the year end under both facilities was £44m and further draw downs are forecast to be made over the next 2-3 years in line with the company's development and expansion plans. The facility is repayable on demand and the directors have received a letter from Tees Valley Combined Authority confirming their continued support for a period of not less than 12 months from the date of signing these financial statements.

The directors have prepared both short term and long term forecasts which indicate that, taking into account reasonably possible downsides, the group and company will have sufficient funds, through funding from its ultimate parent, Tees Valley Combined Authority, to meet its liabilities as they fall due for that period. These forecasts include short term reductions in respect of reduced activity as a result of COVID-19 and the directors are confident that the medium to long term forecasts will be met based on the success of securing new long term arrangements with airlines as discussed in the Strategic Report.

Although the forecasts prepared taking into account of the matters above support the ability of the company to remain a going concern and to be able to trade and meet its debts as they fall due, the full ongoing impact of COVID-19, the continued level of government support and the underlying trading assumptions used in forecasting are extremely judgemental and difficult to predict and could be subject to significant variation.

However, based on the factors set out above, the directors believe that there is no material uncertainty in relation to going concern and that the company has adequate financial resources to continue in operational existence for at least twelve months from the date of signing of the financial statements and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

2 Accounting policies (continued)

Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and assumptions are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies which effect the amounts recognised in the financial statements are as follows:

Assessing indicators of impairment - In assessing whether there have been indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. In prior years the tangible fixed assets held by the subsidiary company were significantly impaired on the basis that the underlying operations of the company were loss making. The directors have considered the carrying value of the subsidiary company’s fixed assets and whether any impairment reversals were appropriate in the current year. After considering the current operational performance of the subsidiary company and the sales proceeds, net of selling costs, of the tangible fixed assets the directors concluded that no reversals were appropriate at this stage.

Goodwill - the group has recognised goodwill on the acquisition of 89% of Durham Tees Valley Airport Limited. The fair values of the net assets acquired were estimated by the directors on acquisition and the resulting goodwill has been estimated by the directors to be amortised over a period of 10 years. The directors consider that the goodwill is supported by the future cash flows to be generated by the acquired company.

Taxation - Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Valuation of investment properties – investment properties are carried at fair value based on valuations performed by independent qualified professional valuers and application of their methodologies which have been adopted by the directors. The values are based on a combination of the rental yields on the properties and the estimated resale value of land for commercial development purposes. The assumptions applied are inherently subjective and so are subject to a degree of uncertainty. The carrying amount is £30,254,000 (2021 - £20,872,151).

Carrying value of provisions – the company holds a number of provisions, including those relating to onerous contracts, relating to the best estimates of future costs associated with liabilities which existed at the year end. The values are based on the directors best estimates of the likely future cost, utilising third party reports where relevant. The carrying amount is £3,000,000 (2021 - £1,601,857).

2 Accounting policies (continued)

Revenue recognition

Turnover comprising airport charges, rental and other income represents amounts achievable by the group in respect of facilities and service provided during the year and is recognised as the services are provided. Turnover is shown net of value added tax.

Government grants

Government grants are recognised based on the accruals model and are measured at the fair value of the asset received or receivable. Grants are classified as related either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of the grant relating to an asset is deferred, it is recognised as deferred income.

Other operating income includes UK Government assistance of £118,556 provided through the Coronavirus Job Retention Scheme during the Covid-19 pandemic. Other operating income also includes £433,242 regarding an Airport and Ground Operations Support Scheme grant provided by the Department for Transport for the purpose of business rates during the current financial period.

Other grants

Grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met.

Tax

The tax expense for the period comprises tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the consolidated financial statements. Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

2 Accounting policies (continued)

Asset class	Depreciation method and rate
Runways, lighting & car parks	5 to 100 years
Plant & machinery	5 to 20 years
Motor Vehicles	4 to 20 years
Fixtures & fittings	3 to 30 years
Office Equipment	2 to 20 years

The runway, terminal buildings and other fixed assets relating to airport operations were fully impaired in previous years.

Investment property
Investment property is measured at fair value. The fair value is based on valuations performed by independent qualified professional valuers and application of their methodologies which have been adopted by the directors. Changes in fair values are recognised in profit or loss.

Business combinations
Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the group includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Goodwill
Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date. Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

Amortisation
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	10 years

Investments
Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment. Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

2 Accounting policies (continued)

Trade debtors
Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Stocks
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions
Provisions are recognised when the group has an obligation at the reporting date as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation
A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

2 Accounting policies (continued)

Defined benefit pension obligation

Teesside International Airport Limited made enhanced defined benefit obligations to 4 retiring employees whilst it was a contributing employer to the local authority pension scheme. This obligation is a unfunded liability and the annual contributions payable by the group are calculated by the scheme actuary. The group contributions should be sufficient to cover the future obligation. Any movements in excess of the contributions will be accounted in line with FRS 102.

3 Turnover

The analysis of the group's revenue for the year from continuing operations is as follows:

	2022 £	2021 £
Airport operations and provision of associated facilities and services	7,686,643	4,812,505

The analysis of the group's turnover for the year by market is as follows:

	2022 £	2021 £
UK	7,686,643	4,812,505

4 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2022 £	2021 £
Government grants	551,798	886,278
Miscellaneous other operating income	-	37,500
	551,798	923,778

The company has received government assistance via the Coronavirus Job Retention Scheme of £118,556 (2021 - £407,439). This was claimed against the staff costs of the company as reported gross in Note 8 below.

The company also received government assistance via the Airports and Ground Operations Support Scheme of £433,242 (2021 - £478,839).

5 Operating loss

Arrived at after charging/(crediting)

	2022 £	2021 £
Depreciation expense	602,114	102,457
Amortisation expense	1,748,442	1,971,647
(Profit)/loss on disposal of property, plant and equipment	(4,366)	22,000

6 Exceptional administrative expenses

Exceptional administrative expenses of £2,393,000 (2021 - £2,739,104) represent contract termination costs incurred by Teesside International Airport Limited in exiting contracts in the year, an increase in contractual obligations in relation to maintaining a rail halt and the release of a trade debtor provision. This has resulted in the recognition and increase of onerous provisions.

7 Interest payable and similar expenses

	2022 £	2021 £
Interest expense on other finance liabilities	2,000	33
Interest payable on loans from group undertakings	4,055,261	2,904,712
	4,057,261	2,904,745

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2022 £	2021 £
Wages and salaries	3,659,345	2,874,293
Social security costs	335,658	266,930
Pension costs, defined contribution scheme	179,478	152,549
	4,174,481	3,293,772

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2022 No.	2021 No.
Airport operations	75	62
Administration	40	27
	115	89

9 Auditor's remuneration

	2022 £	2021 £
Audit of these financial statements	15,000	15,000
Audit of the financial statements of subsidiaries of the company pursuant to legislation	25,000	25,000
	40,000	40,000

Other fees to auditor		
Taxation compliance services	4,500	4,250
All other assurance services	3,000	-
	7,500	4,250

10 Taxation

Tax charged/(credited) in the income statement

	2022 £	2021 £
Deferred taxation		
Arising from origination and reversal of timing differences	-	(293,338)
Deferred tax adjustment to prior periods	-	14,763
Total deferred taxation	-	(278,575)

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK of 19%(2021 - 19%).

The differences are reconciled below:

	2022 £	2021 £
Loss before tax	(16,014,289)	(17,818,171)
Corporation tax at standard rate	(3,042,715)	(3,385,452)
Effect of revenues exempt from taxation	(327,149)	(7,537)
Effect of expense not deductible in determining taxable profit (tax loss)	352,733	374,980
UK deferred tax expense relating to changes in tax rates or laws	-	87,335
Increase from tax losses for which no deferred tax asset was recognised	3,017,131	2,637,336
Increase in UK and foreign current tax from unrecognised temporary difference from a prior period	-	14,763
Total tax credit	-	(278,575)

10 Taxation (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2022	Asset £	Liability £
Tax losses carried forward	-	(3,312,862)
Gains on fair value of investment property	-	3,312,862
	-	-

2021	Asset £	Liability £
Tax losses carried forward	-	(2,366,149)
Gains on fair value of investment property	-	2,366,149
	-	-

The group has £35,291,233 of unused tax relief (2021: £24,210,241) for which no deferred tax asset is recognised in the Statement of Financial Position due to uncertainty over future recoverability. Applying the rate of tax of 25% which will be in force from 1 April 2023, these losses would, if recognised, represent an asset of £8,822,808.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the main corporation tax rate would increase from 19% to 25%. This new law was deemed substantially enacted on 24 May 2021. The deferred tax balances at 31 March 2022 have been calculated based on this rate.

11 Intangible assets

Group

	Goodwill £
Cost or valuation	
At 1 April 2021	25,435,718
At 31 March 2022	25,435,718
Amortisation and impairment	
At 1 April 2021	9,991,148
Amortisation charge	1,748,442
At 31 March 2022	11,739,590
Carrying amount	
At 31 March 2022	13,696,128
At 31 March 2021	15,444,570

11 Intangible assets (continued)

Impairment
Goodwill
Goosepool 2019 Limited acquired 89% of the issued share capital of Teesside International Airport Limited (“TIA”) in 2019 for £40,200,000. Initial goodwill of £24,767,562 arose on this transaction however following a review in 2020 of the fair value of the assets and liabilities acquired the initial goodwill was revised to £25,435,718. At the current period end the directors performed an impairment review on the carrying value of goodwill in light of the performance of TIA. The directors considered the future cash flows to be generated by TIA under a number of circumstances and concluded that the value in use as a continuing operational airport with commercial land development opportunities was the most appropriate basis to consider the cash flows.

The directors have prepared long term cash flow forecasts for TIA. These forecasts include the airport securing a number of low cost carrier airlines and are based on known secured contracts or those which are currently being negotiated. The securing of these contracts is in line with, and in some cases, ahead of the long term business plan set out when TIA was acquired. A discount rate of 3.5% was applied to the forecasts, being the local government agreed investment appraisal discount rate.

The key elements to the forecasts are based on TIA securing contracts and routes with low cost carrier airlines. As noted above the directors have clear visibility of such contracts and have included only those contacts secured or in advanced negotiations in their forecasts. The directors considered a number of downward sensitivities on the forecasts. These included reductions in ticket revenues, cargo income, income from car park revenue and commercial profit per departing passenger. The forecasts show that it would take significant reductions, without applying any corrective measures, of which the directors consider there are many, to result in an impairment. In addition the airport has the capacity for a number of other routes to be established with low cost carriers in future years – none of which have been factored into the forecast by the directors on the grounds of prudence. Overall the directors are satisfied that the forecasts are robust and reflect real contracts which are either secured or are in the process of being negotiated and are therefore comfortable that the forecasts will be achieved. Accordingly they do not believe that an impairment charge is required in 2021.

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

12 Tangible assets

Group

	Runways, lighting & car parks £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Assets under construction £	Total £
Cost or valuation							
At 1 April 2021	465,680	204,807	105,200	256,468	568,686	4,301,458	5,902,299
Additions	20,464	448,471	75,273	1,739,064	130,684	2,995,429	5,409,385
Disposals	-	(2,895,970)	(788,126)	(717,139)	(166,336)	-	(4,567,571)
Transfers	10,000	3,756,811	-	635,863	-	(4,402,674)	-
At 31 March 2022	496,144	1,514,119	(607,653)	1,914,256	533,034	2,894,213	6,744,113
Depreciation							
At 1 April 2021	36,640	27,459	3,500	9,237	43,428	-	120,264
Charge for the year	114,566	288,403	10,992	131,501	56,652	-	602,114
Eliminated on disposal	-	(2,903,027)	(788,126)	(717,139)	(166,336)	-	(4,574,628)
Transfers	-	319,357	-	-	-	(319,357)	-
At 31 March 2022	151,206	(2,267,808)	(773,634)	(576,401)	(66,256)	(319,357)	(3,852,250)
Carrying amount							
At 31 March 2022	344,938	3,781,927	165,981	2,490,657	599,290	3,213,570	10,596,363
At 31 March 2021	429,040	177,348	101,700	247,231	525,258	4,301,458	5,782,035

12 Tangible assets (continued)

Impairment
The runway and terminal assets were fully impaired in previous years due to the company incurring large losses. Given the ongoing Covid-19 pandemic and significant uncertainty over the impact on travel and airports the directors believe that it would not be prudent to consider any reversal of impairments at this stage. Amounts capitalised in the current year relate to new assets and developments which the directors consider will create economic benefit going forward.

Contractual commitments for the acquisition of property, plant and equipment
Contractual commitments for the acquisition of tangible assets were as follows:

	2022 £	2021 £
Assets under construction	1,087,000	50,000

13 Investment properties

Group

	2022 £
At 1 April 2020	20,872,151
Additions	5,594,996
Fair value adjustments	3,786,853
At 31 March 2021	30,254,000

Investment properties have been valued at fair value based on valuations performed by independent qualified professional valuers and adoption of their methodologies by the directors. Changes in fair values are recognised in profit or loss.

14 Investments

Company

	2022 £	2021 £
Investments in subsidiaries	33,616,105	33,616,105

Subsidiaries	**£**
Cost or valuation	
At 1 April 2021	40,200,000
Provision	
At 1 April 2021	6,583,895
At 31 March 2022	6,583,895
Carrying amount	
At 31 March 2022	33,616,105
At 31 March 2021	33,616,105

14 Investments (continued)

In February 2019 the company acquired 89% of Teesside International Airport Limited ("TIA") at a cost of £40,200,000. At each period end the directors consider the carrying value of the investment. No impairment was considered necessary in the current or prior period.

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held 2022	2021
Subsidiary undertakings				
Teesside International Airport Limited	Teesside International Airport Limited, Darlington, Durham, DL2 1LU England and Wales	Ordinary shares	89%	89%

15 Other financial assets

Group

In a prior year cash was paid into a designated bank account in order that the group could comply with its obligations under an agreement to develop land on the Southside of the airport. In the event certain conditions are not met this sum is payable to other parties to the agreement.

16 Stocks

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Raw materials and consumables	322,988	122,979	-	-
Work in progress	552,730	-	-	-
	875,718	122,979	-	-

17 Debtors

Current	Note	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Trade debtors		2,456,574	1,222,224	-	-
Amounts owed by related parties	25	1,087,590	-	46,787,991	20,817,150
Other debtors		613,229	320,764	1,000	1,000
Prepayments		1,330,027	1,243,574	-	-
		5,487,420	2,786,562	46,788,991	20,818,150

17 Debtors (continued)

Details of non-current trade and other debtors

Company
£Nil (2021 - £20,817,150) of amounts owed by group undertakings is classified as non current. Interest on this balance is payable at 5.09%.

18 Cash and cash equivalents

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Cash at bank	1,615,212	909,522	-	-

19 Creditors

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Due within one year				
Trade creditors	4,059,903	1,499,366	-	-
Amounts owed to group undertakings	100,935,623	71,572,782	93,901,825	65,573,646
Social security and other taxes	79,991	72,853	-	-
Outstanding defined contribution pension costs	32,944	-	-	-
Other creditors	186,143	944,214	-	-
Accruals	2,103,122	1,993,532	47,000	22,000
	107,397,726	76,082,747	93,948,825	65,595,646
Due after one year				
Deferred income	1,631,054	1,721,915	-	-

Amounts owed to group undertakings consist of loans granted by the immediate parent, Tees Valley Combined Authority. Interest on this facility is charged at 5.09%. All amounts are repayable on demand. The loans are secured by a fixed and floating charge over land and buildings owed by Teesside International Airport Limited.

20 Provisions for liabilities

Group

	Onerous contracts £	Other provisions £	Total £
At 1 April 2021	994,857	607,000	1,601,857
Additional provisions	2,000,000	-	2,000,000
Movement in existing provisions	(994,857)	393,000	(601,857)
At 31 March 2022	2,000,000	1,000,000	3,000,000

Onerous Provision
Onerous contact provisions relate to the expected future costs arising from contracts which have been exited during the year. These provisions will unwind over the next two years.

Other provisions relate to contractual obligations between Teesside International Airport Limited and Network Rail to maintain a rail halt. The estimated costs of repair are £1,000,000.

21 Pension and other schemes

Defined contribution pension scheme
The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £179,478 (2021 - £152,549).
Contributions totalling £32,944 (2021 - £Nil) were payable to the scheme at the end of the year and are included in creditors.

Defined benefit pension schemes
Defined benefit
Teesside International Airport Limited participated as an admitted body in a Local Government Pension Scheme, Teesside Pension Fund, which is administered by Middlesbrough Borough Council.

On 30th November 2017 the Company's participation in the Local Government Pension Scheme (LGPS) ceased and all past service liabilities of the Company's employees transferred back to the Local Authorities who were both original majority shareholders of the Company and also participants of the particular pension fund (the Teesside Pension Fund') within the LGPS.

The company made enhanced defined benefit obligations to 4 retiring employees whilst the company was a contributing employer to the local authority pension scheme. This obligation is a unfunded liability and the annual contributions payable by the company are calculated by the scheme actuary. The company contributions should be sufficient to cover the future obligation.

As at 31 March 2022 the actuarial valuation calculated the unfunded liability as £85,000 (2021 - £79,000). This has been included in other creditors at the year end.

21 Pension and other schemes (continued)

The date of the most recent comprehensive actuarial valuation was 31 March 2019. The latest actuarial valuation of the scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2022 was prepared by Hymans Robertson LLP for Middlesbrough Borough Council in accordance with IAS 19 and FRS 102.

22 Share capital

Allotted, called up and fully paid shares

	2022 No.	2022 £	2021 No.	2021 £
A Ordinary of £0.01 each	75,000	750	75,000	750
B Ordinary of £0.01 each	25,000	250	25,000	250
	100,000	1,000	100,000	1,000

Rights, preferences and restrictions

A Ordinary have the following rights, preferences and restrictions:
The A Ordinary shares carry a right to one vote per share and a right to participate in a distribution, whether by way of income or capital distribution. The A Ordinary shares are not redeemable.

B Ordinary have the following rights, preferences and restrictions:
The B Ordinary shares carry a right to one vote per share and a right to participate in a distribution, whether by way of income or capital distribution. The B Ordinary shares are not redeemable.

23 Reserves

Group
Share capital

This reserve records the nominal value of share capital issued.

Profit and loss account

This reserve records retained earnings and accumulated losses.

24 Financial guarantee contracts

Group

The ultimate parent undertaking, Tees Valley Combined Authority, holds a fixed and floating charge over the over land and buildings belonging to Teesside International Airport Limited in relation to borrowings of Goosepool 2019 Limited.

25 Related party transactions

Group

The group has taken advantage of the exemptions contained in s33.11 of FRS 102 and has not disclosed details of transactions and balances with Tees Valley Combined Authority and other entities under its control.

26 Parent and ultimate parent undertaking

The company's immediate parent is Tees Valley Combined Authority.

The most senior parent entity producing publicly available financial statements is Tees Valley Combined Authority. These financial statements are available upon request from Teesside Airport Business Suite, Teesside International Airport, Darlington, DL2 1NJ

Registration number: 11747311

SOUTH TEES DEVELOPMENTS LIMITED

Annual Report and Financial Statements

for the Year Ended 31 March 2022

South Tees Developments Limited

Contents

South Tees Developments Limited

Company Information

Chief executive	Ms J Gilhespie
Directors	Mr J McNicholas Mr G J Macdonald
Company secretary	Endeavour Secretary Limited
Registered office	Teesside Airport Business Suite Teesside International Airport Darlington DL2 1NJ
Auditor	Azets Audit Services Chartered Accountants & Statutory Auditor 1 Massey Road Thornaby Stockton-on-Tees TS17 6DY

South Tees Developments Limited

Directors' Report for the Year Ended 31 March 2022

The directors present their report and the financial statements for the year ended 31 March 2022.

Directors of the company
The directors who held office during the year were as follows:

Mr J McNicholas
Mr G J Macdonald
Ms J Gilhespie - Chief executive

Disclosure of information to the auditors
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors
Azets Audit Services Limited, trading as Azets Audit Services, were appointed auditor to the company following their acquisition of the trade of Tait Walker LLP, trading as MHA Tait Walker, on 1 May 2022.

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Azets Audit Services as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Small companies' provision statement
This report has been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

Approved and authorised by the Board on .23/01/2023.................. and signed on its behalf by:

....
Mr G J Macdonald
Director

South Tees Developments Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

South Tees Developments Limited

Independent Auditor's Report to the Members of South Tees Developments Limited

Opinion

We have audited the financial statements of South Tees Developments Limited (the 'company') for the year ended 31 March 2022, which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, and Notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 Section 1A 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of South Tees Developments Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities [set out on page 3], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of South Tees Developments Limited (continued)

Auditor Responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Because of the field in which the client operates, we identified the following areas as those most likely to have a material impact on the financial statements: Health and Safety; employment law (including the Working Time Directive); and compliance with the UK Companies Act.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). For instance, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

....
Christopher Potter BA (Hons) ACA (Senior Statutory Auditor)
For and on behalf of
Azets Audit Services
Chartered Accountants
Statutory Auditor

1 Massey Road
Thornaby
Stockton-on-Tees
TS17 6DY

Date:.............................

Azets Audit Services is a trading name of Azets Audit Services Limited

South Tees Developments Limited

Income Statement for the Year Ended 31 March 2022

	2022 £	2021 £
Turnover	-	-
Cost of sales	-	(200,000)
Gross loss	-	(200,000)
Administrative expenses	(37,264,409)	(8,379,309)
Other operating income	32,555,658	4,401,214
Operating loss	(4,708,751)	(4,178,095)
Loss before tax	(4,708,751)	(4,178,095)
Loss for the financial year	(4,708,751)	(4,178,095)

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

The notes on pages 10 to 15 form an integral part of these financial statements.

South Tees Developments Limited

(Registration number: 11747311)
Statement of Financial Position as at 31 March 2022

	Note	2022 £	2021 £
Fixed assets			
Tangible assets	6	15,000,000	19,700,000
Current assets			
Stocks	7	300,000	300,000
Debtors	8	32,589,069	1,624,484
Cash at bank and in hand		7,397,222	6,673,725
		40,286,291	8,598,209
Creditors: Amounts falling due within one year	9	(40,702,878)	(9,006,045)
Net current liabilities		(416,587)	(407,836)
Total assets less current liabilities		14,583,413	19,292,164
Creditors: Amounts falling due after more than one year	9	(24,252,900)	(24,252,900)
Net liabilities		(9,669,487)	(4,960,736)
Capital and reserves			
Called up share capital		1	1
Profit and loss account		(9,669,488)	(4,960,737)
Total equity		(9,669,487)	(4,960,736)

These financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

Approved and authorised by the Board on .23/01/2023.................. and signed on its behalf by:

G. Macd

....
Mr G J Macdonald
Director

The notes on pages 10 to 15 form an integral part of these financial statements.

South Tees Developments Limited

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital £	Profit and loss account £	Total £
At 1 April 2020	1	(782,642)	(782,641)
Loss for the year	-	(4,178,095)	(4,178,095)
Total comprehensive income	-	(4,178,095)	(4,178,095)
At 31 March 2021	1	(4,960,737)	(4,960,736)

	Share capital £	Profit and loss account £	Total £
At 1 April 2021	1	(4,960,737)	(4,960,736)
Loss for the year	-	(4,708,751)	(4,708,751)
Total comprehensive income	-	(4,708,751)	(4,708,751)
At 31 March 2022	1	(9,669,488)	(9,669,487)

The notes on pages 10 to 15 form an integral part of these financial statements.

South Tees Developments Limited

Notes to the Financial Statements for the Year Ended 31 March 2022

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is Teesside Airport Business Suite, Teesside International Airport, Darlington, DL2 1NJ.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
These financial statements have been prepared in accordance with Financial Reporting Standard 102 Section 1A smaller entities - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' and the Companies Act 2006 (as applicable to companies subject to the small companies' regime).

Basis of preparation
These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

These financial statements are prepared in sterling which is the functional currency of the entity.

2 Accounting policies (continued)

Going concern
At 31 March 2022 the company reports net current liabilities of £416,587 (2021: £407,836) and net liabilities of £9,669,487 (2021: £4,960,736). The significant creditors on the balance sheet relate to amounts owed to South Tees Development Corporation, the immediate parent company, and Tees Valley Combined Authority, the ultimate parent undertaking.

The company meets its day to day working capital requirements through cash generated from operations and borrowings and grants from group entities. The directors have received confirmation that the company's ultimate parent undertaking, Tees Valley Combined Authority, will continue to provide financial support to the company for a period of at least twelve months from the date on which these financial statements are signed.

The company's forecasts and projections for the next twelve months show that the company should be able to continue in operational existence for that period, taking into account reasonable possible changes in trading performance. However in the directors' assessment they have considered the effectiveness of available measures to assist in mitigating the impact.

Although the forecasts prepared taking into account the matters above support the ability of the company to remain a going concern and to be able to trade and meet its debts as they fall due, the underlying assumptions used in forecasting are extremely judgemental and difficult to predict and could be subject to significant variation.

Based on the factors set out above the directors believe there is no material uncertainty in relation to going concern and that the company has adequate resources to continue in operational existence for at least twelve months from the date of signing the financial statements and therefore they believe it remains appropriate to prepare the financial statements on a going concern basis.

Tangible assets
Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Trade debtors
Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

2 Accounting policies (continued)

Stocks
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation
A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

3 Staff numbers

The average number of persons employed by the company (including directors) during the year, was 16 (2021 - 1).

4 Auditors' remuneration

	2022 £	2021 £
Audit of the financial statements	15,000	6,250

5 Other operating income

	2022 £	2021 £
Grants receivable	32,016,277	2,354,553
Other operating income	66,131	1,834,052
Rent receivable	473,250	212,609

During the period the company received grant funding of £32,016,277 (2020: £2,354,553) from its ultimate parent undertaking, Tees Valley Combined Authority, to cover operational costs and capital works on the site for the period to 31 March 2022.

Other operating income consists of electricity and other property costs incurred which are then recharged to third parties.

6 Tangible assets

	Land and buildings £
Cost or valuation	
At 1 April 2021	24,481,051
Additions	30,406,456
At 31 March 2022	54,887,507
Impairment	
At 1 April 2021	4,781,051
Impairment	35,106,456
At 31 March 2022	39,887,507
Carrying amount	
At 31 March 2022	15,000,000
At 31 March 2021	19,700,000

Included within the net book value of land and buildings above is £15,000,000 (2021 - £19,700,000) in respect of freehold land and buildings.

7 Stocks

	2022 £	2021 £
Other inventories	300,000	300,000

8 Debtors

	2022 £	2021 £
Trade debtors	260,485	264,762
Amounts owed by group undertakings	32,045,487	1,187,681
Prepayments and accrued income	112,422	116,991
Other debtors	170,675	55,050
	32,589,069	1,624,484

9 Creditors

Creditors: amounts falling due within one year

	2022 £	2021 £
Due within one year		
Amounts owed to group undertakings	29,968,242	908,032
Taxation and social security	10,904	6,550
Accruals and deferred income	9,723,732	6,593,462
Other creditors	1,000,000	1,493,236
Corporation tax liability	-	4,765
	40,702,878	9,006,045

Other creditors includes a £1,000,000 retention amount due as part of the acquisition of freehold land.

Creditors: amounts falling due after more than one year

	2022 £	2021 £
Due after one year		
Amounts owed to group undertakings	24,252,900	24,252,900

10 Financial commitments, guarantees and contingencies

Amounts not provided for in the statement of financial position

The total amount of financial commitments not included in the statement of financial position is £661,327 (2021 - £Nil).

11 Parent and ultimate parent undertaking

The company's immediate parent is South Tees Development Corporation.

The most senior parent entity producing publicly available financial statements is Tees Valley Combined Authority. These financial statements are available upon request from on request from Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton on Tees, Tees Valley, TS17 6QY

Auditor's Annual Report

Tees Valley Combined Authority – year ended 31 March 2021

October 2022

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Tees Valley Combined Authority ('the Authority') for the year ended 31 March 2021. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

We issued our audit report on 28 September 2022. Our opinion on the financial statements was unqualified with an emphasis of matter paragraph in relation to land valuations. . The emphasis of matter paragraph is included to draw readers' attention to the unique nature and scale of the Authority's land holdings and the material valuation uncertainty statement made by the valuer of the Authority's land in their valuation report. The inclusion of the 'material uncertainty' by the valuer does not mean that the valuation cannot be relied upon.

Wider reporting responsibilities

We have received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission, however the group instructions say that the NAO will choose a selection of audits below the threshold for detailed testing. We are unable to commence our work in this area until details of sampled components have been received.

Our auditor's report confirmed that we did not have any matters on which we are required to report by exception under the Code of Audit Practice.

Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Authority's arrangements.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 28 September 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances.

Draft accounts were published on the Authority's website on 31July 2021 to meet the statutory deadline. However, subsequent work by management identified that there were weaknesses in the arrangements for preparing the accounts of some of the subsidiary companies and a new team were brought in to undertake a review. The review found significant changes were needed to the approved and published accounts.

This demonstrates that the quality of the approved and published accounts was not of a high quality and indicates weaknesses in the arrangements for preparation of the financial statements.

Our initial review of the published draft accounts identified several presentational issues, most of which had not been addressed in the updated single entity statements.

Significant difficulties during the audit

During the audit we had the full co-operation of management, however, we encountered some delays and difficulties including:

- Significant delays in management providing required information to both the subsidiary and group auditors.
- Goosepool 2019 Limited accounts were signed by the component auditor on 29 April 2022
- Group accounts consolidating South Tees Development Corporation and Goosepool 2019 Limited into the Tees Valley Combined Authority accounts were received on 5 August 2022.

2. Audit of the financial statements

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency

There are weaknesses in the arrangements for accounts preparation.

Potential effects

Inaccurate accounts are approved and published.

Recommendation

Continue to strengthen the arrangements in place for accounts preparation.

Management response

Management have addressed this point in full. A new team was implemented with significant private and public sector experience. Additional review procedures have been put in place. The majority of changes from the draft accounts to final were identified by the new team and addressed for the version of the accounts provided to our external auditors.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Authority has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We did not identify any significant risks during the audit.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?	Other recommendations made?
Financial sustainability	**10**	No	No	No
Governance	**12**	No	No	Yes – relating to accounts process. See page 12
Improving economy, efficiency and effectiveness	**14**	No	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the financial sustainability reporting criteria

How the Authority identifies significant financial pressures that are relevant to its short and medium-term plans

The Authority's Constitution requires the preparation of an annual investment plan, formally adopted by the Cabinet each year. The current investment plan covers the period from 1 April 2021 to 31 March 2029.

We confirmed that there is regular budget monitoring including quarterly reports to the Cabinet. The outturn report for 2020/21 was presented to the July Cabinet meeting and the overall reported position was not significantly different to that reported during the financial year. Outturn recorded delivered spend of £186.2 million compared with original budget of £220.6 million and revised budget of £222.3 million. This position is associated with additional funding agreed throughout the year and a reprofiling of investment on capital projects as a result of the Freeport decision. The report notes that:

> 'The previously forecasted outturn for 2020/21 was £220.6 million, the adjustments to funding set out in table 2 (including £1.7 million additional expenditure for 2020/21) gave a revised position of £222.3 million. The actual outturn for 2020/21 was £186.2 million which equates to reduced expenditure of £36.1 million.'

This is evidence of the effectiveness of financial management arrangements despite the pressures created by the pandemic.

How the Authority plans to bridge funding gaps and identifies achievable savings

Financial planning arrangements include the identification of funding streams and opportunities for additional funding and there is an open dialogue with government to ensure funding is maximised to deliver the approved plan The investment plan details overall expenditure of £1,574.8 million across the ten year period 2020/21 to 2028/29. The Authority has a good track record of identifying funding streams and obtaining additional funding.

How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Authority developed a refreshed ten year investment plan which was agreed in July 2021. This sets out the nature of the Authority's funding and expenditure and identifies future large-scale capital schemes and priorities.

We confirmed that the plan was developed on reasonable assumptions including forecast funding streams. Funding and long-term plans are set out in the assurance framework submitted to government supported by the monitoring and evaluation framework. The assurance framework details how the Authority will deliver the aspirations set out in the investment plan.

Our review of the plan did not identify a reliance on 'one-off' measures to balance the budget. The assumptions in the plan and outturn against budget confirms the Authority has a track record of prudent assumptions.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the financial sustainability reporting criteria - continued

How the Authority ensures that its financial plan is consistent with other plans

The investment plan is considered and reviewed in the context of other plans as part of monthly senior management team meetings and monthly Directors away days. Regular directors' operations meetings also consider plans in the round.

Other operational planning and its impact on the plans is also considered, together with the impact of working with other public bodies. There is continuous engagement with the local authorities.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Authority identifies and manages risks to financial resilience

The assurance framework approved by government and updated annually includes details of funding and long-term plans. The framework provides assurance that decisions mad locally in the same way they would be if they were made centrally, with appropriate risk management, monitoring and evaluation.

The Authority has an established risk management framework and the Audit and Governance Committee receives regular risk management updates.

There was regular reporting of the 2020/21 financial position to the Authority's Cabinet throughout the year. The outturn report presented to the July 2021 meeting was consistent with the financial position reported during the year, after including the impact of additional funding and change in priorities due to the Freeport, and did not indicate a weakness in the Authority's budget monitoring and reporting arrangements.

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority's arrangements in relation to the financial sustainability reporting criteria.

Overall commentary on the governance reporting criteria

How the Authority monitors and assesses risk and how the Authority gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority has an active internal audit team and the internal audit plan and Head of Internal Audit report is reviewed by the Authority's Audit and Governance Committee. As detailed in the plan the Authority uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Authority's goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit and Governance Committee received regular updates on the audit plan. Internal Audit reviews highlight weaknesses and recommend actions when required to strengthen processes or procedures. These are regularly reported to Audit and Governance Committee which holds management to account where weaknesses are identified. The Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit opinion was presented to the Audit and Governance Committee meeting in May 2021. This provides the opinion that 'the organisation has an adequate and effective framework for risk management, governance and internal control'. We have identified no evidence of a weakness in arrangements.

As part of our audit procedures we considered the Authority's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

How the Authority approaches and carries out its annual budget setting process

The Authority's financial planning arrangements include the identification and evaluation of risks to the Authority's finances. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Authority is aware of the financial pressure it faces.

How the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We have reviewed Cabinet minutes and confirmed there was regular reporting of the financial position during 2020/21 financial year. This included detail of movements in the budget and forecast outturn between quarters. The outturn position was not significantly different to that reported during the year, after taking account of additional funding, and did not indicate a weakness in arrangements.

The financial statements timetable was not delivered in 2020/21. The accounts that were published in July 2021, to meet the statutory deadline, were not accurate and several figures in the Group CIES and Balance Sheet subsequently changed, some materially. There have been significant delays to the audit, in the main due to delays in the component auditor completing their work on the subsidiary companies (Goosepool 2019 Limited signed off April 2022, STDC signed off August 2022) to allow us to finalise the Group audit.

We do not consider this to amount to a serious and pervasive weaknesses in final accounts processes because, although it led to material errors in draft accounts, it was as a result of the Authority taking back control of the final accounts processes from the subsidiary companies and therefore strengthening the processes in place. There was no failure to meet statutory reporting deadlines for publishing the draft accounts and no modified opinion on the financial statements (only an emphasis of matter paragraph in relation to valuation uncertainty). The inclusion of the 'material uncertainty' in the valuer's valuation report does not mean that their valuation report cannot be relied upon.

Although we have not highlighted a significant weakness in relation to the accounts process, a recommendation is being raised for the Authority to review and improve year end close down processes for the Group and all component entities for future years.

Recommendation arising

The Authority should review and improve closedown processes to ensure smoother processes are implemented for all Group and component audits in future years.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

Decisions are made in accordance with the Constitution and the assurance framework.

We have reviewed Cabinet minutes in the year and have not identified any evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation the Cabinet were asked to make.

All projects require a business case to be submitted in which value for money must be considered and reporting of project progress is conducted at both a Cabinet and a Director level with Director "deep dives" conducted to drill deeper into specific themes and projects. This reporting is supported by dashboards which are produced for each meeting and help relay progress both financially and with respect to social value (such as jobs, apprenticeships, supporting business).

The Authority implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Cabinet meetings.

How the Authority monitors and ensures appropriate standards are maintained

The Authority's Constitution is reviewed at least annually and sets out how the Authority operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution is the assurance framework and the procurement strategy.

A dedicated Governance Team is in place across the organisation to:

- Ensure that the Combined Authority Group is compliant with its regulatory responsibilities;
- Support Scrutiny;
- Support subsidiaries;
- To advise both members, employees, and partner organisations;
- Oversee transparent decision making;
- Management and recording of Declarations of Interest;
- Data protection;
- Escalate whistleblowing cases;
- Service statutory Committee meetings;
- Freedom of Information request handling;
- Co-ordinate and monitor complaint handling

The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. Our work did not indicate a significant weakness in arrangements.

A system of scrutiny is in place as set out and documented in the Annual Governance Statement.

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority's arrangements in relation to the governance reporting criteria.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How financial and performance information has been used to assess performance to identify areas for improvement

The Authority has well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement.

Progress on projects and programme development is routinely reported to Cabinet. Our review of those reports identified no evidence of a significant weakness in arrangements.

The Authority investment plan includes priorities in relation to future large-scale capital schemes and captures planned activity across the whole Group. Some projects have been reprioritised to reflect the creation of the Freeport.

The Authority's financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account.

How the Authority evaluates the services it provides to assess performance and identify areas for improvement

The Cabinet has monitored performance during the year. Performance is measured against the investment plan, budget and medium term financial plan with regular updates on projects and programme delivery.

Monthly senior management team meetings and Directors awaydays focus on areas for improvement. Progress on actions identified is monitored by the directors' operations meetings using detailed dashboard reports including reviewing finances, programme delivery and milestones, procurement and risk.

How the Authority ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Authority ensures that it is represented at a senior level in its key partnerships, incorporated into Authority planning, priorities and plans. The key way this is achieved is through thematic working groups.

The most significant partnership is the Local Enterprise Partnership (LEP), which is fully integrated into the Authority's governance arrangements including associated Cabinet membership and thematic group membership.

Other significant partners are also integrated into the governance structure through associated Cabinet and thematic group membership. This gives partners a role in shaping the development of policies and programmes.

There is alignment of approaches across the group to deliver shared ambitions for economic growth.

The Authority is unique in its a fully integrated LEP, ensuring the business community is heard and influences the development and delivery of strategies at the highest level. As well as LEP members acting as sector champions for their chosen field, an SME engagement group has been established, sponsored by the LEP.

Local, national and trade media press releases are regularly shared with key stakeholder lists to keep them aware of the latest schemes, initiatives and news. Where more targeted interventions are required, a number of specific industry mailing lists are used to engage, with stakeholder toolkits on messaging sent out to appropriate parties and constituent local authority communications leads. Written updates ate also provided to the CBI on business engagement, and a more general Quarterly Newsletter distributed to 6,000 recipients.

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

How the Authority commissions or procures services, how the Authority ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Authority assesses whether it is realising the expected benefits

The procurement team work to the relevant regulations:

- Public Contract Regulations 2015
- Utilities Contracts Regulations 2016
- The Social Value Act 2013

The group have an approvals process in place, based on the value of the procurement, each stage is approved in line with the group scheme of delegation. Procurement routes are agreed with the procurement team and justifications are provided. The required level of professional standards are underpinned with relevant role requirement training (MCIPS / Contract Management etc).

Contract management and tracking of spend against contract value ensure realisation of benefits including social value realised throughout the life of contracts.

Review of the procurement process used for transport brand development demonstrated that appropriate information was taken into account and procurement followed formal procedures..

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Risk Committee in June 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£23,100	£23,100
Audit fees relating to work on group audit, which are not included in the scale fee	£7,728	£8,078
Additional fees in respect of new VFM approach	-	£5,495
One-off fee increases for in-year specific issues (quality of the accounts)	£6,776	£3,668
Additional fees in respect of recurring increases in the base audit fee arising from regulatory pressures (relating to PPE valuations and pensions)	£1,813	£1,215
Additional testing following the implementation of ISA 540 (revised) auditing accounting estimates and related disclosures	-	£1,631
Total fees	**£39,417**	**£43,187**

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

Cameron Waddell

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Audit Strategy Memorandum

Tees Valley Combined Authority

Year ended 31 March 2022

Contents

Audit and Governance Committee
Tees Valley Combined Authority
Teesside Airport Business Suite
Teesside International Airport
Darlington
DL2 1NJ

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

October 2022

Dear Audit and Governance Committee Members

Audit Strategy Memorandum – Year ended 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Tees Valley Combined Authority for the year ended 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Tees Valley Combined Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us, and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

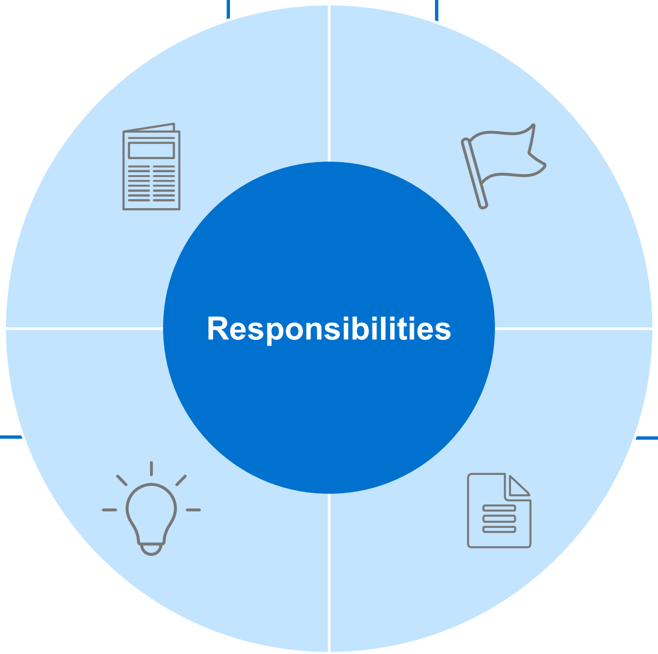
Overview of engagement

We are appointed to perform the external audit of Tees Valley Combined Authority (the Authority) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Director of Finance is responsible for the assessment of whether is it appropriate for the Authority to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding and conclude on a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Wider reporting and electors’ rights

We report to the NAO on the consistency of the Authority’s financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Cameron Waddell

Partner

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Cath Andrew

Senior Manager

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David Hurworth

Assistant Manager

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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place, then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

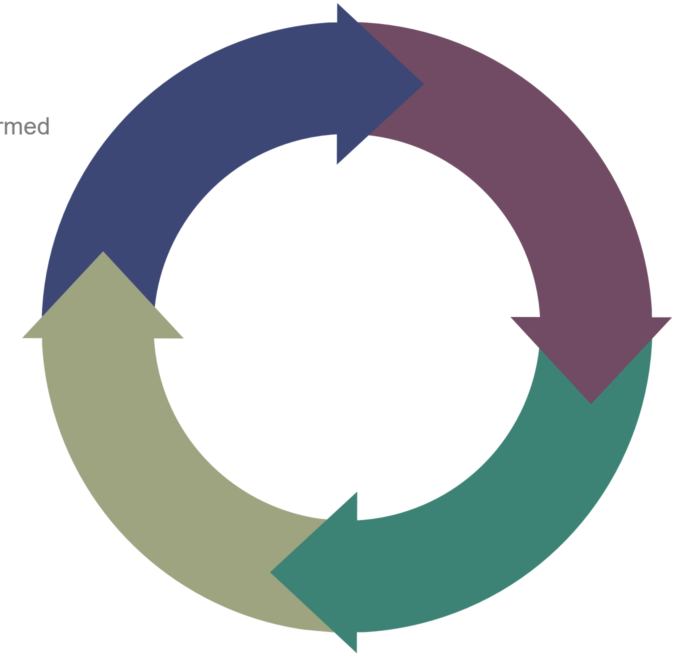
3. Audit scope, approach and timeline

Planning (September/October)

- Planning visit and developing our understanding of the Authority
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim (October)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion (November)

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

Fieldwork (October/November)

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Actuary (Hymans Robertson)	NAO's consulting actuary (PWC)
Property, plant and equipment valuation (group)	Knight Frank, Avison Young	Internal valuer NAO's consulting valuer (Gerald Eve) for third party information in challenging key valuation movements

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll and general ledger	Stockton-on-Tees Borough Council	Review of and access to records and information held at the Authority and at the service organization where required

3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Authority has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality
Our assessment of group materiality is set out in section 8.

Assessment of components
We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:
- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the first table in this section overleaf.

Nature and scope of planned work
The second table in this section sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work
Planned procedures are split into the following categories:
- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as 'significant' and subject to a full scope audit or specific audit procedures are:
- the Authority;
- South Tees Development Corporation; and
- Goosepool Group.

3. Audit scope, approach and timeline

Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
Tees Valley Combined Authority	Parent	Mazars LLP	Yes	Yes	Full – parent.
South Tees Development Corporation	Subsidiary 100% owned by the Authority	Mazars LLP	Yes	No	Significant component. Material income and assets, therefore, classed as a significant component.
Goosepool Group	Subsidiary 100% owned by the Authority	Azets	Yes	No	Significant component. Material assets, therefore classed as a significant component.

3. Audit scope, approach and timeline

Group audit approach (continued) – using 2021/2022 financial statements balances and transactions

Component	% of assets	% of income	Nature and scope of work
Tees Valley Combined Authority	34%	68%	**Full scope audit (Mazars)**
South Tees Development Corporation (Group)	42%	29%	**Full scope audit – reliance on the component auditor (Mazars)**
Goosepool Group	24%	3%	**Full scope audit. Review of, and reliance upon, the work of the component auditor (Azets)**
	100%	**100%**	

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

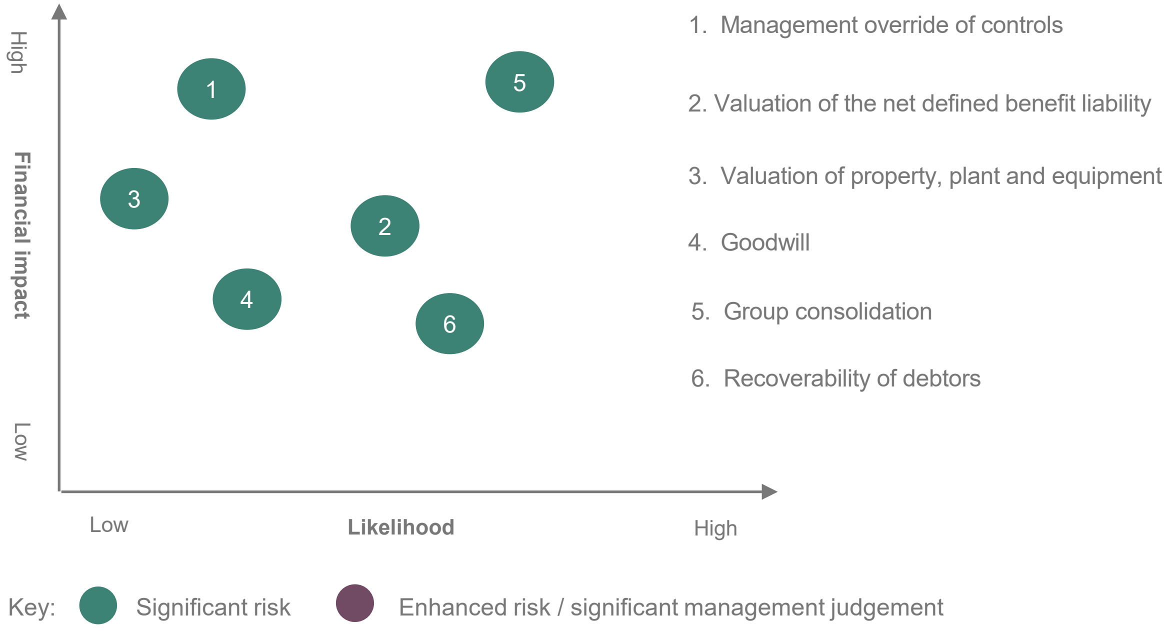
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls (Authority and Group)** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation (Authority and Group)** The 2021/22 financial statements are expected to contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	○	●	●	We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.
3	**Valuation of property, plant and equipment (Group)** The 2021/22 group financial statements are expected to contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group's holding of property, plant and equipment (PPE). Management will need to consider whether a valuation expert is required to provide information on valuations in line with the Code for STDC Group, or if not revalued in year management will need to gain assurance that asset values are not materially misstated. There remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of Group PPE to be an area of significant risk.	○	●	●	We will address this risk by placing reliance on the work of the component auditor for STDC Group's subsidiary; South Tees Developments Limited. If a valuer has been appointed by the subsidiary, we will consider the level of expert input and challenge by the component auditor. We will consider the reasonableness of the chosen classification category of the PPE under the Cipfa Code for the STDC Group statements, and undertake testing of any adjustment required to reclassify the PPE appropriately under the Code. If considered necessary we may then engage our own expert to enable us to assess the reasonableness of the valuations provided by the subsidiary's or Authority's valuer.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	**Goodwill (Group)** The financial statements contain a material entry in respect of goodwill relating to Teesside International Airport. The calculation of goodwill is based on estimates and assumptions which are open to challenge. This results in an increased risk of material misstatement.	○	●	●	We will discuss with key contacts any significant changes to the goodwill estimates. We will challenge the assumptions made and review the detailed work completed by the component auditor We will consult internally with colleagues with knowledge of goodwill from other sectors.
5	**Group consolidation (Group)** The 2020/21 consolidation of the subsidiary companies into the group resulted in material errors in the published accounts. This results in an increased risk of material misstatement.	○	●	●	We will discuss the consolidation process with officers. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures included for the subsidiaries.
6	**Recoverability of long-term debtors (Group)** There are long-term debtors between the Group and its Goosepool subsidiary which are increasing year on year as further money is invested.	○	●	●	We will discuss the nature of funding from central government and the process by which the funding is passed to the subsidiary to ensure the accounting treatment between the group and the subsidiary remains appropriate.

05

Section 05:

Value for money

5. Value for money

The framework for Value for Money work

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Authority has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Authority'] arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk-based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

5. Value for money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Authority's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, we have not identified any risks of significant weaknesses in arrangements date. We will report any identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Authority's appointed auditor

At this stage of the audit we are planning the following adjustments to the scale fees set by PSAA.

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work	£23,100	£23,100
Audit fees relating to work on the group audit	£8,078	£8,078
Additional fees in respect of VFM	£5,495	£5,495
Additional fees in respect of recurring increases arising from regulatory pressures	£1,215	£1,215
Additional testing following the implementation of ISA 540	£1,631	£1,631
One-off fee increased for in-year specific issues	TBC	£3,668
Total fees	£39,519	£43,187

Fees for non-PSAA work

We have not been separately engaged by the Authority to carry out additional non-audit work. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Authority to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	Authority £4,811 Group £7,059
Performance materiality	Authority £3,849 Group £5,294
Specific materiality We have not identified any areas where we consider that a specific materiality level should apply	
Trivial threshold for errors to be reported to Audit and Governance Committee	Authority £144 Group £212

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure at the surplus or deficit on provision of services. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to Audit and Governance Committee.

We consider that the gross revenue expenditure at the surplus or deficit on provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus or deficit on provision of services. Based on the draft published accounts we anticipate the overall materiality for the year ended 31 March 2022 to be in the region of £4.811m for the Authority and £7.059m for the Group (£3.160m for the Authority and £3.978m for the Group in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £144,000 for the Authority and £212,000 for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to Audit and Governance Committee

The following three types of audit differences above the trivial threshold will be presented to Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • enquiries of Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit an Risk Committee, Audit planning and clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Audit and Governance Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit and Governance Committee may be aware of.	Audit Completion Report and Audit and Governance Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Cameron Waddell

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

ITEM 13

TEES VALLEY COMBINED AUTHORITY - Audit & Governance Committee Forward Programme 2022/2023

Standing Items

- Declarations of Interest
- Minutes from the Previous Meeting & Action Tracker
- Group Update
- Internal Audit Actions Update
- Internal Audit Progress Report
- Internal Audit Reports
- External Audit Actions Update
- External Audit Progress Report
- Forward Programme
- Date and Time of the Next Meeting

Date	Items scheduled in year 2022/2023
2nd August 2022	Appointment of Chair and Vice Chair Appointment of Representative to South Tees Development Corporation Audit & Governance Committee TVCA 2020/21 Financial Statements (Latest position) TVCA Draft 2021/22 Financial Statements and Annual Governance Statement Internal Audit Annual Opinion Internal Audit Annual Plan Committee Effectiveness & Skills Audit Proposal Risk Management Compliance Update Risk Management Update
24th August 2022	External Audit Completion Report STDC External Audit Follow Up Letter Review & Approval of the TVCA Financial Statements 2020/21 and Annual Governance Statement
21st & 26th September 2022	Member Induction Sessions & Teesworks Site Tour
9th February 2023	Annual Reports External Audit Annual Plan 2021/22 (Audit Strategy Memorandum) External Audit Annual Report 2020/21 Subsidiary Audit Reports 2021/22 (Goosepool and TIA, South Tees Development Limited (Azets to attend) Annual Financial Accounts 2021/22 for TIA, Goosepool and STDL Committee Self Evaluation/Skills Audit Results & Analysis PSAA Appointment of External Auditors Update

May 2023 (Date TBC)	External Audit Completion Report Review of Anti - Fraud Policy Review of Whistleblowing Policy Review of Governance Policy & Framework Annual Review Terms of Reference External Auditors Annual Report 2021/22 External Audit Strategy Memorandum 2022/23 Proposals for tendering of Internal Audit Interim update to Committee on Progress of Committee Effectiveness Action Plan

Meeting Dates for 2023/24 to be confirmed with the Committee:

To be programmed for Q1 of 2023/24 (August 2023)

Appointment of Chair and Vice Chair
Appointment of Representative to South Tees Development Corporation Audit & Governance Committee
Draft Accounts (If meeting after 30 July)
Draft Reports
Review of Risk Management Policy & Framework
Review & Approval of Draft Annual Governance Statement
Internal Audit Annual Report/Opinion 2022/23
Internal Audit Strategy
Full update report to Committee on Progress of Committee Effectiveness Action Plan (if meeting after 30 July)

To be programmed for Q3 of 2023/24 (November 2023)
Review of Assurance Framework
Oversight of Governance Toolkit
Interim update to Committee

To be programmed for Q3 of 2023/24 (February 2024)
Oversight of Risk & Control Process
Final update on effectiveness of implementation of Action Plan and next steps

To be programmed for Q4 of 2023/24 (May 2024)
Annual Review of Terms of Reference

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AGENDA ITEM 14

REPORT TO THE TEES VALLEY COMBINED AUTHORITY AUDIT AND GOVERNANCE COMMITTEE

9th FEBRUARY 2023

REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

RE-TENDER OF EXTERNAL AUDIT CONTRACT

SUMMARY

This report presents the Tees Valley Combined Authority Audit & Governance Committee options for the re-tender of External Audit Contract that will cover the period 2023-24 to 2027-28 financial statements.

RECOMMENDATIONS

It is recommended that the Committee: -

1. Consider this report and the options presented in respect of future External Audit services;
2. Note that the preferred **Option 1** for progression of future External Audit Services has been agreed by Senior Management and notified to PSAA;
3. Note the progress made by PSAA in relation to their procurement process and next steps for the remainder of the process.

DETAIL

BACKGROUND

1. The Audit Commission closed at the end of March 2015 and therefore a number of their responsibilities were transferred to other organisations.

2. The Local Audit and Accountability Act 2014 set out the arrangements following closure of the Audit Commission including the transitional arrangements. The new framework for local public audit starts after the Commission's current contracts with audit suppliers end at the conclusion of the 2017/18 audits for local government sector bodies. A transitional body (Public Sector Audit Appointments Limited, or 'PSAA'), established by the LGA, is overseeing the contracts in the intervening period and has been specified by the Secretary of State to be the 'appointing person' to appoint a local auditor to audit the accounts of those authorities that 'opted in' to the national scheme run by PSAA.

3. Responsibility for preparing and issuing Codes of Audit Practice and guidance to auditors, and a power to carry out examinations into the economy, efficiency, and effectiveness with which relevant authorities have used their resources, passed to the Comptroller and Auditor General on 1 April 2015. The Local Audit and Accountability Act 2014 also provided for the Commission's data matching powers and the National Fraud Initiative to transfer to the Cabinet Office. The Commission's counter-fraud function transferred to the 'Counter Fraud Centre' established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

PSAA system and its purpose

4. The primary duty of the PSAA Board is to discharge the statutory objects and powers set out in its Articles of Association in accordance with the Companies Act 2006 and the company's founding documents.

5. PSAA is responsible for:
    - appointing auditors to local public bodies, including councils, police and crime commissioners, chief constables, fire and rescue authorities and other relevant principal local government bodies;
    - setting scales of fees, and charging fees, for the audit of accounts of relevant bodies;
    - overseeing the delivery by its appointed auditors of consistent, high-quality, and effective external audit services to opted-in bodies; and
    - ensuring effective management of contracts with audit firms for the delivery of external audit services to opted-in bodies.

PSAA performance

6. The PSAA prepare an annual audit quality summary report across all their supplier firms. This report is based on PSAA quarterly audit quality and contract monitoring reports.

7. PSAA report on the three headline indicators of compliance with professional regulation, client satisfaction, and contractual compliance, with relevant supporting information.

8. The PSAA Annual audit quality reports from 2019/20 financial year can be found here. Due to the impact of extended deadlines for reporting this is the latest Quality report available for consideration.

9. PSAA have taken the attributes that International Audit and Assurance Standards Board (IAASB) Framework expects to be present within a quality audit and distilled them into three tests which PSAA use to monitor the quality of audit services provided by auditors under our contracts:

    - Adherence to professional standards and guidance;

- Compliance with contractual requirements; and
- Effective relationship management.

10. In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting

11. In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out the proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function.

<u>Adherence to professional standards and guidance</u>

12. Information on the quality of local audit work in this report comes from the reports provided by the audit regulators, the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales ICAEW). The scope of the report(s) covers the whole of local audit, including those not opted-in to the PSAA appointing person arrangements and NHS bodies, but in PSAA judgement they believe they are able to use the findings to inform their contract monitoring arrangements.

13. The FRC is the primary regulator, and it reviewed the audits of 15 of the 271 bodies that meet the major local audit definition (Expenditure in excess of £500 million), 10 local authorities, two other local government bodies and three from the NHS, focusing in particular on audits with 'higher risk attributes'. The report sets out that nine financial statements audits (across four of the seven firms reviewed) did not meet the required standard (which is being assessed as '1 – good' or '2A – limited improvements required') for their work on financial statements, and that accordingly urgent action is required by the relevant firms to address the issues concerned; but the results at some of the reviews at some individual firms were encouraging with no more than limited improvements identified.

14. The FRC report commented specifically on three firms where it reviewed more than one engagement, those with the largest share of major local audits. The FRC reviewed six GT financial statement audits: one was assessed as meeting the required standard, and five as 2B (improvements required). The FRC reviewed two

Mazars financial statements audits which they assessed as 3 (significant improvements required). In terms of al the External Audit firm performance, Ernst and Young's audits reviewed by the FRC were assessed as meeting the required standard (no more than limited improvement). Two of the remaining four firms inspected (BDO, Deloitte, KPMG, and PwC) had audits that required more than limited improvement although these were not named by the FRC.

15. The FRC's reviews found that the quality of VFM arrangements conclusion work across all firms remains high, with all 15 reviews meeting the standard. The new Code of Audit Practice will change the scope of the VFM arrangements work from 2020/21 onwards.

Compliance with contractual requirements

16. For 2018/19 engagements there was a very large number (208, 42%) where an opinion was not given by the publishing date of 31 July 2019 set out in the Accounts & Audit Regulations. This compares to 2017/18, the first year with a 31 July deadline, when 65 (13%) opinions were delayed beyond the publishing date. To comply with auditing and ethical standards there is no statutory or contractual requirement date for an audit opinion to be provided by the publishing date.

17. The causes of the delays were identified by auditors as a broadly equal combination of:
    - Resourcing issues;
    - Dealing with technical audit and accounting issues; and
    - Poor quality working papers provided by authorities.

18. The third of instances where firms did not have sufficient staff to undertake particular audits is symptomatic of the vulnerability that has developed in the local audit market, and the lack of trainees and qualified staff with the appropriate knowledge to undertake this work.

Effective relationship management

19. PSAA surveyed all their 2019/20 Section 151 officers and Audit Committee chairs to judge the effectiveness of relationships between bodies and their auditors. The PSAA received responses from 198 (40%) Section 151 officers and 116 (24%) Audit Committee chairs. For 80% of respondents they confirmed they had frequent communications with their Auditors with 60% confirming they had communications around the timeliness of Auditor work.

20. The survey also highlighted the known tensions in local audit around resourcing and the topics of specific audit focus. Communication is the area where most improvement can be made with delays in reporting the need for an audit deferral or a fee variation highlighted in responses

Performance overall summary

21. The results of the professional regulatory reviews of financial statement work had 78% reviewed assessed as requiring no more than limited improvements. In contrast all VFM arrangements work inspected met this standard.

22. The fragility of the local audit market supply was exposed by the proportion (broadly one third) of delayed opinions where audit firms acknowledged that audit resourcing issues were a significant contributory factor.

23. PSAA client survey identified that there are improvements that firms can make in their communications with clients. For 2019/20 we requested firms to engage early on key issues such as where they believed that a fee variation would be required or a change to the audit timetable was needed.

Audit Firm specific performance 2020-21 financial year

Firm	**Total Audits**	**Opinion given**	**Outstanding at 30 Sept 2021**	
BDO	25	0	25	100%
Deloitte	26	2	24	92%
Ernst & Young	157	9	148	94%
Grant Thornton	179	22	157	88%
Mazars	87	8	79	91%
Total	**474**	**41**	**433**	**91%**

Redmond review

24. In June 2019 Sir Tony Redmond was asked to lead the "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting" which reported back in September 2020.

25. Redmond commented in his report letter to the Secretary of State for Housing, Communities and Local Government, that it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

26. The 23 Redmond review report recommendations were categorised into five main areas: -
    - Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)
    - Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)
    - Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)
    - Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)
    - Action to further consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

27. Within the report there were several inter-related recommendations in respect of the Quality of External Audit linked to the scale of fees chargeable for such work. It was clear from the report that to ensure an appropriate quality of External Market and competition that the scale of fees would need to be revisited to ensure adequate capacity and capability in the Local Authority External Audit market.

28. The Government issued a White Paper following the Redmond review titled "Restoring trust in audit and corporate governance: proposals on reforms" to seek views on how best to strengthen the UK External Audit Market. The consultation responses informed the Government response to the Redmond review which was published in May 2021

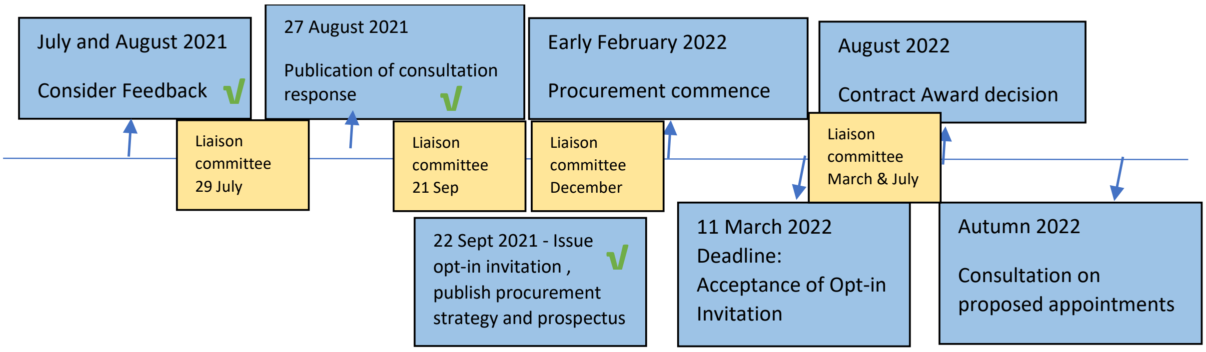
Key considerations for the tender of External Audit Services

Procurement strategy and requirements

29. The Procurement Strategy for STDC has been factored in as part of the overall TVCA Group requirements and has considered the following factors: -
    - Engage the market on the basis of realistically funded resource needs to meet the Group requirements
    - Local Audit and Accountability Act 2014 requirement for local government bodies to appoint their external auditors
    - Securing appropriate capacity and capability to deliver External Audit Services across TVCA Group activities including STDC requirements
    - Secure External Audit Services that provide proactive engagement and guidance on complex transactions
    - Ensure Auditors provide the necessary resources to deliver to statutory timescales across the Group
    - Ensure Auditors can demonstrate effective work with component Auditors to deliver timely Audit of financial statements

Timescales and procurement route

30. The PSAA timetable and current position at the time of writing this report is set out at Figure 1 below. This summary provides Members with an overview of how PSAA are intended to conduct their activities including the requirement for an OJEU compliant tender process nationally.



31. The appointment period for the PSAA procurement exercise will be 2023/24 to 2027/28 financial years. Due to the scale of the national PSAA procurement process they are required to follow a full OJEU process. The current threshold for OJEU tendering for services is £189,330 per contract. For a three-year contract value this equates to £63,110 per annum over three years.

TVCA Group (including STDC) options analysis

32. The TVCA Group as a local government public body. From 1 April 2015, local public bodies in England have been required to appoint their own auditors to audit their accounts annually. This system was introduced by the Local Audit and Accountability Act 2014 and came into effect fully in 2018-19 (have External Audit arrangements in place in line with (quote legislation here). Therefore, doing nothing and allowing the current contract to expire without an appropriate replacement service is not an option and would be unlawful. This left two options to either continue with the national PSAA process or for TVCA Group to conduct its own procurement exercise.

Option 1 – Continue with PSAA

33. The PSAA process for retendering exercise will mean, should TVCA Group decide to opt-in for the PSAA process, then the Group would be included alongside all other local government organisations across the country. The services procured are across a range of potential providers and the actual selection of the provider is not within TVCA Group gift to determine. TVCA Group would however be consulted on the appointment of Auditors.

34. The Local Government External Audit market is unlikely to differ for TVCA Group procuring separately versus what PSAA is procuring nationally as Audit firms make strategic decisions around their target audit markets irrespective of who is procuring.

35. The Group would need to consider if the additional benefits of selecting specific external audit suppliers outweighs the additional cost and effort from procuring separately to the PSAA process. Some of the key considerations in this regard are set out in Option 2 below.

36. To note Some 98% of relevant local bodies (all but 10) have opted in to the PSAA arrangements for the period from 2018 to 2023. **Option 1 has been progressed** following careful analysis by the teams.

Option 2 – TVCA Group conduct own tender

37. TVCA Group may seek to conduct its own separate External Audit service procurement process rather than opt-in to the PSAA process outlined earlier in this report. TVCA Group would seek consistent levels of service across the PSAA three main areas from its own process: -
    - Adherence to professional standards and guidance;
    - Compliance with contractual requirements; and
    - Effective relationship management

38. Following careful analysis, and soft market testing in the marketplace, TVCA Group (including STDC requirements) have decided to opt in and maintain the relationship with the PSAA and therefore will **progress Option 1** rather than this option.

39. The Group has made representations of its requirements to the PSAA given the bespoke nature of requirements whilst acknowledging there will remain standardised areas of Audit work to be completed.

PSAA process latest position

40. The PSAA completed its consultation process with all Local Authorities including STDC in the Autumn 2022 following STDC decision to opt-in.

41. The PSAA have also issued their "Formal communication to the chief finance officer of South Tees Development Corporation to confirm the auditor appointment from 2023/24". This followed a period of consultation from October to December 2022 with senior management on the proposed allocation of Auditor for STDC.

42. STDC have been allocated their External Auditor and they will be in contact with both senior management and the Chair in due course to work through the transition arrangements accordingly. The formal announcement will take place once PSAA processes have concluded.

43. The Group is evolving and changing rapidly with ever increasing complex needs and fee levels are likely to continue to increase to reflect External Audit activity and to ensure the necessary capacity and capability is secured from the Audit market. This also requires an appropriate External Audit firm that can meet STDC Group needs

and expectations for timescales of delivery going forward. Senior Management are satisfied with the outcome of the PSAA process and the Auditor appointment and will work with the proposed new Auditors as soon as practical.

FINANCIAL IMPLICATIONS

44. The re-tendering for External Audit services is expected to lead to an increase in fees due to the significant market instability in the Local Government External Audit market as detained in the Redmond Review. The Group requires capacity and capability to manage the changing and increasing scope and complexity of Group activities. Therefore, it is likely fees will increase irrespective of the option selected within this report.

LEGAL IMPLICATIONS

45. From 1 April 2015, local public bodies in England have been required to appoint their own auditors to audit their accounts annually. This system was introduced by the Local Audit and Accountability Act 2014, and came into effect fully in 2018-19.

46. This system applies to local authorities, fire authorities, Police and Crime Commissioners, clinical commissioning groups and NHS Trusts in England. A full list of the bodies covered by the local audit provisions can be found in Schedule 2 of the 2014 Act.

RISK ASSESSMENT

47. The content of this report is categorised as medium risk given the known volatility and market fragility in the Local Government External Audit market.

CONSULTATION

48. This report has included consultation with all Directors across the Group to inform the requirements for future External Audit Services. Further consultation will take place as part of the TVCA Cabinet reporting process including with; Tees Valley Management Group, Chief Executives and LEP Members.

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