



Annual Audit Letter

Tees Valley Combined Authority (and Group)
Year ended 31 March 2019





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2019. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 16 December 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 16 December 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 16 December 2019 we reported to the group auditor in line with the requirements applicable to the Authority's/Group's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

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 Group and whether they give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Authority on 16 December 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's and Group's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Completion of our audit work was delayed this year due to complexities in the reporting and audit in one of the TVCA group components, which led to delays in the component auditor being able to finalise their audit work. We reported details in our Audit Completion Report to the Audit and Governance Committee and update letter in July 2019, in our verbal update to the Audit and Governance Committee in October 2019, and subsequent follow up letter in December 2019. We liaised with management and the component auditor throughout this time to try and resolve matters and conclude our work as soon as possible.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of Gross Operating Expenditure at the surplus or deficit on provision of services level.	Authority: £1.763m Group: £1.865m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Authority: £52.9k Group: £55.9k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none"> - Related Party Transactions - Senior manager remuneration 	Authority and Group: £100k Authority £96k, Group £119k

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (Authority and Group)</p> <p>In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought in each of these areas and did not highlight any material issues.</p>
<p>Property, plant and equipment valuation (Group)</p> <p>The 2018/19 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE.</p> <p>The Authority engaged a valuation expert to provide information on valuations. 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 therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We relied on the work of the component auditor for TVCA Group's subsidiary; Goosepool Group (which incorporates Goosepool and DTVA), as well as our own audit of South Tees Development Corporation as the other TVCA Group component that included PPE valuations. This included consideration of experts used in both component audits.</p> <p>We considered the reasonableness of the chosen classification category of the PPE under the Cipfa Code for the TVCA Group statements, and undertook testing of the adjustment required to reclassify the PPE appropriately under the Code.</p>	<p>Our work on the TVCA Group statements, and the work undertaken in the individual component audits resulted in very significant amendments to the TVCA Group financial statements.</p> <p>All material issues were adjusted in the TVCA Group financial statements. After adjustment we were satisfied that we had obtained sufficient assurance over TVCA Group PPE valuations.</p>
<p>Defined benefit liability valuation (Authority and Group)</p> <p>The financial statements 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.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. We also considered national pensions issues arising.</p>	<p>Our work provided the assurance we sought and did not highlight any material issues. Our work identified no indication of material estimation error in respect of pensions.</p>

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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	Loan agreements for the intra group loans between the Authority, South Tees Development Corporation, and South Tees Developments Limited were not signed until July 2019.
Potential effects	Lack of clarity about responsibilities and obligations between the different group organisations, including payment terms if signed agreements are not in place.
Recommendation	If funds are made available to other bodies in the group, this should be underpinned by formal agreements, which should be signed at the time the funds are released.
Management response	Although management in all organisations were aware of the conditions attached to the loans we recognise that formal documentation should be drawn up at the time of the agreement in order to formalise and document these terms. We will ensure in the future that all intra group loans are documented and formalised prior to the loan being actioned.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Authority on 16 December 2019, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> • Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Strategic Economic Plan (SEP) 2016-2026 and Investment Plan for 2019-2029 in place, available on the Authority's website. • No data quality issues in respect of performance information we are aware of. • Management team in place. Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2019/20 to 2022/23, and is updated at least annually. • Periodic reporting to Cabinet in the year. • Management assurance framework in place together with risk register. • Devolution deal Implementation Plan incorporates high level risks. • Internal Audit in place. • 2018/19 Annual Governance Statement produced and approved. 	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<ul style="list-style-type: none"> • MTFP in place for the period the period 2019/20 to 2022/23. • Nature of the Authority's funding and expenditure does not indicate any significant risk to achievement of strategic priorities in the short term. Potential Brexit risks being monitored. • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. Group assets are subject to separate arrangements at entity level. • Significant element of the Authority's funding is being used to deliver capital projects. These assets are however not held by the Authority. SEP and Investment Plan identifies future large scale capital schemes/priorities. • HR and payroll functions provided by Stockton BC and HR policies and procedures in place from creation. The Authority is continuing to review capacity as its responsibilities continue to further develop. 	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> • Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 Local Authorities in the Tees Valley and other public and private organisations. • Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies. • SEP, Investment Plan and website identify organisations that the Authority is working with in order to achieve its strategic priorities. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6). 	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Informed decision making</p> <p>As part of agreeing its investment plan in 2018/19, the Authority Cabinet agreed to purchase Durham Tees Valley Airport.</p>	<p>We reviewed the business case presented to Cabinet to consider whether it contained relevant information to enable a reasonable, informed decision to be made.</p>	<p>We concluded that the business case to purchase the airport was extensive and set out key issues associated with the proposed purchase, with external advice having been obtained for areas such as legal advice and valuations (including the key assumptions made by the valuers in arriving at their various valuations reported), so that an informed decision could be made by Cabinet.</p> <p>We were therefore satisfied that the risk we identified at the planning stage had been mitigated and that adequate arrangements had been put in place in respect of Cabinet making an informed decision.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 16 December 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, issued on 1 May 2019 and presented to Audit and Governance Committee at its next meeting in July 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£29,138*	£33,310**

* As reported in our Audit Strategy Memorandum.

** Subject to agreement by PSAA, and includes additional fees in relation to technical accounting issues from incorporating new group component in 2018/19, and dealing with technical errors and issues arising in draft statements related to the consolidation.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

The Authority will need to incorporate the outcome of the Spending Review, when undertaken, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Authority recognises the key issue is the planning and management of its finances to ensure it remains financially resilient and able to deliver its Investment Plan.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government (which includes the Corporation). A consultation has been undertaken to inform the direction and strategy for local government annual accounts, and we await its outcome.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Authority (including other components in the Group) will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

Next year's audit and how we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Authority by:

- continued liaison with the Authority's Internal Auditors to minimise duplication of work;
- attending Audit and Governance Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Authority to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Corporation has taken a positive and constructive approach to our audit and we wish to thank the Cabinet, Audit and Governance Committee members and officers for their support and co-operation during our audit.

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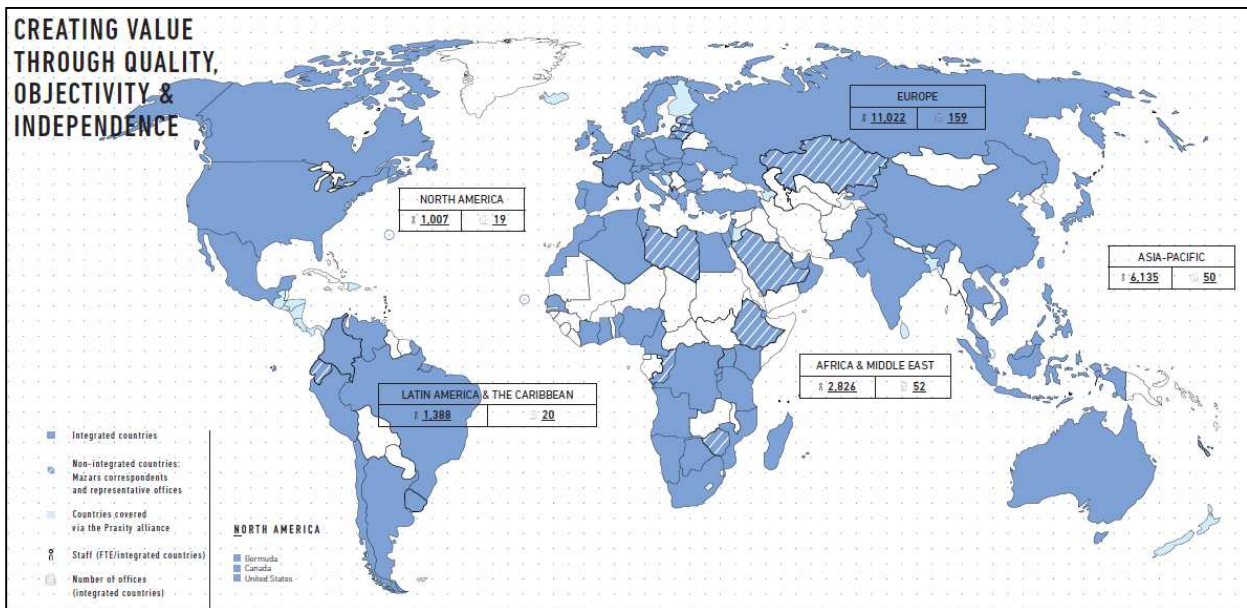
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MAZARS AT A GLANCE

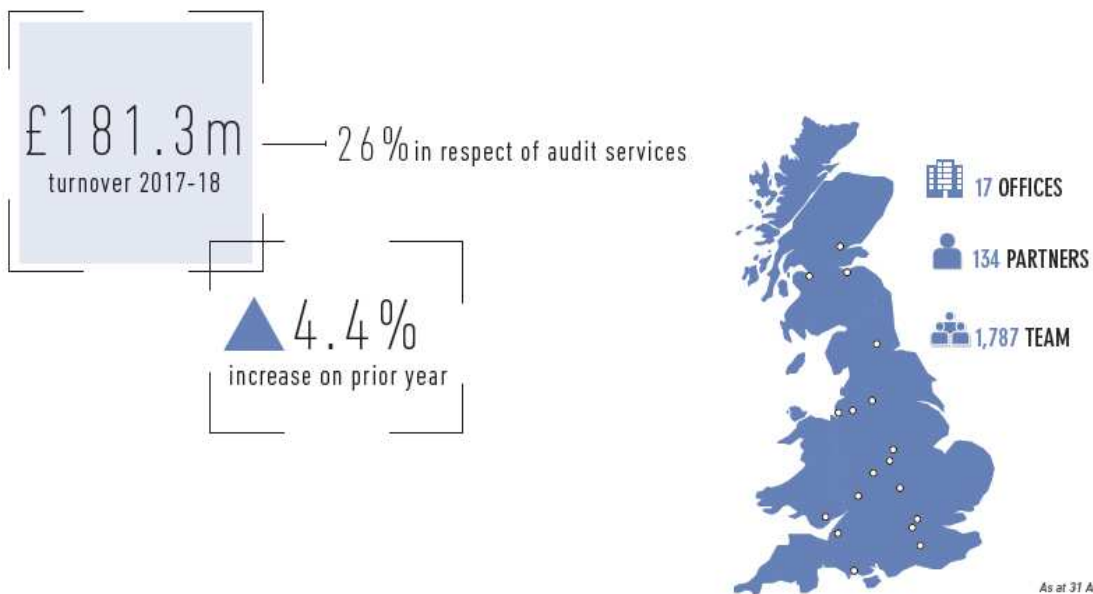
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Mazars Internationally



Mazars in the UK



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