Audit and Governance Committee
Agenda

Date: Thursday 31st May, 2018 at 10.00 am

Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:
Chair - Councillor Nicky Walker (Middlesbrough Borough Council)
Vice Chair - Councillor Michael Dick (Redcar & Cleveland Borough Council)
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)
Councillor Charles Johnson (Darlington Borough Council)
Councillor Sandra Belcher (Hartlepool Borough Council)
Paul Bury (Independent member)
Christopher White (Independent member)
Jonny Munby (Independent member)

AGENDA

1. **Introductions**

2. **Apologies for absence**

3. **Declarations of interest**

4. **Minutes**
   The minutes of previous meetings for confirmation and signature

5. **Internal Audit Annual Report and Opinion**
   Attached

6. **External Audit - Progress Report**
   Attached

7. **Audit Strategy Memorandum**
   Attached

8. **Risk Management Strategy & Corporate Risk Register**
   Attached

9. **Annual Financial Statements – Draft prior to Audit (Cabinet)**
   Attached

10. Internal Audit Work Programme 2018/19
Attached

11. Adult Education Budget
Attached

12. Forward Plan & Action Tracker
Attached

Date of the next meeting
Thursday 26th July 2018 at 10.00am

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.
Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people please contact: Sharon Jones – 01642 524580 – sharon.jones@teesvalley-ca.gov.uk

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.

Procedures for Declaring Interests

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.

Sensitive Information

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

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Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY

Tuesday 5th September 2017 at 2.00pm

MEETING

ATTENDEES

Members		
Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Cllr Michael Dick (Vice Chair)	Redcar & Cleveland Borough Council	R&CBC
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Alan Coultas	Darlington Borough Council	DBC
Colin Fyfe	Independent Member	
Paul Bury	Independent Member	
Apologies for absence		
Cllr Charles Johnson	Darlington Borough Council	DBC
Cllr Sandra Belcher	Hartlepool Borough Council	MBC
Officers		
Julie Gilhespie	Finance Director	TVCA
David New	Senior Finance Manager	SBC
Andy Bryson	Finance Manager	SBC
Andrew Barber	Audit & Risk Manager	SBC
Sarah Brackenborough	Governance Manager	TVCA
Also in Attendance		
Mark Kirkham	Partner	Mazars LLP
Gareth Roberts	Senior Manager	Mazars LLP

AGC 13/17 **INTRODUCTIONS**

Introductions from Committee members and officers were made. Since the last meeting Tees Valley Combined Authority has appointed a Finance Director, Julie Gilhespie who was introduced to the Committee as the lead officer for all future Audit and Governance Committee meetings.

AGC 14/17 **DECLARATIONS OF INTEREST**

There were no interests declared.

AGC 15/17 **MINUTES**

Consideration was given to the minutes of the meeting held on 28th June 2017

Resolved that the minutes be confirmed and signed as a correct record.

AGC 16/17 **TERMS OF REFERENCE**

The recommended terms of reference for the Committee have been drafted based on suggested terms of reference published by CIFPA. The terms of reference need to be agreed by the Committee.

Resolved that the recommended Terms of Reference are agreed but that these should be mapped to the Committee's Forward plan to ensure alignment.

AGC 17/17 **INTERNAL AUDIT ANNUAL REPORT**

Consideration was given to a report showing the current position in respect of the 2016/2017 audit plan and the results of the work undertaken.

The Committee requested that target completion dates be added to the Internal Audit plan for future meetings.

Resolved that the internal Audit report is noted and target completion dates will be added to the plan where possible.

AGC 18/17 **EXTERNAL AUDIT COMPLETION REPORT AND VALUE FOR MONEY OPINION**

Consideration was given to the external audit completion report for 2016/17

The detail of the audit completion report was shared and it was confirmed that the auditors are satisfied with the draft financial report. There are no adverse matters that are required to be brought to the attention of the Committee.

The Committee thanked the Auditors for the work carried out to ensure that a positive external audit report was received.

Resolved that the External Audit completion report is noted.

AGC 19/17 **STATEMENT OF ACCOUNTS**

Consideration was given to a report regarding the statement of accounts for 2016/17. The accounts have been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" which is prepared under International Financial Reporting Standards.

Resolved that the Statement of Accounts report be noted

AGC 20/17 **ANNUAL GOVERNANCE STATEMENT**

The Accounts and Audit Regulations 2015 require authorities to conduct a review at least once a year of the effectiveness of their governance framework and produce an Annual Governance Statement**.**

Consideration was given to a report regarding the draft Annual Governance statement for 2016/17. The Statement of accounts and Annual Governance statement will be presented for Cabinet approval on 29th September. Following Cabinet approval the Governance Statement will be signed by the Mayor and the Managing Director.

Resolved that The draft Annual Governance statement is noted

AGC 21/17 **RISK MANAGEMENT STRATEGY AND CORPORATE RISK REGISTER**

Consideration was given to a report regarding the Combined Authority Risk Management Strategy and the Corporate Risk Register at the end of the second quarter of 2017/18.

It was explained that the strategy sets Tees Valley Combined Authority's approach to risk management and integrates the requirements of the Single Pot assurance Framework.

Discussion took place around the strategy and the high risks showing on the register. The Committee requested that further detail on risk appetite is made available to them to explain further the approach to this.

Resolved that:

- The Committee approve the Tees Valley Combined Authority Risk Management Strategy
- The Committee considered the contents of the Risk register

AGC 22/17 **TREASURY MANAGEMENT STRATEGY ANNUAL REPORT**

Consideration was given to a report informing of the performance against the Treasury Management and prudential indicators set in the Treasury Management Strategy.

Discussion took place regarding the link between risk appetite and investment limits. The Committee also requested a list be provided showing key documents, when these will be published and what approval route they take.

Resolved that:

- The report be noted
- A timetable of key documents is provided to the Committee

AGC 23/17 **WORK PROGRAMME**

Consideration was given to the work programme for the Committee.

Resolved that the work programme is noted.

DATE OF NEXT MEETING

The date of the next meeting to be held at Cavendish House on 1st December 2017 is noted.

Minutes

TEES VALLEY COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY

Friday 19th January 2018 @ 3:30pm

MEETING

ATTENDEES

Members		
Cllr Nicola Walker (Chair)	Middlesbrough Borough Council	MBC
Paul Bury	Independent Member	
Cllr Barry Woodhouse	Stockton Borough Council	SBC
Cllr Charles Johnson	Darlington Borough Council	DBC
Apologies for absence		
Andrew Lewis	Managing Director	TVCA
Cllr Sandra Belcher	Hartlepool Borough Council	HBC
Cllr Michael Dick	Redcar & Cleveland Borough Council	RCBC
Officers		
Julie Gilhespie	Finance Director	TVCA
Andy Bryson	Finance Manager	SBC
Sally Henry	Governance & Personnel Officer	TVCA

The meeting was not quorate and therefore no decisions could be made. The meeting went ahead so members could discuss items that did not require a decision

INTRODUCTIONS

As the meeting was not quorate again, there was a discussion surrounding how this can be prevented from happening in the future. Suggestions were made re: increasing the membership and lowering the quorum.
The group were advised that there has been some interest in the vacancy for an independent member following the resignation of Colin Fyfe.

DECLARATIONS OF INTEREST

There were no interests declared.

MINUTES

The minutes of the meeting held on 5th September 2017 could not be considered as the meeting was not quorate.

Resolved that the minutes be considered at the next meeting.

TREASURY MANAGEMENT STRATEGY (2018/19)

Consideration was given to the Treasury Management Strategy report. Members were happy to recommend the report to Cabinet subject to changes discussed.

TREASURY MANAGEMENT PRACTICES (2018/19)
Members considered a report which informed them of the proposed 2018/19 Treasury Management Practices for Tees Valley Combined Authority.
Members were happy to endorse the report subject to changes requested.

GENERAL RESERVES

Consideration was given to a report that sets out the background and methodology used in relation to the holding of reserves by the Combined Authority.

Members noted the report.

FORWARD PLAN

An additional meeting of the Audit & Governance Committee will be convened in March. It was suggested that the items on the Forward Plan for the meeting scheduled for 28th February be split between the 2 meetings with Corporate Risk Register and Anti-Fraud & Corruption Agreement moving to the March meeting.

DATE OF NEXT MEETING

28th February, 2018 at 10am

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 5

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

31 MAY 2018

REPORT OF THE FINANCE DIRECTOR

INTERNAL AUDIT ANNUAL REPORT 2017-18

SUMMARY

This is the annual report of the Head of Internal Audit as required by the Public Sector Internal Audit Standards (PSIAS). The report includes the Audit & Risk Manager's annual opinion on the overall adequacy and effectiveness of the Authority's internal control and governance processes. As such it forms an integral part of the formulation of the Authority's Annual Governance Statement.

This report encompasses the reporting requirements specified in Standard 2450 of the PSIAS.

RECOMMENDATIONS

It is recommended that:-

1. That the Audit Committee receives the Annual Internal Audit Report for 2017/18 incorporating the opinion on the Authority's control environment (paragraph 1.7) and the performance of the Internal Audit Section.

DETAIL

Background

1. Internal Audit is an independent appraisal function established by the Authority to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Authority has adequate accounting records and control systems.

Current Position

2. The attached report shows the current position in respect of the progress against the 2017/2018 audit plan and the results of the work that has been undertaken.

FINANCIAL AND LEGAL IMPLICATIONS

None

RECOMMENDATIONS

i. That the Audit Committee receives the Annual Internal Audit Report for 2017/18 incorporating the opinion on the Authority's control environment (paragraph 1.7) and the performance of the Internal Audit Section.

LEGAL IMPLICATIONS

None

RISK ASSESSMENT

When managers implement the recommendations agreed to, within the audit process, the risk of either, fraud, corruption or loss of property (including data) should be reduced

CONSULTATION

None

Name of Contact Officer: Andrew Barber
Post Title: Audit & Risk Manager
Telephone Number: 01642 526176
Email Address: a.barber@stockton.gov.uk

Background Papers (Unpublished documents that have been relied on, to a material extent in preparing the report and do not include sensitive information. If there are any such documents, which is likely to be rare, the author of the report should arrange for any such document(s) to be published on behalf of the TVCA and be available for inspection at the TVCA Offices)

- PLEASE NUMBER EACH PAGE OF THE REPORT AND ANY APPENDICES.
- EACH APPENDIX SHOULD BE REFERRED TO IN THE REPORT AND HIGHLIGHTED IN **BOLD PRINT.**
- ON COMPLETION OF THE REPORT PLEASE ENSURE THAT ALL TEXT IS BLACK AND THIS PAGE IS DELETED

Members' Interests (the text below is fixed and should not be altered by the author).

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code**.**

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then**, in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise **(paragraph 19** of the code**)**

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 20** of the code.

Members are required to comply with any procedural rule adopted by the TVCA which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 21** of the code)

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INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENTS

2017/18

1 EXECUTIVE SUMMARY

Introduction

1.1 Under the Accounts and Audit Regulations 2015, the Authority is required to *"undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"*. For the purposes of the 2016/17 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).

1.2 The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control. Following the review the Authority must approve an Annual Governance Statement prepared in accordance with proper practices. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Authority's system of internal control.

1.3 It is management's responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Quality Assurance and Improvement Programme

1.4 The Quality Assurance and Improvement Programme (QAIP) required by the PSIAS are more prescriptive than the quality assurance framework required by the 2006 Code of Practice. The framework has been maintained during the year.

Planned Coverage and Output

1.5 The 2017/18 Audit Plan was approved by the Audit Committee on 1 March 2016. Best practice requires that audit resources should target those areas that represent the greatest risk to the Authority.

1.6 The plan has to be flexible to allow for movement in the number of audits in the plan and days delivered to reflect changing client needs. The overall number of audit engagements will always be subject to change over the course of the year as audits may be deferred or no longer be required. Additional audits may be added if concerns are raised about a specific control area.

Overall Assurance

1.7 As the Head of Internal Audit, I am required to provide the Authority with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion on:

- The written reports on all internal audit work completed during the course of the year and the subsequent audit opinions;
- Any follow up exercises undertaken in respect of previous years' internal audit work;
- The proportion of Tees Valley Combined Authority's audit need that has been covered within this period;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

Opinion on the overall adequacy and effectiveness of the Authority's governance, risk and control framework
From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Authority's control environment to support the preparation of the Annual Governance Statement. **It is my opinion that the Combined Authority continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver its objectives, and detect fraud and other malpractice within a reasonable period of time.** **Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction.**

Statement of conformance with the PSIAS
A self-assessment of compliance with the PSIAs has been undertaken using the checklist included in the CIPFA Local Government Application Note to the PSIAS. The checklist runs to 35 pages and contains over 300 conformance targets.

This has been validated by an independent external assessor in-line with the requirements to undertake such a review at least once every 5 years.

The conclusion of the review is that the service conforms with the requirements of the standard. There are minor areas which may warrant further development but they do not have a material impact on the overall opinion.

The areas of non-compliance identified in the self-assessment and validated by the external review are as follows:-

- **Feedback is not sought from the Chair of the Audit Committee on the Audit & Risk Manager's performance appraisal,**
- **Assignments for on-going assurance engagements should be rotated periodically, this is not always possible given the size of the team and some areas that require technical expertise such as ICT. Audits are rotated wherever practical. This is mitigated by the code of conduct signed by auditors.**
- **Organisational independence expects the Audit and Risk manager to report to an organisational level equal to or higher than corporate management team. For line management purposes the Audit & Risk Manager reports to the Procurement and Governance Manager however this is mitigated by having a secondary reporting line to the Director of Finance & Business Services and other senior management and the Audit Committee as required.**

Many of the compliance targets relate to consulting engagements. As the Internal Audit Section does not undertake any such engagements, the answers to these questions have to be "no".

2 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

2.1 Internal Audit is defined in the PSIAS as:-
"*Internal auditing is an independent, objective and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".*

Adherence to the PSIAS ensures that Internal Audit complies with this definition.

2.2 In addition to the performance information shown below the following is evidence demonstrating Internal Audit's compliance with the PSIAS:-

- Independence/no interference – There has been no interference during the year that would require the escalation processes to be invoked.
- Access to records – The service has been provided access to all records/personnel required to undertake the work in the plan.
- Director of Finance and Business Services' operational responsibility – Appropriate arrangements have been put in place to allow an objective opinion of the other operational services for which the Director of Finance and Business Services has responsibility.
- Staff skills mix – An appropriate mix of staff has been in place throughout the year as defined in the audit competency framework.
- Staff training – Training has been given to staff as required including a staff away day. Staff have also completed a minimum of 20 hours CPD.
- Code of Conduct for Auditors – All auditors have signed up to an audit code of conduct and there is no evidence that this has not been complied with.

Performance Indicators

2.3 The PSIAS are unequivocal in that a QAIP must include both internal and external assessments: internal assessments are both ongoing and periodical and external assessments at least once every five years.

2.4 An independent external peer review was undertaken to assess the effectiveness of internal audit and compliance with the new standards. The review concluded:-

- The Internal Audit service complies fully with all key requirements of the Standards, and overall the level of compliance is very high.
- On the basis of the assessment and supporting evidence the Internal Audit service is shown to be well managed. It provides a good standard of service covering all key aspects of its remit and is well regarded and effectively utilised by senior management.
- No significant issues have been identified by the assessment process. The opportunities for improvement will improve service delivery and effectiveness, but they do not in themselves represent a material risk to the Internal Audit service or its ability to deliver the audit programme.

3 AUDIT PROGRESS

2017/18 Unplanned Audits Added to the Plan

None

2017/18 Audit Plan Current Position as at 10 May 2018

Audit ID	Name	Status	Assurance	Recommendations			
				L	M	H	C
2524	Virtualisation	Complete	Full Assurance	0	0	0	0
2526	VAT	Complete	Full Assurance	0	0	0	0
2528	Server Operating Systems	Complete	Full Assurance	0	0	0	0
2535	Payroll & Absence Recording	Complete	Full Assurance	0	0	0	0
2536	Environmental Controls	Complete	Full Assurance	0	0	0	0
2539	Treasury Management	Complete	Full Assurance	0	0	0	0
2542	Debtors	Complete	Full Assurance	0	0	0	0
2543	Data Protection	Complete	Substantial Assurance	0	0	0	0
2544	Creditors	Complete	Full Assurance	2	0	0	0
2545	Cloud Computing	Complete	Full Assurance	0	0	0	0
2549	Recruitment Services	Complete	Substantial Assurance	0	0	0	0
2552	Active Directory	Complete	Full Assurance	0	0	0	0
2558	Business Continuity & Disaster Recovery	Complete	Substantial Assurance	0	0	0	0
2559	Officer Payments - Mileage	Complete	Substantial Assurance	0	2	0	0
2564	Freedom of Information	Complete	Full Assurance	0	1	0	0
2568	ICT Backup & Recovery / Disaster Recovery	Complete	Substantial Assurance	0	0	0	0
2569	Outlook/Email	Complete	Full Assurance	0	0	0	0
2581	Absence Management	Complete	Full Assurance	1	0	0	0
2584	Bank Reconciliation	Complete	Full Assurance	0	0	0	0
2590	Grant Audit Work 2017/2018	Complete	Full Assurance	0	0	0	0
2596	Investment Fund	On-Going					

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Audit Progress Report

Tees Valley Combined Authority

May 2018

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CONTENTS

1. AUDIT PROGRESS

Audit progress

This report sets out progress on the external audit for 20171/8.

Since the Committee last met, we have:

- had update meetings with finance in respect of planning for the 2017/18 final audit visit;
- undertaken some early testing of income and expenditure that will reduce pressure in the final visit for the finance team and ourselves; and
- kept up to date through our on-going review of agendas and minutes.

Our audit work is on track for this time of year, and we have no matters to raise with the Committee at this stage of our audit.

Members will remember from earlier updates that the key challenge this year is to adhere to the new statutory timetable for accounts production and audit. We have continued to work with officers as they seek to streamline arrangements for preparing your statement of accounts. Officers plan to produce the draft accounts requiring certification by the end of May 2018 and we aim to complete the audit by the end of July 2018.

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

	Publication
1	**Financial difficulties experienced by Northamptonshire County Council**
2	**Local authorities encouraged to consider local public accounts committees, February 2018**
3	**Preparing for full GDPR implementation by 25 May 2018**

1. Financial difficulties experienced by Northamptonshire County Council

There has been much media coverage of Northamptonshire County Council's financial problems, which led to the Council issuing a section 114 notice stopping all non-statutory spending (the first such notice issued anywhere for almost 20 years), and difficulties in setting a legal budget for 2018/19 which are still ongoing. These issues highlight the impact that austerity measures can have on local government services, and the importance of delivering any savings needed to balance the budget, however difficult and unpalatable such decisions might be.

The three Public Finance articles (links below) provide a good summary of these issues:
http://www.publicfinance.co.uk/news/2018/02/northants-revised-budget-finds-further-ps99m-savings1
http://www.publicfinance.co.uk/news/2018/02/northamptonshire-review-budget-following-audit-warning
http://www.publicfinance.co.uk/news/2018/02/northamptonshire-sparks-warnings-other-councils-could-fail

2. Local authorities encouraged to consider local public accounts committees, February 2018

Research published by Association for Public Service Excellence (APSE) and written and researched by the Local Governance Research Unit at De Montfort University explores how public services, and the decisions made about them by unelected bodies, can be held to account by local government as an elected governing body. Moreover, it seeks to understand the developing and expanding role of local government as both a vehicle for public accountability and in influencing and shaping the governance networks within which it exists.

The report '***Bringing Order to Chaos. How does local government hold to account agencies delivering public services?'*** makes a series of recommendations including:

- A Local Public Accounts Committees should be formed by all councils and be given the same statutory powers over external agencies as has health scrutiny in relation to the NHS
- Securing public accountability must be developed as a role for all councillors and not restricted to a functional overview and scrutiny committee process
- Robust accountability processes need to be put in place for all arms-length bodies created by a council. Mechanisms must be put in place whereby all other councillors are able to challenge, question, seek justification from and influence the actions of arms-length bodies and scrutiny and full council should be engaged in such a process
- Councils should produce a local 'governance framework' policy document which identifies all those organisations with which the council interacts and which creates a shared vision of the development of public services across the councils area
- Councils should create a 'governance forum' where all those organisations with which the council interacts, can regularly meet to ensure a co-ordinated approach to public service delivery and long-term planning for service development and contribute to the 'governance framework'
- There should be a legal requirement – through an extension of the principle of a 'duty to co-operate' - on all public service providers to engage with local government, at the earliest possible time, when developing policy and taking decisions about public services

The full report is available to download for free.
http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/bringing-order-to-chaos-how-does-local-government-hold-to-account-agencies-delivering-public-services/

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

3. Preparing for full GDPR implementation by 25 May 2018

In January and February 2018, we ran two workshops on compliance with GDPR.

We thought a summary of the requirements would be helpful for Members.

The EU's **General Data Protection Regulation (GDPR)** is the result of four years of work by the EU to bring data protection legislation into line with new, previously unforeseen ways that data is now used.

Currently, the UK relies on the Data Protection Act 1998, which was enacted following the 1995 EU Data Protection Directive, but this will be superseded by the new legislation. It introduces tougher fines for non-compliance and breaches, and gives people more say over what organisations can do with their data. It also makes data protection rules more or less identical throughout the EU.

This is the **first comprehensive regulation** dedicated to the European data protection rules in 20 years. Adopted into law on 27 April 2016 and **came into force on 25 May 2016**.

By **25 May 2018**, all organisations are required to have implemented its principles, regardless of Brexit.

The key principles of GDPR are:

- **Fair and Lawful** – Must have legitimate grounds for collecting and using the personal data. Use in accordance with the law and regulations. Transparency.
- **Purposes** should be specified, explicit and legitimate
- **Proportionality** – Must hold personal data about an individual that is sufficient for the purpose it is held for. Do not hold more information than needed for that purpose.
- **Accuracy** - Carefully consider any challenges to the accuracy of information. Consider whether it is necessary to update the information.
- **Deletion** - Personal data shall not be kept for longer than necessary. Only relevant data can therefore be kept.
- **Subject's Access** - Right of access, Right to object to processing, Right to prevent processing for direct marketing, Right to object to decisions being taken by automated means, Right to have inaccurate personal data rectified, blocked or destroyed.
- **Security measures** - Take all necessary steps to ensure the data security.
- **Transfers Limitation** - No transfer to a country or territory outside the EEA unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects.

In the UK, the Information Commissioner will have a key role.

> "It's an evolutionary process for organisations – 25 May is the date the legislation takes effect but no business stands still. You will be expected to continue to identify and address emerging privacy and security risks in the weeks, months and years beyond May 2018. That said, there will be no 'grace' period – there has been two years to prepare and we will be regulating from this date.
>
> But we pride ourselves on being a fair and proportionate regulator and this will continue under the GDPR. Those who self-report, who engage with us to resolve issues and who can demonstrate effective accountability arrangements can expect this to be taken into account when we consider any regulatory action."

Information Commissioner – Elizabeth Denham, 22 December 2017

The GDPR requirements are particularly important to local government, given the nature of their activities, dealing directly with citizens and holding a range of personal and sensitive data. While there has been much focus on potential financial penalties, there is a need to see this more as an opportunity for enhanced accountability, to ensure that citizens' data is processed in a secure but transparent manner, and realise the benefits to be gained by building trust with citizens through the adoption of a fair and transparent approach to the collection and use of their data. Recent high profile cases highlight the risks of what can happen if data is not adequately protected.

3. Preparing for full GDPR implementation by 25 May 2018 (continued)

What organisations must do now – especially if they are 'behind' with preparations for GDPR – is set out below.

Firstly Organisational commitment – Preparation and compliance must be cross-organisational, starting with a commitment at the highest level. There needs to be a culture of transparency and accountability as to how you use personal data – and recognising that the public has a right to know what's happening with their information.

Privacy Assessment - Ensure you perform a privacy assessment to understand what data you have, from where it is sourced, to whom you provide it, and for what purposes it is used. This will involve reviewing your contracts with third party processors to ensure they're fit for GDPR. Implement accountability measures - including appointing a data protection officer if necessary, considering lawful bases, reviewing privacy notices, designing and testing a data breach incident procedure that works for you and thinking about what new projects in the coming year could need a Data Protection Impact Assessment.

Compliance & Monitoring - Confirm your state of compliance to existing legislation, and whether there are any current operational weaknesses, in-house and within third parties. Perform a gap analysis between as-is and the GDPR to-be.

Privacy Training – Ensure staff know their responsibilities and are appropriately trained.

Privacy Governance - Prepare a strategy and a plan to achieve full GDPR compliance. Prioritise development. Address the riskier areas of non-compliance first. Be able to demonstrate commitment to reasonable and realistic timescales for addressing other weaknesses and shortcomings in respect of the new legislation and, similarly, commitment to continuous monitoring, review and improvement. Ensure appropriate security – you'll need continual rigour in identifying and taking appropriate steps to address security vulnerabilities and cyber risks.

3. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
www.mazars.co.uk

Mark Kirkham
Partner
0113 387 8850
mark.kirkham@mazars.co.uk

Gareth Roberts
Senior Manager
0191 383 6323
gareth.roberts@mazars.co.uk

Address:
Salvus House,
Aykley Heads,
Durham,
DH1 5TS
0191 383 6300

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Audit Strategy Memorandum

Tees Valley Combined Authority (and Group)

Year ending 31 March 2018

CONTENTS

MAZARS

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Audit and Governance Committee
Tees Valley Combined Authority
Cavendish House
Teesdale Business Park
Stockton-on-Tees
TS17 6QY

7 February 2018

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for Tees Valley Combined Authority (and Group) for the year ending 31 March 2018.

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.

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 the Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously 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 0113 387 8850.

Yours faithfully

Mark Kirkham

Mazars LLP

MAZARS

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Tees Valley Combined Authority (the Authority) and Group for the year to 31 March 2018. 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: www.psaa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

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 is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority and Group for the year.

Reporting to the NAO

We report to the NAO in respect of the Authority's Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

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.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities. 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. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM

- Mark Kirkham, Partner
- mark.kirkham@mazars.co.uk
- 0113 387 8850

- Gareth Roberts, Senior Manager
- gareth.roberts@mazars.co.uk
- 0191 383 6323

- David Hurworth, Assistant Manager
- david.hurworth@mazars.co.uk
- 0191 383 6328

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 business which we consider to have a higher risk of material misstatement, such as those affected 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.

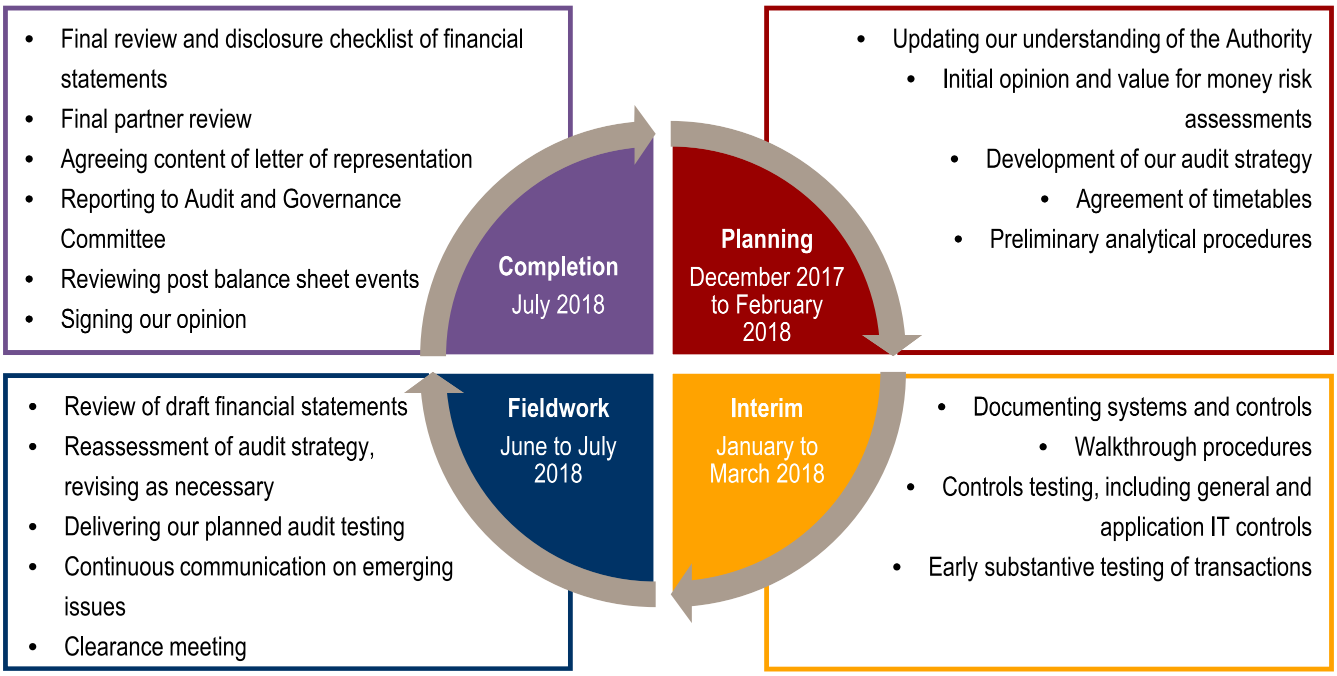
Audit approach

Our approach is risk-based and primarily driven by the factors we consider lead to a higher risk of material misstatement. 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 below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

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 internal audit, we will evaluate their work 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.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Financial instrument disclosures	Arlingclose	Assurance provided by the NAO

Service organisations

International Auditing Standards 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
Whole of the financial statements (including processing financial transactions and preparation of the financial statements)	Stockton-on-Tees Borough Council	Review of and access to records and information at the service organisation.

Reporting deadlines

As we have previously discussed with the Audit and Governance Committee, the statutory timetable for the production and audit of the Authority's financial statements changes for 2017/18. The Authority is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). The Authority successfully met the earlier timetable in 2016/17 and the majority of the audit work was also completed by the end of July 2017.

Group audit approach

We have been advised by management that Group Financial Statements will also be prepared for the year to 31 March 2018, and will incorporate both the Authority and South Tees Development Corporation.

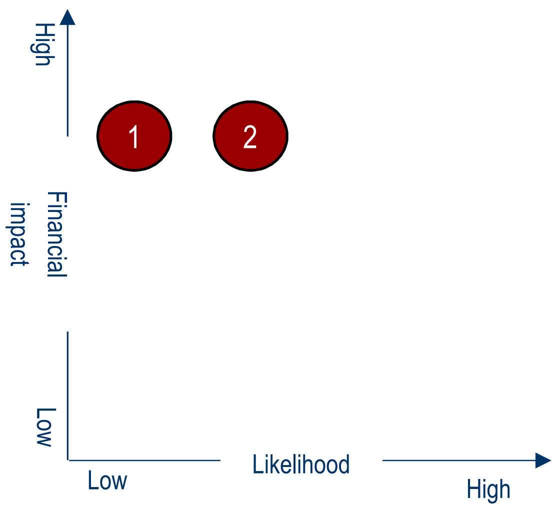
We are responsible for the direction, supervision and performance of the Group audit. We are also the external auditor for South Tees Development Corporation.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined 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 ('RMM') at audit assertion level other than a significant risk. Enhanced risks incorporate 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.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



	Risk
1	Management override of control
2	Valuation of the defined benefit pension scheme and pensions estimates (IAS19)

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We explain the identified risks and our testing approach in the table below. An audit is a dynamic process and if we change our view of risk or our approach to address the identified risks during the course of our audit we will report this to the Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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.
2	**Defined benefit liability valuation** 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.	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 PSAA Ltd.

5. VALUE FOR MONEY WORK

Our approach to value for money work

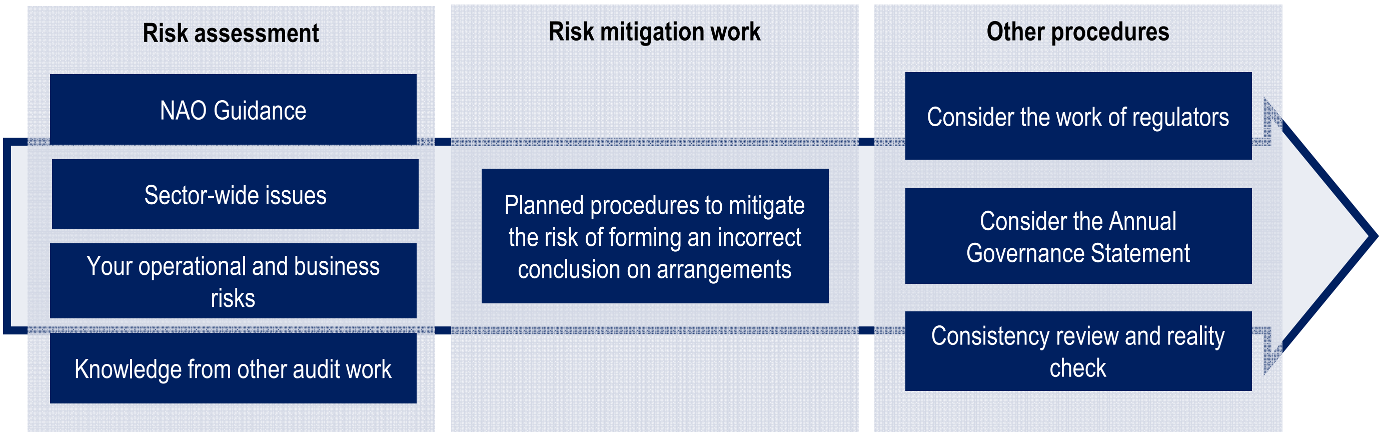
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria 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 provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below.



5. VALUE FOR MONEY WORK (CONTINUED)

Significant value for money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

For the 2017/18 financial year, at this stage we have not identified any significant risks in relation to our VFM work. We will keep this under review as our audit progresses.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Service	2016/17 fee	2017/18 fee
Code audit work	£30,000	£30,000

Our proposed 2017/18 fee for Code audit work is as communicated in our fee letter of 20 April 2017.

Fees for non-PSAA work

We have not, and at the time of writing this report do not expect to undertake any 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.

Services provided to other entities within the Authority's group

We have been appointed as the external auditor of South Tees Development Corporation. We are currently awaiting confirmation from PSAA of the audit fee for the year to 31 March 2018.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council'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;
- 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, and 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 Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark Kirkham 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.

8. MATERIALITY AND MISSTATEMENTS

Definitions
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.

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s) Authority	Initial threshold (£'000s) Group
Overall materiality	£1,250	£1,270
Specific materiality		
• Related Party Transactions	• £100	• £100
• Senior manager remuneration	• £44	• £44
Trivial threshold for errors to be reported to the Audit and Governance Committee	£37	£38

Materiality
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. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure.

Based on last year's audited accounts we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £1.250m for the Authority, and £1.270m for the Group based on best estimate of expenditure at this stage (£668k for the Authority 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.

Misstatements

We aggregate 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 the 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 £37,000 for the Authority and £38,000 for the Group, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

APPENDIX A – 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	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
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	✓	✓
Fees for audit and other services	✓	
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		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report;
- clarification of reporting requirements on accounting policies and going concern; and
- updating the accounting requirements for the Housing Revenue Account to align these with changes to underlying regulations and directions.

None of the above are anticipated to have a significant impact on the Authority.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Authority's financial instruments, particularly its financial assets. Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Authority will continue to measure the majority of its financial assets at amortised cost. For authorities that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Authority's general fund balance.
IFRS 16 – Leases	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to work being required in order to identify all leases to which the Authority is party to.

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 8

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

31st MAY 2018

REPORT OF THE FINANCE DIRECTOR

CORPORATE RISK REGISTER

SUMMARY

This report presents the Tees Valley Combined Authority Corporate Risk Register as at the end of the first quarter of 2018/19.

RECOMMENDATIONS

It is recommended that Audit and Governance Committee consider and comment on the contents of the Tees Valley Combined Authority Corporate Risk Register.

DETAIL

1. The Corporate Risk Register attached at **Appendix 1** covers the period 1st April 2018 to 30th June 2018 and details risks that affect the operations of the Combined Authority as a whole. They have been reviewed and assessed using the assessment method included in the Risk Management Strategy.

2. No risks have been assessed as high risks in this period.

3. No Business Plan risks have been escalated to the Corporate Risk Register during the last quarter.

4. All risks are constantly being managed and reviewed.

5. The Corporate Risk Register will be shared with Audit and Governance Committee on a quarterly basis.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

8. This content of this report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

9. None required.

Name of Contact Officer: Julie Gilhespie
Post Title: Finance Director
Telephone Number: 01642 528834
Email Address: Julie.gilhespie@teesvalley-ca.gov.uk

TEES VALLEY COMBINED AUTHORITY

RISK MANAGEMENT STRATEGY

JUNE 2017

Introduction

Tees Valley Combined Authority (the Combined Authority) is committed to delivering its strategic objectives whilst having a clear focus on the awareness and management of threats that may impact its expected outcomes.

As part of this, consideration is given to the potential risks and opportunities that face our activities on an ongoing basis. The responsibility of managing risk sits with all officers and is driven with a focus on actively being aware of all risks and not risk avoidance.

Risk can be defined as an uncertain event, or set of events that, should it occur, will have an effect on the achievement of business activity. Threat is an uncertain event that could have a negative impact, and opportunity is an uncertain event that has the ability to provide a positive outcome. The process to identify, assess and manage business risk is risk management.

This strategy focusses on monitoring risk associated with the key areas of activity that will ensure the strategic aims of the Combined Authority are met.

Purpose and Key Principles

This document sets out the Combined Authority's approach to risk management and integrates the risk management requirements as detailed in the Single Pot Assurance Framework.

It aims to explain the purpose of the risk management, and what is expected of employees to achieve the desired outcomes.

The key principle of the Corporate Risk Register is to account for risks that face the Combined Authority as a whole.

Risk management helps the organisation to:

- Make informed decisions
- Overcome threats impacting on delivery
- Provide confidence in our ability to achieve objectives
- Protect its assets and resources
- Make informed investment decisions

The Combined Authority will demonstrate a proactive approach to risk management which is based on the following key principles:

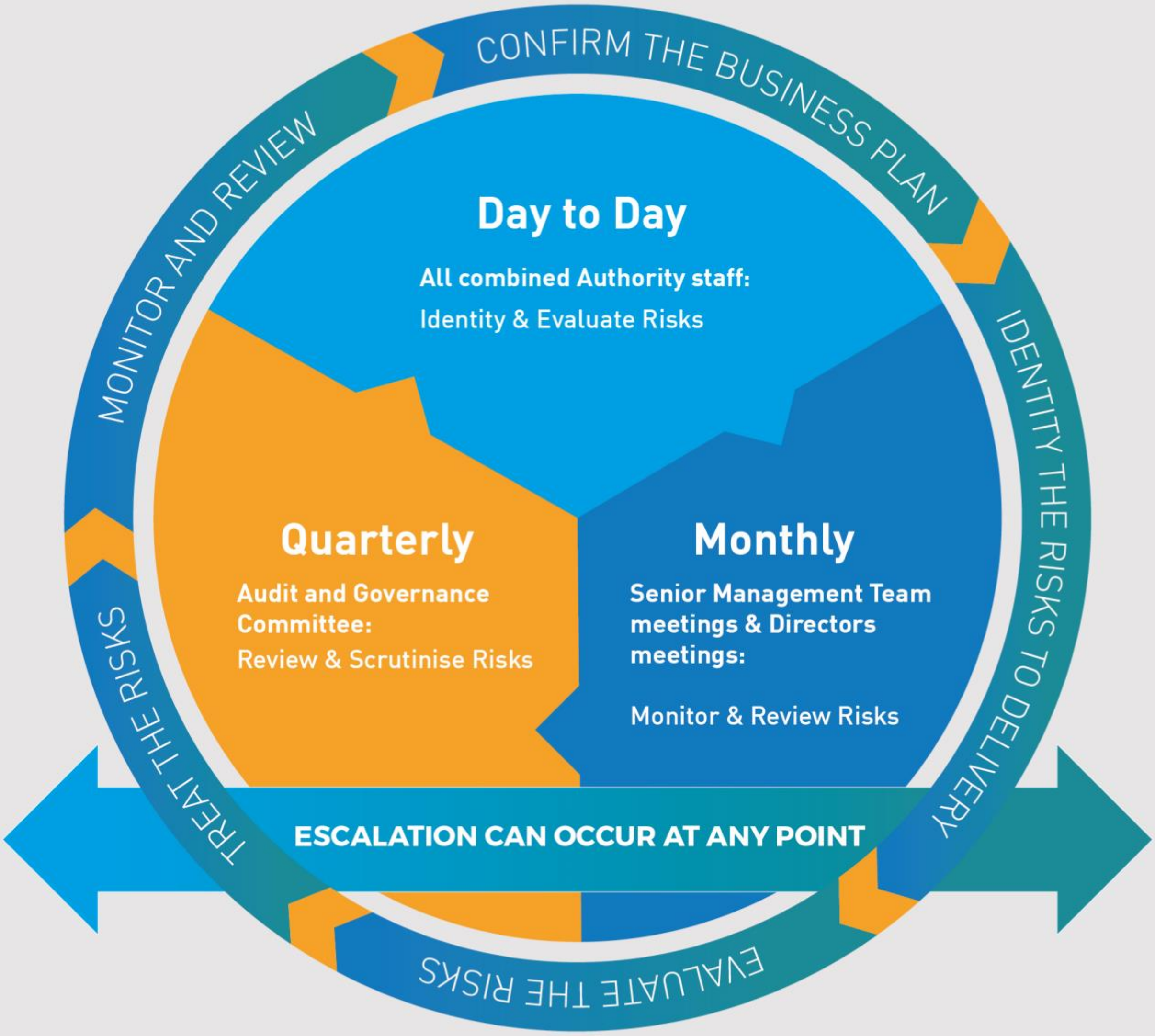
- Risk Management activity will be aligned to corporate and business plan aims, objectives and priorities. It will encompass all strategic and operational areas that may prevent the Combined Authority from fulfilling its strategic aims.
- It will anticipate and take preventative action to avoid risk rather than manage the consequences.
- It will seek to realise opportunities that arise from the monitoring of risk.
- A consistent approach for the identification, assessment and management of risk will be embedded throughout the organisation.
- Risk control and mitigation will be effective, appropriate, proportionate and affordable. Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits.
- All employees are required to take responsibility for the effective management of risk throughout the organisation.
- The Managing Director and Directors are responsible for implementing this policy and for the escalation of risks to the Corporate Risk Register as required.

Risk Management Structure and Process

The management of risk is captured within all areas of activity, as represented in the diagram on the next page.

An overarching risk register covering strategic and key risks is incorporated into the Corporate Risk Register.

The role of the Governance team provides oversight across all risk activities within the organisation and ensures there is a consistent approach to risk management reporting and escalation that fully meets the organisation’s needs.



Risk management follows a cyclical process and is a proactive activity to help identify and manage risks to ensure the Combined Authority's strategic aims, and delivery of the Business Plan can be achieved through regular monitoring.

The process follows 5 steps as demonstrated in the diagram above and is maintained through risks being clearly recorded within a risk register. An example of this can be found in Appendix 1.

Confirm the business plan – The objectives and key outputs of the business plan should be clearly understood before a risk assessment is completed. The business plan is all key actions over the coming year but overarching strategic risks are captured in addition to this on the Corporate Risk Register.

Identify the risk – Consideration should be given to any threats that could impact on the organisation's ability to deliver the objectives. Risks can materialise from a number of sources with some examples being highlighted on page 6 of this document.

Evaluate the risk – Once risks have been identified, consideration needs to be given to the likelihood of the risk materialising and the impact it will have on delivery of objectives. Risks should be evaluated be determining the risk magnitude, which is a combination of likelihood and consequence. Decisions can then be made about whether the risk is acceptable or further action in required.

Treat the risk – Once the level of risk has been identified, consideration should be given to determine and take appropriate steps to ensure the risk does not have a detrimental effect on delivery of the objective. This can include Tolerating the risk and no further action being required, Treating the risk to reduce the opportunity for the risk to materialise, Transferring responsibility for the risk to another party (e.g. Insurance), or taking steps to Terminate the risk from occurring.

Monitor and review – Risks are regularly monitored to ensure mitigation measures are effective and the level of risk remains at an acceptable level, or further actions or a change in approach can be sought. Risks are monitored and addressed at a business level with further assurance and oversight of risk management of corporate risks being directed through the Audit and Governance Committee for risks with a score of 15 and above, and the Combined Authority Cabinet where appropriate.

Risk Appetite

Tees Valley Combined Authority will endeavour to keep all risks to as low a level as reasonably practical and will ensure risk activity is proportionate to the severity that each risk brings to the delivery of our objectives. We will demonstrate a focus on risk awareness but not be risk averse.

As an organisation we strive to excel in the delivery of our strategic aims and in achieving this, it may be necessary to extend our risk appetite in order to achieve optimum delivery. Any extension on the risk appetite will be undertaken following a review of the individual business case and will not threaten the organisation’s statutory and legal obligations.

Tees Valley Combined Authority recognises five key risk categories that have the opportunity to create a significant impact on business operations if not managed effectively. These include Finance, Reputation, Delivery, Legal & Governance and Health & Safety, details of the extent of risk for each is captured in the table below.

Consequence	Minimal (1)	Minor (2)	Significant (3)	Major (4)	Critical (5)
Financial	Costs could increase by up to 2.5% above budget.	Costs could increase by between 2.5% and 5% above budget.	Costs could increase between 5% and 7.5% above budget.	Costs could increase between 7.5% and 10% above budget.	Costs could exceed budget by greater than 10%.
Reputation	Minor poor media coverage or negative stakeholder relations contained locally over a short period of time including social media.	Poor media coverage or negative stakeholder relations contained locally, extending to television coverage over a short period of time.	Inability to maintain effective relations with stakeholders. Poor local media coverage over a prolonged period.	Inability to maintain relations with stakeholders. Potential for national media coverage impacting on stakeholder confidence in Tees Valley Combined Authority.	Inability to deliver political policies. Serious negative media coverage over a sustained period of time leading to political and/or public loss of confidence in Tees Valley Combined Authority.
Delivery	Threat could have a minimal impact on the quality of, or delivery delays of up to 3 months.	Threat could have a minor impact on the quality of, or delivery delays of between 3 and 6 months.	Threat could have a significant impact on the quality of, or delivery delays of between 6 and 9 months.	Threat could have a significant impact on the quality of, or delivery delays of between 9 and 12 months.	Threat could have a critical impact on the quality of, non-delivery, or delivery delays of greater than 12 months.
Health & Safety	Known H&S threats effectively managed through appropriate control measures.	Potential for minor injury to occur that can be satisfactorily managed through Safety Management Systems.	Potential for moderate injury or dangerous occurrence to be sustained, possible reporting to the Regulatory body.	Potential for breach in H&S rules resulting in likely intervention by the Regulatory body.	Severe injury or fatality likely to occur. Regulatory body intervention probable with threat of statutory enforcement or prosecution.
Legal	All constitutional and legislative requirements have been met and Tees Valley Combined Authority is action within its statutory powers.	There is potential for legal action but measures to mitigate against any action can be demonstrated and no legislation has been breached.	Discretionary opinion on the interpretation of legislation or contractual terms is applied to confirm Tees Valley Combined Authority's ability to proceed with activities.	Discretionary opinion is not followed and action taken contrary to advice of legal colleagues.	Failure to comply with legislation and contractual obligations leading to the possibility of a litigation, arbitration or adjudication claim being brought. Tees Valley Combined Authority exceeds us legislative powers (Ultra Vires).

Note: The above parameters are the agreed standard for the purpose of this strategy however due to the broad range of activities the Combined Authority undertakes a flexible approach will be taken commensurate to the potential impact of the individual activity being assessed.

Management of Risk

Once assessed, risks will be recorded on a risk register to assist ongoing management, and will also be mapped into a scoring matrix for a picture of overall risk to be developed. This will enable to organisation to clearly determine its overall risk profile and the key risks requiring immediate intervention. Risk monitoring will be undertaken at regular intervals with reporting to Senior Management monthly to ensure risks are being effectively managed, with independent assurance quarterly at the Audit and Governance Committee.

Business Plan risks that are deemed to affect the operations of the Combined Authority as a whole will be escalated to the Corporate Risk Register.

5 - Very high Very likely to occur	5	10	15	20	25
4 - High More likely to occur than not	4	8	12	16	20
3 - Medium Could occur at some point	3	6	9	12	15
2 - Low More likely not to occur	2	4	6	8	10
1 - Very low Very unlikely to occur	1	2	3	4	5
Probability	1 Minimal	2 Minor	3 Signifcant	4 Major	5 Critical
	Impact				

High Risk

Risk is beyond tolerance levels and urgent action is required to demonstrate delivery can be achieved

Medium Risk

Risk is considered to have a significant impact on delivery of objectives and targeted intervention is required

Low Risk

Level of risk indicates no major concerns to threaten delivery of objectives. Remedial action should be considered if appropriate

Appendix 1 – Template Risk Register

Ref	Risk Description	Impact (1-5)	Likelihood (1-5)	Score (1-25)	Change since last	Current Controls	Further Controls Required	Deadline	Comments	Review Date

Corporate Risk 2018/19

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	3	3	9	-	• On going engagement with Leaders & Mayor, chief officers and Government departments • Continuation of focus on TVCA delivery of objectives and SEP • Secured ESIF guarantee from Government	• Engagement with Government on future funding plans post Brexit • Liaison with other CAs/LEPs	Ongoing Ongoing		Jul-18
C02	Failure to operate within TVCA constitution	4	1	4	-	• Updates and reports to TVCA Board • Briefing and engagement with Constituent Authorities members • Public Consultation undertaken • O&S and A&G Committee meeting regularly	• Ensure A&G meetings are quorate - recruit additional independent members	Jun-18		Jul-18
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	-	• STDC established as legal entity 1st Aug 17 • Official launch 23rd August • Board meeting regularly • Continued dialogue with Government • £123m funding secured in Budget				Jul-18
C04	Failure to deliver commitments entered into in the devolution deal (See C07 for delivery of projects which were part of devo deal)	3	3	9	-	• Implementation Plan agreed with Government • Bi-monthly meeting with Government officials and on-going dialogue/reporting • Management of Business Plan • Most acitivities from the devolution deal now form part of TVCAs day to day work eg transport priorities • Undelivered/ partially delivered devolution deal elements will be captured where appropriate in the next deal eg skills elements • Annual Conversation with Government			See C07 & C08	Jul-18

Corporate Risk 2018/19

		Current assessment								
Ref	Risk description	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	-	• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board • Submission of high calibre bids for external funding • Identifying opportunities for efficiency and greater impact • Ongoing review of EZ income potential • Ongoing review of commercial potential of individual pojects	• Mayor to meet with Government Ministers as required/ on scpecific projects	Ongoing		Jul-18
C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	-	• Creation and utilisation of Assurance Framework • Investment Plan agreed and operational (with regular reporting to Cabinet) • Finance Director in post • Strategic Investment Team monitoring in place • Investment Panel in place • Investment plan reviewed as part of budget process - approved at Cabinet • Strategic Investment Team review - additional capacity				Jul-18
C07	Failure to deliver the existing pipeline of funding commitments and achieve targeted spend	3	3	9	-	• Creation and utilisation of Development Fund to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process in place • Strengthened capacity with addition of new Finance Director and Legal & Commercial Manager posts • Investment Plan Risk Register operational • Regular Investment Panel meetings • Investment plan reviewed as part of budget process - approved at and regularly reported to Cabinet • Regular liaison with BEIS	• Assurance Framework to be revised • Monthly spend reviews	Summer-18 Ongoing	Work ongoing on Assurance Framework compliance	Jul-18

Corporate Risk 2018/19

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C08	Failure to secure agreement on the future investment priorities	3	3	9	-	• TVCA Board has overall responsibility developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed • Additional EOIs reviewed as received • Oversight by TV Management Group • 6 month review of Investment Plan undertaken • Investment plan reviewed as part of budget process - approved at Cabinet spring 2018	• Review current commitments and future pipeline, to discuss prioritisation of spend to 2021.	Summer-18		Jul-18
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	-	• Head of Communication & Marketing appointed • Communications Plan in place	• Communication & engagement strategy being developed	Summer-18		Jul-18
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	-	• Oversight by Senior Management Team • Reviews being implemented				Jul-18
C11	Failure to pass the first Gateway Review	5	2	10	-	• Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit • Devolution deal proposals • Annual conversations with government	• Mayor to meet with Government Ministers • Funding cannot progress to final approval unless it meets the Assurance Framework process. To be signed of by Investment Director • Staff to be trained on the Assurance Framework to ensure it is being adhered to • Staff to be fully engaged in development of logic models and the evaluation plan	Ongoing	Linked to C06, C07, C08	Jul-18

Corporate Risk 2018/19

		Current assessment								
Ref	**Risk description**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Current Controls**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C12	Failure to maximise influence on regional/national level	2	2	4	-	• LEP Network representation • Mayoral Role	• Mayor to meet with Government Ministers and other stakeholders	Ongoing		Jul-18
C13	Failure to build and maintain relationships with key partners	3	3	9	-	• Regular Cabinet meetings (including LEP Board members) •Regular portfolio holders meetings and briefings • Directors/ Heads meeting LA officer regularly • MOU in process of being agreed with Teesside University Regular liaison with other key partners eg. CPI, MPI, TWI, Diigtal City •Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF etc	• Engagement Plan to be developed • Review of of Management Group architecture, terms of reference and membership • Design and commission a perception study	Summer-18 Sep-18 Nov-18		Jul-18
C14	Failure to detect fraud	5	2	10	-	• Internal audit • Internal expenditure approvals process • Assurance Framework for Investment				Jul-18

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 9

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

31 MAY 2018

REPORT OF FINANCE DIRECTOR

DRAFT ANNUAL STATEMENT OF ACCOUNTS 17/18

SUMMARY

To present to Members of the Committee, the draft financial statements for 2017/18.

RECOMMENDATIONS

It is recommended that the members note the draft financial statements.

DETAIL

1. The Authority is required to produce an Annual Statement of Accounts that sets out the financial position for that period. The accounts are prepared in accordance with all relevant prescribed guidance, Codes of Practice and Reporting Standards.

2. The 2017/18 financial statements will, for the first time, incorporate the South Tees Development Corporation to form group accounts for the Combined Authority.

3. The Accounts and Audit Regulations (England) 2015 came in to effect on 1st April 2015. The regulations change the arrangements for the approval and publication of the Statement of Accounts and the Annual Governance Statement.

4. In line with this revised guidance issued by Government the inspection notice and draft accounts are required to be published on the Combined Authority website by the end of May. During this time the public have the right to examine the accounts, question the auditor and to make objections.

5. The attached Statement of Accounts are draft at present and we do anticipate there will be a minor non-material adjustment to be made prior to publication at the end of May once we are in receipt of the relevant information to action the adjustment.

6. During June and July the appointed external auditors, Mazars LLP, will carry out their audit work. The final version of the accounts will be brought back to Cabinet on 27th July with the audit certificate required to be signed off by Mazars by the end of July.

FINANCIAL IMPLICATIONS

7. None

LEGAL IMPLICATIONS

8. Regulation 9(1) of the Accounts and Audit Regulations 2015 requires the Authority's Chief Finance Officer to sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the Authority. Regulation 9(2) requires the Statement of Accounts to be approved by members prior to publication. Regulation 10(1) requires the publication of the approved, audited Statement of Accounts by 31st July 2018

RISK ASSESSMENT

9. None

CONSULTATION

10. The draft accounts are required to be published on the Combined Authorities website for a period of 30 days that includes the first 10 working days of June. During this period the public can examine the accounts, question the auditor and to make objections.

Name of Contact Officer: Julie Gilhespie
Post Title: Finance Director
Telephone No. 01642 524400
Email Address: julie.gilhespie@teesvalley-ca.gov.uk

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Narrative Report

Introduction

Welcome to the Tees Valley Combined Authority's Annual Statement of Accounts for 2017/18. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. This Annual Statement of Accounts will, for the first time, be group accounts incorporating Tees Valley Combined Authority and South Tees Development Corporation.

The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region's Local Enterprise Partnership. The TVCA is responsible for a number of transport functions and economic development and growth across the combined area. In May 2017 the first Tees Valley Mayor was elected to chair the Combined Authority and drive forward our ambitious plans.

Under new legal powers available to TVCA the South Tees Development Corporation (STDC) was established in August 2017 to redevelop the site of the former SSI steelworks which closed down in 2015 following SSI's liquidation. STDC is the first mayoral development corporation outside London.

Strategy and Priorities

The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP), published in December 2016. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-

- **Business Growth**: Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth potential;

- **Research, Development, Innovation & Energy**: Further enhance productivity in all core sectors through the commercialisation of knowledge;

- **Education, Employment & Skills**: Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;

- **Place**: Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;

- **Culture**: Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and

- **Transport & Infrastructure**: Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

Tees Valley Combined Authority - Annual Financial Statements 2017/18

Narrative Report

The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017. For the first time, the Tees Valley was able to bring together multiple government funding sources, previously determined in Westminster and Whitehall, into a “single pot” for local decision-making. The Investment Plan described how £464 million of investment was being invested through a 5 year programme from 2016-2021. The Investment Plan also demonstrated how the Combined Authority would:

- actively support project development;
- respond flexibly to opportunities;
- build an asset base to be used for future re-investment;
- seek innovative partnership and commercial funding models;
- continue to secure further resources into the local fund;
- explore borrowing powers and take a commercial approach to assessing and managing risks;

- invest in strong proposals for the best value for money; and
- work to the agreed Assurance Framework.

The Vision for the South Tees regeneration programme is to see the area transformed into a hotbed of new industry and enterprise for the Tees Valley that makes a substantial contribution to the sustained economic growth and prosperity of the region and the communities it serves.

In October 2017 the South Tees Development Corporation masterplan was launched which presents the vision, strategy and ideas for the transformational regeneration of the area into a world class employment-generating zone and economic growth enabler for the Tees Valley. The total area of opportunity extends to almost 4,500 acres (1,800 hectares). The masterplan for the redevelopment of the site has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy. Creating significant employment prospects for the area.

The Vision of the STDC masterplan sees the creation of up to 20,000 new jobs. The focus is on higher skilled sectors and occupations, centred on manufacturing innovation and advanced technologies and those industries best able to deliver sustained economic prosperity for the Tees Valley and its people, while realising a jobs spectrum that offers opportunities for all. The strategic plan to redevelop the site is set out in the masterplan which is available on the website www.southteesdc.com

Achivements in Year

2017/18 was only the second year of operations for TVCA and we have successfully built on the work undertaken in the first year to prepare the organisation to undertake new devolved responsibilities. We have developed strategies and plans to shape future priorities and investments to meet our aims and objectives. Spend has been accelerated to start to deliver on a number of projects and programmes whilst also committing to new projects which match our ambitious plans. We have continued to strive for further devolved powers whilst securing additional funding from Government to fund our investments. A summary of these can be found below:-

- In August 2017 we established the first Mayoral Development Corporation to be set up outside of Greater London with the Masterplan for the site being launched in October.
- A draft Strategic Transport Plan has been developed to address transport issues in the Tees Valley and present a vision for the future
- Our “Inspiring our Future” strategy was launched to transform education, employment and skills and increase residents access to the planned 133,000 jobs available in Tees Valley by 2024

- A move to low-carbon, clean energy offers a remarkable economic opportunity for our area and during the year we were recognised by Energy Minister Claire Perry as the leading area for Carbon, Capture and Storage through the Teesside Collective

Narrative Report

- In March we launched "Enjoy Tees Valley" – a new destination marketing initiative that will promote local culture and attractions, and includes a new website.
- We have continued to support business growth with more than 1,000 businesses engaging with Business Compass this year, and 672 companies electing to receive intensive face-to-face support.
- During the year we have invested £51million on programmes, projects, grant schemes and development funding for future projects.
- In the past year we have secured £67million in Government funding for a much-needed overhaul to our road and rail network, and we will continue to deliver our transformative vision for the future of transport in our area.
- We have secured funding to enable a new £7.5million 'Routes to Work' scheme to help 2,500 long-term unemployed back to work.
- We commenced the Great Place programme to strengthen cultural capacity and activity, creating stronger engagement in Tees Valley supported by £1.5million funding secured from Heritage Lottery Fund.

Looking Ahead Including Risks and Opportunities

During the coming years we will continue to develop long-term commitments whilst being in a position to be responsive to new ideas and opportunities. We will continue to deliver transformational programmes and improve outcomes as a direct result of local decision making. Through our determination to secure a greater transfer of funding, powers and responsibility from London we aim to establish the Tees Valley as a flagship of successful devolution.

Our ambitious plans will rely on us securing the funding to make them a reality, and as such we will strive for further devolution through our continual dialogue with Government officials. We will continue to build upon our strong track record of securing funding to maximise all funding opportunities available. Through the use of our newly appointed borrowing powers and our partnership working with co-investors we will seek to explore a range of innovative funding instruments to maximise the impact for the area.

The STDC masterplan is an opportunity to enhance the local area through the creation of high quality jobs in industries which are resilient to future change should create an increase in GVA locally and further afield. The initial risks are safeguarding the hazards and progression to land ownership and it is anticipated that these will be resolved in the near term. Medium term risks are of unforeseen issues when redeveloping the site, principally these would be ground conditions but there could also be a similarly small risk of items identified whilst demolition of current structures takes place.

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. But there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. We will continue to engage with Government on future funding plans post Brexit.

In order to achieve our aims of delivering better outcomes for local people will we continue to build and maintain relationships with key local partners. We will engage with the business community utilising our working relationship with the Local Enterprise Partnership members and key partners.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Combined Authority and the Chief Financial Officer for the Accounts.
Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Combined Authority.

Narrative Report

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

Balance Sheet - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Combined Authority for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Borrowing and Lending Arrangements

During 2017/18, the Combined Authority had no powers to borrow for investment and therefore has no loans.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £91m. The average rate of return on investments was 0.37% and this has generated £395k in interest in the year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In terms of investment strategy, given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2018/19.

Retirement Benefits (IAS 19)

The Authority is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for Authority tax purposes.

Further Information

Further information about our finances is available from the Combined Authority's website, https://teesvalley-ca.gov.uk or from the Chief Financial Officer, Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton-on-Tees, Tees Valley, TS17 6QY.

Group Movement in Reserves Statement for the year ended 31 March 2018

This statement shows the movement in the year on the different reserves held by the gROUP, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Groups services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Transfer from Stockton Borough Council	35,121			35,121		35,121
Movement in reserves during 2016/17						
Total Comprehensive Income and Expenditure	52,028			52,028	(1,723)	50,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)		40,570	167	(167)	**-**
Increase/Decrease in Year	11,625		40,570	52,195	(1,890)	50,305
Balance at 31 March 2017 carried forward	46,746		40,570	87,316	(1,890)	85,426
Movement in reserves during 2017/18						
Balance at 31 March 2017 brought forward	46,746	-	40,570	**87,316**	(1,890)	**85,426**
Total Comprehensive Income and Expenditure	10,730	-	-	**10,730**	49	**10,779**
Adjustments between accounting basis & funding basis under regulations (Note 5)	(5,205)	-	5,637	**432**	(432)	**-**
Increase/Decrease in Year	**5,525**	**-**	**5,637**	**11,162**	**(383)**	**10,779**
Balance at 31 March 2018 carried forward	**52,271**	**-**	**46,207**	**98,478**	**(2,273)**	**96,205**
General Fund analysed over:						
Amounts earmarked (Note 6)	51,238					
Amounts uncommitted	1,033					
Total General Fund Balance at 31 March 2018	**52,271**					

TVCA Movement in Reserves Statement for the year ended 31 March 2018

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Transfer from Stockton Borough Council	35,121			35,121		35,121
Movement in reserves during 2016/17						
Total Comprehensive Income and Expenditure	52,028			52,028	(1,723)	50,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)		40,570	167	(167)	-
Increase/Decrease in Year	11,625		40,570	52,195	(1,890)	50,305
Balance at 31 March 2017 carried forward	46,746		40,570	87,316	(1,890)	85,426
Movement in reserves during 2017/18						
Balance at 31 March 2017 brought forward	46,746	-	40,570	**87,316**	(1,890)	**85,426**
Total Comprehensive Income and Expenditure	6,881	-	-	**6,881**	49	**6,930**
Adjustments between accounting basis & funding basis under regulations (Note 5)	(5,208)	-	5,637	**429**	(429)	-
Increase/Decrease in Year	**1,673**	**-**	**5,637**	**7,310**	**(380)**	**6,930**
Balance at 31 March 2018 carried forward	**48,419**	**-**	**46,207**	**94,626**	**(2,270)**	**92,356**
General Fund analysed over:						
Amounts earmarked (Note 6)	47,458					
Amounts uncommitted	961					
Total General Fund Balance at 31 March 2018	**48,419**					

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

2016/17				2017/18		
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
Expenditure	**Income**	**Net**		**Expenditure**	**Income**	**Net**
6,108	(10,112)	**(4,004)**	Business Growth	3,130	(2,935)	**195**
1,631	(4,378)	**(2,747)**	Research Development Innovation & Energy	3,937	(3,394)	**543**
4,558	(6,827)	**(2,269)**	Education Employment & Skills	6,682	(6,402)	**280**
25	-	**25**	Culture	685	(676)	**9**
20,602	(20,863)	**(261)**	Transport	23,338	(23,270)	**68**
58	(6,679)	**(6,621)**	Enabling Infrastructure	11,631	(11,393)	**238**
1,258	(1,258)	**-**	Project Development	3,434	(4,314)	**(880)**
2,227	(7,028)	**(4,801)**	Core Running Costs	1,140	(2,980)	**(1,840)**
16,505	(16,505)	**-**	Concessionary Fares	16,628	(16,628)	**-**
8,259	1,485	**9,744**	SSI Related Schemes Not in the Investment Plan	5,152	50	**5,202**
1,309	(1,237)	**72**	Other Non Investment Plan Costs	4,231	(12,717)	**(8,486)**
62,540	**(73,402)**	**(10,862)**	**Cost Of Services**	**79,988**	**(84,659)**	**(4,671)**
			Financing and Investment Income and Expenditure:			
160	(130)	**30**	Net interest on the net defined benefit liability/asset	176	(136)	40
	(253)	**(253)**	Interest receivable and similar income		(462)	(462)
			Taxation and Non-Specific Grant Income:			
-	(373)	**(373)**	Non-ringfenced government grants	-	-	-
-	(40,570)	**(40,570)**	Capital grants and contributions	-	(5,637)	(5,637)
		(52,028)	**(Surplus) or Deficit on Provision of Services**	**80,164**	**(90,894)**	**(10,730)**
		1,723	Re-measurements of the defined benefit liability			(49)
		-	Other (gains) and losses			-
		1,723	**Other Comprehensive Income and Expenditure**			**(49)**
		(50,305)	**Total Comprehensive Income and Expenditure**			**(10,779)**

TVCA Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

2016/17				2017/18		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
6,108	(10,112)	**(4,004)**	Business Growth	3,130	(2,935)	**195**
1,631	(4,378)	**(2,747)**	Research Development Innovation & Energy	3,937	(3,394)	**543**
4,558	(6,827)	**(2,269)**	Education Employment & Skills	6,682	(6,402)	**280**
25	-	**25**	Culture	685	(676)	**9**
20,602	(20,863)	**(261)**	Transport	23,338	(23,270)	**68**
58	(6,679)	**(6,621)**	Enabling Infrastructure	11,631	(11,393)	**238**
1,258	(1,258)	**-**	Project Development	4,359	(4,314)	**45**
2,227	(7,028)	**(4,801)**	Core Running Costs	4,283	(3,199)	**1,084**
16,505	(16,505)	**-**	Concessionary Fares	16,628	(16,628)	**-**
8,259	1,485	**9,744**	SSI Related Schemes Not in the Investment Plan	5,152	50	**5,202**
1,309	(1,237)	**72**	Other Non Investment Plan Costs	4,231	(12,717)	**(8,486)**
62,540	**(73,402)**	**(10,862)**	**Cost Of Services**	**84,056**	**(84,878)**	**(822)**
			Financing and Investment Income and Expenditure:			
160	(130)	**30**	Net interest on the net defined benefit liability/asset	176	(136)	40
	(253)	**(253)**	Interest receivable and similar income		(462)	(462)
			Taxation and Non-Specific Grant Income:			
-	(373)	**(373)**	Non-ringfenced government grants	-	-	-
-	(40,570)	**(40,570)**	Capital grants and contributions	-	(5,637)	(5,637)
		(52,028)	**(Surplus) or Deficit on Provision of Services**	**84,232**	**(91,113)**	**(6,881)**
		1,723	Re-measurements of the defined benefit liability			(49)
		-	Other (gains) and losses			-
		1,723	**Other Comprehensive Income and Expenditure**			**(49)**
		(50,305)	**Total Comprehensive Income and Expenditure**			**(6,930)**

Group & TVCA Balance Sheet as at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by the reserves held by the Group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	**Group** **31 March 2018** **£000s**	**TVCA** **31 March 2018** **£000s**	TVCA 31 March 2017 £000s
Non-current assets				
Long Term Debtors		6,253	6,253	5,013
Total non-current assets		6,253	6,253	5,013
Current assets				
Short term investments		65,000	65,000	50,056
Debtors	10	4,955	5,177	5,966
Cash and Cash Equivalents	11	30,074	26,000	28,002
Total current assets		100,029	96,177	84,024
Current liabilities				
Cash and Cash Equivalents	15	(2,648)	(2,648)	
Short Term Creditors	12	(5,378)	(5,375)	(1,897)
Total current liabilities		**(8,026)**	**(8,023)**	(1,897)
Long term liabilities				
Long Term Creditors		-	-	
Other Long Term Liabilities	13 & 20	(2,051)	(2,051)	(1,714)
Total long term liabilities		**(2,051)**	**(2,051)**	(1,714)
Net Assets:		**96,205**	**92,356**	85,426
Reserves				
Usable reserves:				
General Fund Balance	1	1,033	961	668
Earmarked General Fund Reserves	6	51,238	47,458	46,078
Capital Grants Unapplied		46,207	46,207	40,570
		98,478	94,626	87,316
Unusable Reserves:				
Pensions Reserve	13 & 20	(2,051)	(2,051)	(1,714)
Accumulated Absences Account	5	(222)	(219)	(176)
		(2,273)	(2,270)	(1,890)
Total Reserves:		**96,205**	**92,356**	85,426

Mayor Ben Houchen ....

Chair Tees Valley Combined Authority Cabinet
31st July 2018

Group & TVCA Cash Flow Statement For The Year Ended 31 March 2018

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way contributions and grant income or from the recipients of services provided by the Groupy. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

	Note	Group 2017/18 £000s	TVCA 2017/18 £000s	TVCA 2016/17 £000s
Net (surplus) or deficit on the provision of services		**(10,730)**	**(6,881)**	(52,028)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:				
Pension Fund adjustments		(386)	(386)	9
Transfer of reserves from Stockton-on-Tees Borough Council		-	-	(35,121)
Increase/(Decrease) in Revenue Debtors	10	(1,011)	(789)	5,966
(Increase)/Decrease in Revenue Creditors	12	(3,481)	(3,478)	(1,897)
Increase/(Decrease) in Long Term Debtors		1,240	1,240	5,013
		(3,638)	**(3,413)**	(26,030)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:				
Capital Grants credited to surplus or deficit on the provision of services		5,637	5,637	40,570
		5,637	**5,637**	40,570
Net cashflow from operating activities		**(8,731)**	**(4,657)**	(37,488)
Investing activities				
Purchase of short term and long term investments		14,944	14,944	50,056
Other receipts from investing activities		(5,637)	(5,637)	(40,570)
Net cashflow from investing activities		**9,307**	**9,307**	9,486
Net (increase) or decrease in cash and cash equivalents		**576**	**4,650**	(28,002)
Cash and cash equivalents at the beginning of the reporting period		**(28,002)**	**(28,002)**	**-**
Cash and cash equivalents at the end of the reporting period	11	**(27,426)**	**(23,352)**	(28,002)
The cashflow for operating activities includes the following items:				
Interest received		**(375)**	**(375)**	(191)
Interest paid		**-**	**-**	0

Note 1: Group Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Group in comparison with those resources consumed or earned by the Group in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Groups directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
43	(4,047)	**(4,004)**	Business Growth	1,541	(1,346)	**195**
45	(2,792)	**(2,747)**	Research Development Innovation & Energy	7	536	**543**
21	(2,290)	**(2,269)**	Education Employment & Skills	1,173	(893)	**280**
24	1	**25**	Culture	466	(457)	**9**
30	(291)	**(261)**	Transport	1,182	(1,114)	**68**
-	(6,621)	**(6,621)**	Enabling Infrastructure	872	(634)	**238**
-	-	**-**	Project Development	3,350	(4,230)	**(880)**
(276)	(4,525)	**(4,801)**	Core Running Costs	1,000	(2,840)	**(1,840)**
-	-	**-**	Concessionary Fares	-	-	**-**
(1)	9,745	**9,744**	SSI Related Schemes Not in the Investment Plan	-	5,202	**5,202**
72	-	**72**	Other Non Investment Plan Costs	12,130	(20,616)	**(8,486)**
(42)	**(10,820)**	**(10,862)**	**Net Cost Of Services**	**21,721**	**(26,392)**	**(4,671)**
(626)	(40,540)	(41,166)	Other Income and Expenditure	(22,086)	16,027	(6,059)
(668)	**(51,360)**	**(52,028)**	Surplus or Deficit	**(365)**	**(10,365)**	**(10,730)**
-			**Opening General Fund Balance**	**668**		
668			Less/Plus Surplus or (Deficit)	**365**		
668			**Closing General Fund Balance at 31 March 2017**	**1,033**		

Group Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	-	9	(1,355)	**(1,346)**
Research Development Innovation & Energy	-	-	536	**536**
Education Employment & Skills	-	14	(907)	**(893)**
Culture	-	7	(464)	**(457)**
Transport	-	-	(1,114)	**(1,114)**
Enabling Infrastructure	-	3	(637)	**(634)**
Project Development	-	-	(4,230)	**(4,230)**
Core Running Costs	-	300	(3,140)	**(2,840)**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	13	5,189	**5,202**
Other Non Investment Plan Costs	-	-	(20,616)	**(20,616)**
Net Cost Of Services	-	346	(26,738)	**(26,392)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(5,637)	40	21,624	**16,027**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(5,637)	386	(5,114)	**(10,365)**

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	-	(2)	(4,045)	(4,047)
Research Development Innovation & Energy	-	-	(2,792)	(2,792)
Education Employment & Skills	-	(1)	(2,289)	(2,290)
Culture	-	(1)	2	1
Transport	-	-	(291)	(291)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
Core Running Costs	-	(33)	(4,492)	(4,525)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	(2)	9,747	9,745
Other Non Investment Plan Costs	-	-	-	-
Net Cost Of Services `	**-**	**(39)**	**(10,781)**	**(10,820)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**(40,570)**	**(9)**	**(10,781)**	**(51,360)**

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the Group as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure **–** the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For ***Financing and investment income and expenditure*** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

The Authority's expenditure and income is analysed as follows:	**Group**	**TVCA**	TVCA
	2017/18	**2017/18**	2016/17
	£000s	**£000s**	£000s
Expenditure			
Employee benefits expenses	3,695	3,579	2,476
Other services expenses	76,293	80,477	60,065
Interest payments	176	176	160
Total Expenditure	**80,164**	**84,232**	62,701
Income			
Fees, charges and other service income	(7,201)	(7,191)	(691)
Interest and investment income	(598)	(598)	(383)
Government grants and contributions	(83,095)	(83,324)	(113,655)
Total Income	**(90,894)**	**(91,113)**	(114,729)
(Surplus) or Deficit on the Provision of Services	**(10,730)**	**(6,881)**	(52,028)

Segmental Income

Income received on a segmental basis is analysed below:	**Group**	**TVCA**	TVCA
	2017/18	**2017/18**	2016/17
	£000s	**£000s**	£000s
Services	**Income from Services**	**Income from Services**	Income from Services
Business Growth	(190)	(190)	0
Research Development Innovation & Energy	(543)	(543)	0
Education Employment & Skills	(260)	(260)	0
Culture	(4)	(4)	0
Transport	(69)	(69)	0
Enabling Infrastructure	(235)	(235)	0
Project Development	(39)	(39)	0
Core Running Costs	(671)	(661)	(275)
SSI Related Schemes Not in the Investment Plan	(5,190)	(5,190)	(416)
Total income analysed on a segmental basis	**(7,201)**	**(7,191)**	(691)

Note 1: Expenditure & Funding Analysis TVCA

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Combined Authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
43	(4,047)	**(4,004)**	Business Growth	1,541	(1,346)	**195**
45	(2,792)	**(2,747)**	Research Development Innovation & Energy	7	536	**543**
21	(2,290)	**(2,269)**	Education Employment & Skills	1,173	(893)	**280**
24	1	**25**	Culture	466	(457)	**9**
30	(291)	**(261)**	Transport	1,182	(1,114)	**68**
-	(6,621)	**(6,621)**	Enabling Infrastructure	872	(634)	**238**
-	-	**-**	Project Development	3,350	(3,305)	**45**
(276)	(4,525)	**(4,801)**	Core Running Costs	1,072	12	**1,084**
-	-	**-**	Concessionary Fares	-	-	**-**
(1)	9,745	**9,744**	SSI Related Schemes Not in the Investment Plan	-	5,202	**5,202**
72	-	**72**	Other Non Investment Plan Costs	12,130	(20,616)	**(8,486)**
(42)	**(10,820)**	**(10,862)**	**Net Cost Of Services**	**21,793**	**(22,615)**	**(822)**
(626)	(40,540)	(41,166)	Other Income and Expenditure	(22,086)	16,027	(6,059)
(668)	**(51,360)**	**(52,028)**	Surplus or Deficit	**(293)**	**(6,588)**	**(6,881)**
-			**Opening General Fund Balance**	**668**		
668			Less/Plus Surplus or (Deficit)	**293**		
668			**Closing General Fund Balance at 31 March 2017**	**961**		

Notes to the Expenditure and Funding Analysis: TVCA

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	-	9	(1,355)	**(1,346)**
Research Development Innovation & Energy	-	-	536	**536**
Education Employment & Skills	-	14	(907)	**(893)**
Culture	-	7	(464)	**(457)**
Transport	-	-	(1,114)	**(1,114)**
Enabling Infrastructure	-	3	(637)	**(634)**
Project Development	-	-	(3,305)	**(3,305)**
Core Running Costs	-	300	(288)	**12**
Concessionary Fares	-	-	-	**-**
SSI Related Schemes Not in the Investment Plan	-	13	5,189	**5,202**
Other Non Investment Plan Costs	-	-	(20,616)	**(20,616)**
Net Cost Of Services	-	346	(22,961)	**(22,615)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(5,637)	40	21,624	**16,027**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(5,637)	386	(1,337)	**(6,588)**

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Business Growth	-	(2)	(4,045)	(4,047)
Research Development Innovation & Energy	-	-	(2,792)	(2,792)
Education Employment & Skills	-	(1)	(2,289)	(2,290)
Culture	-	(1)	2	1
Transport	-	-	(291)	(291)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
Core Running Costs	-	(33)	(4,492)	(4,525)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	(2)	9,747	9,745
Other Non Investment Plan Costs	-	-	-	-
Net Cost Of Services `	**-**	**(39)**	**(10,781)**	**(10,820)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	**(40,570)**	**(9)**	**(10,781)**	**(51,360)**

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For ***Financing and investment income and expenditure*** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

The Authority's expenditure and income is analysed as follows:

	2017/18	2016/17
	£000s	£000s
Expenditure		
Employee benefits expenses	3,579	2,476
Other services expenses	80,183	60,065
Interest payments	176	160
Total Expenditure	**83,938**	62,701
Income		
Fees, charges and other service income	(6,897)	(691)
Interest and investment income	(598)	(383)
Government grants and contributions	(83,324)	(113,655)
Total Income	**(90,819)**	(114,729)
(Surplus) or Deficit on the Provision of Services	**(6,881)**	(52,028)

Segmental Income

Income received on a segmental basis is analysed below:	**2017/18**	2016/17
	£000s	£000s
Services	**Income from Services**	Income from Services
Business Growth	(190)	0
Research Development Innovation & Energy	(543)	0
Education Employment & Skills	(260)	0
Culture	(4)	0
Transport	(69)	0
Enabling Infrastructure	(235)	0
Project Development	(39)	0
Core Running Costs	(367)	(275)
SSI Related Schemes Not in the Investment Plan	(5,190)	(416)
Total income analysed on a segmental basis	**(6,897)**	(691)

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council’s financial assets does not anticipate any impairment.

- IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

The Group does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

In applying it's accounting policies the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

No critical judgements made.

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Groups Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Group with expert advice about the assumptions to be applied. Sensitivities are included in Note 20.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

Group

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(5,637)		5,637	-
Adjustments involving the Pensions Reserve	386			(386)
Adjustments involving the Accumulated Absences Adjustment Account	46			(46)
Total Adjustments	**(5,205)**	**-**	**5,637**	**(432)**

TVCA

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(5,637)		5,637	-
Adjustments involving the Pensions Reserve	386			(386)
Adjustments involving the Accumulated Absences Adjustment Account	43			(43)
Total Adjustments	**(5,208)**	**-**	**5,637**	**(429)**

2016/17 Comparative figures	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	-			-
Adjustments involving the Capital Grants Unapplied Account	(40,570)		40,570	-
Adjustments involving the Capital Receipts Reserve	-	-		-
Adjustments involving the Deferred Capital Receipts Reserve	-			-
Adjustments involving the Financial Instruments Adjustment Account	-			-
Adjustments involving the Pensions Reserve	(9)			9
Adjustments involving the Accumulated Absences Adjustment Account	176			(176)
Total Adjustments	**(40,403)**	**-**	**40,570**	**(167)**

Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

Group

Earmarked Reserves	Balance at 31 March 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(12,267)	(32,311)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	**(46,078)**	**7,107**	**(12,267)**	**(51,238)**

TVCA

Earmarked Reserves	Balance at 31 March 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(8,487)	(28,531)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	**(46,078)**	**7,107**	**(8,487)**	**(47,458)**

Note 7: Capital Adjustment Account
Group and TVCA

		2017/18
Balance at 1 April 2017		
Revaluation losses on property, plant and equipment		
Revaluation losses on AHFS & Investment Properties		
- Revenue expenditure funded from capital under statute	43,451	
Amounts of non-current assets written off on disposal or sale		
		43,451
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure		
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(40,631)	
Capital expenditure charged against the General Fund balance	(2,820)	
		(43,451)
Other adjustments		-
Balance at 31 March 2018		**-**

Note 8: Group and TVCA Members' Allowances

If applicable the amounts paid to each elected member of the Group and Authority are published annually. Elected members from the constituent local authorities sit on various TVCA and STDC boards and no payments were made to these members during 2017/18. The allowance in respect of the Mayor was £32,375 for 2017/18.

Note 9: Employee remuneration
Group and TVCA

Remuneration of the Managing Director and his senior staff are shown in the following table.

Remuneration of Senior Employees 2017/18						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2017/18 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2017/18 £**
Managing Director	136,350	734	-	**137,084**	32,817	**169,901**
Strategy Director	89,259	549	-	**89,808**	14,192	**104,000**
Investment Director	89,259	599	-	**89,858**	14,192	**104,050**
Business Director	89,259	1,473	-	**90,732**	14,192	**104,924**
Head of Skills Education & Employment	75,487	-		**75,487**	12,002	**87,489**
Head of Culture & Tourism	75,057	-		**75,057**	12,002	**87,059**
Director of Finance	56,387	-	-	**56,387**	8,965	**65,352**
Head of Transport	75,487	-	-	**75,487**	12,002	**87,489**
Head of Comms & Marketing	13,190	-	-	**13,190**	2,097	**15,287**
Head of Homes & Communities	75,487	-	-	**75,487**	12,002	**87,489**
	775,221	3,354	-	**778,576**	134,466	**913,042**

The Director of Finance commenced employment with the organisation in August 2017 and the Head of Communications and Marketing commenced in January 2018.

Remuneration of Senior Employees 2016/17						
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2017/18 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2017/18 £**
Managing Director	100,161	559	-	**100,720**	8,694	**109,414**
Strategy Director	91,932	651	-	**92,583**	18,202	**110,785**
Investment Director	21,619	158	-	**21,777**	4,280	**26,057**
Business Director	91,932	964	-	**92,896**	18,202	**111,098**
Head of Skills Education & Employment	17,078	-	-	**17,078**	3,381	**20,459**
Head of Culture & Tourism	16,993	-	-	**16,993**	3,620	**20,613**
Head of Transport	5,827	-	-	**5,827**	1,154	**6,981**
Head of Homes & Communities	31,142	-	-	**31,142**	6,166	**37,308**
	376,684	2,332	-	**379,016**	63,699	**442,715**

Only two of the senior employee posts were in employment of the organisation for the full financial year. These being the Strategy Director and Business Director. All other employees commenced employment at various stages of the year.

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	**Number of Employees**	**Number of Employees**
	2017/18	**2016/17**
£50,001 - £55,000	1	-
£55,001 - £60,000	-	-
£60,001 - £65,000	-	-
£65,001 - £70,000	-	-
£70,001 - £75,000	-	-
£75,001 - £80,000	-	-
£80,001 - £85,000	-	-
£85,001 - £90,000	-	-
£90,001 - £95,000	-	-
£95,001 - £100,000	-	-
£100,001 - £105,000	-	-
£125,001 - £130,000	-	-
£130,001 - £135,000	-	-
£135,001 - £140,000	-	-

Remuneration of the Managing Director and his senior staff has been excluded from the salary range analysis shown in the table above.

Note 10: Debtors

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Central Government	1,576	1,569	1,372
Local Government	3,149	3,378	4,500
Other entities and individuals	230	230	94
	4,955	**5,177**	**5,966**

Note 11: Cash and Cash Equivalents

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Bank and Imprests	(2,648)	(2,648)	2,996
Cash Equivalents	30,074	26,000	25,006
	27,426	**23,352**	**28,002**

Note 12: Short Term Creditors

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Central Government	(90)	(90)	(59)
Local Government	(2,650)	(2,650)	(1,474)
Other entities and individuals	(2,638)	(2,635)	(364)
	(5,378)	**(5,375)**	**(1,897)**

Note 13: Other Long Term Liabilities

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Net pensions liability	(2,051)	(2,051)	(1,714)
	(2,051)	**(2,051)**	**(1,714)**

Note 14: Related Party Transactions

The Group is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Group.

Central Government

Central government has effective control over the general operations of the Group – it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Grants received from government departments are set out in the subjective analysis in Note 18.

Members

Members of the Authority and STDC have direct control over the Groups financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 8. During 2017/18, there were no related party transactions between members and TVCA or STDC.

Entities Controlled or Significantly Influenced by the Authority

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities by other organisations in which the Council has an interest. The Combined Authority has considered its interests in this respect, both quantitatively and qualitatively, and has concluded that its subsidiary, South Tees Development Corporation (STDC), is materially significant to the overall financial position of the Combined Authority and is therefore consolidated into the Group Financial Statements.

TVCA Constituent Authorities

The Leaders and Elected Mayor of the five TVCA constituent Authorities serve as members of the TVCA Leadership Board. Details of income and expenditure with the five Authorities are set out in the table below.

2017/18	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,266	6,464
Middlesbrough Borough Council	4,966	13,112
Redcar & Cleveland Borough Council	5,049	4,330
Hartlepool Borough Council	2,349	7,151
Darlington Borough Council	3,177	9,084
Total	**19,806**	**40,141**

Note 15: External Audit Costs

The Group has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Groups external auditors:

	Group 2017/18 £000s	**TVCA 2017/18 £000s**	TVCA 2016/17 £000s
Fees payable to Mazars LLP with regard to external audit services	48	30	30
	48	**30**	30
Rebate from Public Sector Audit Appointments Ltd		*(4)*	

Note 16: Leases

Operating leases: Authority as lessee

From the 1st January 2017 the TVCA took on the lease of the third floor of Cavendish House. The new lease is for a term of 10 years. The minimum lease payments due in future years are:

Future minimum lease payments due	**2017/18 £000s**	2016/17 £000s
Not later than one year	152	119
Later than one year & not later than five years	608	608
Later than five years	570	722
	1,330	1,449

Note 17: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year by TVCA is shown in the table below together with the resources that have been used to finance it. No capital expenditure was made ny STDC. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2018 £000s	31 March 2017 £000s
Opening Capital Financing Requirement	-	-
Capital investment		
Revenue expenditure funded from capital under statute	43,451	28,339
Sources of Finance		
Government grants and other contributions	(40,631)	(28,339)
Sums set aside from revenue:		
Direct revenue contributions	(2,820)	-
Closing Capital Financing Requirement	-	-

Note 18: Grant Income Group

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

	2017/18	2016/17
	£000s	£000s
Credited to Taxation and Non Specific Grant Income		
Local Growth Fund	19,997	28,479
Local Transport Plan	13,952	-
National Productivity Investment Fund	2,298	-
Pothole Action Fund	1,929	-
SSI	1,394	6,872
DfT Local Majors	100	-
Growing Places	961	4,063
Development Pot	-	1,156
Total	**40,631**	40,570
Credited to Services		
Local Growth Fund	-	9,308
Adult Education Transitional Budget	16	-
BIES Growth Hub	246	-
ESIF	1,337	339
HLF Great Places	85	-
SSI	-	7,368
LEP Core	500	500
One Public Estates	359	-
AGE Apprentice Grant for Employers	379	1,158
DECC - City Deal / Carbon	7	300
Devolution	15,000	15,000
DFT Sustainable Transport	-	990
DfT Access Fund	1,163	14,674
DWP Routes To Work	133	-
MHCLG	2,399	-
Contributions from other LA's	-	2,088
Other	-	3,696
Total	**21,624**	55,421

Note 19: Financial Instruments Group

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2018	31 March 2017	**31 March 2018**	31 March 2017
	£000s	£000s	**£000s**	£000s
Loans and receivables	6,219	5,013	95,074	78,058
Financial assets carried at contract amounts	-	-	4,613	5,812
Total financial assets	**6,219**	5,013	**99,687**	83,870
Financial liabilities carried at contract amount	-	-	(5,595)	(1,662)
Total financial liabilities	**-**	-	**(5,595)**	(1,662)

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments

As at 31st March 2017 the Group held £105.9m financial assets and had financial liabilities of £2.6m. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Managment Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

The fair values calculated are as follows:

Financial liabilities	**31 March 2018**		31 March 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	£000s	**£000s**	£000s	£000s
Bank Overdraft	(2,648)	(2,648)	-	-
Total financial liabilities	**(2,648)**	**(2,648)**	-	-

Loans and receivables	**31 March 2018**		31 March 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	£000s	**£000s**	£000s	£000s
Money Market Loans < 1 year	65,000	65,000	50,056	50,056
Other Loans >1 year	6,253	6,253	5,013	5,013
Cash on Deposit	30,074	30,074	28,002	28,002
Customers	4,613	4,613	5,812	5,812
Total loans and receivables	**105,940**	**105,940**	88,883	88,883

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 19: Financial Instruments Group

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Groups activities expose it to a variety of financial risks; the key risks are:

- **credit risk –** the possibility that other parties might fail to pay amounts due to the Authority
- **liquidity risk –** the possibility that the Authority might not have funds available to meet its commitments to make payments
- **re-financing risk –** the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- **market risk –** the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risks

The Groups overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Group to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Group to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Groups overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Groups financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit & Governance Committees.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Groups customers. This risk is minimised through the Annual Investment Strategies, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategies also consider maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on TVCA's website.

The Authority’s maximum exposure to credit risk in relation to its investments in banks and building societies of £72,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Groups deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The following analysis summarises the Authority’s potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2018	**Historical experience of default**	**Adjustment for market conditions at 31 March 2018**	**Estimated maximum exposure to default at 31 March 2018**	Estimated maximum exposure to default at 31 March 2017
	£000s	**%**	**%**	**£000s**	£000s

Note 19: Financial Instruments Group

A rated counterparties	53,000	0.06%	0.08%	42	21
Local Authorities	35,000	0.06%	0.07%	25	-
Debtors	4,613	0.10%	0.10%	5	-
				72	21

No breaches of the counterparty criteria occurred during the reporting period and the Group does not expect any losses from non performance by any of its counterparties in relation to deposits.

Liquidity Risk

The Group manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Group is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2018, all of the Groups deposits were due to mature within 364 days.

Refinancing and Maturity risk

The Group maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Group relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits placed on investments are the key parameters used to address this risk. The approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk

Interest Rate Risk: *The Group is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Group, depending upon how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:*

- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

The Group has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2017/18 £000s	2016/17 £000s
Increase in interest receivable on variable rate investments	258	301
Impact on (Surplus) or Deficit on the Provision of Services	**258**	301

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk: *The Group, excluding the pension fund, does not invest in equity shares or marketable bonds.*

Foreign Exchange Risk: *The Group has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 20: Defined Benefit Pension Schemes

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the Group makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Group participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Group and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits
We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Group resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Note 20: Defined Benefit Pension Schemes

	Local Government Pension Scheme	
	2017/18 £000s	2016/17 £000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	708	366
• Past service cost	15	-
Financing and Investment Income and Expenditure		
Net interest cost	40	30
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**763**	396
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expense)	(48)	(787)
• Actuarial gains and losses arising on changes in financial assumptions	(1)	1,434
• Actuarial gains and losses due to liability experience	-	-
• Actuarial gains and losses due to acquisitions	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(49)**	647
Movement in Reserves Statement		
• Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(763)	(396)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	**377**	405

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is (£0.049m).

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Present value of defined benefit obligation	(7,694)	(6,715)
Fair value of assets	5,643	5,001
Net liability recognised in the Balance Sheet	**(2,051)**	(1,714)

Note 20: Defined Benefit Pension Schemes

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Opening fair value of scheme assets	5,001	3,578
Interest income	136	130
Remeasurement gains and (losses)	48	787
Contributions from the employer	377	405
Contributions from employees into the scheme	183	113
Net increase from acquisitions	-	-
Benefits paid	(102)	(12)
Closing balance at 31 March 2018	**5,643**	5,001

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Opening balance at 1 April	(6,715)	(4,654)
Current service cost	(708)	(366)
Interest cost	(176)	(160)
Contributions by scheme participants	(183)	(113)
Actuarial gains and losses - financial assumptions	1	(1,434)
Actuarial gains and losses - liability experience	-	-
Benefits paid	102	12
Net increase from acquisitions	-	-
Past service cost	(15)	0
Closing balance at 31 March 2018	**(7,694)**	(6,715)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets		Fair value of scheme assets	
	2017/18		2016/17	
	£000s	**%**	£000s	%
Equity investments (Quoted)	4,509	79.9%	4,001	80.0%
Property (Quoted)	412	7.3%	345	6.9%
Government Bonds	-	0.0%	10	0.2%
Corporate Bonds	-	0.0%	10	0.2%
Cash	626	11.1%	560	11.2%
Other Investments	96	1.7%	75	1.5%
	5,643	**100%**	5,001	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2018.

Note 20: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2017/18	2016/17
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.9	22.8
Women	25.0	24.9
Longevity at 45 for future pensioners:		
Men	25.1	25.0
Women	27.3	27.2
Other assumptions:		
Rate of inflation (RPI)	3.1%	3.1%
Rate of inflation (CPI)	2.0%	2.0%
Rate of increase in salaries	3.0%	3.0%
Rate of increase in pensions	2.0%	2.0%
Rate of Pension accounts revaluation rate	2.0%	2.0%
Rate for discounting scheme liabilities	2.6%	2.6%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase	**Base Figure**	**Decrease**
	£000s	**£000s**	**£000s**
Longevity (increase or decrease in 1 year)	7,922	7,694	7,467
Rate of increase in salaries (increase or decrease by 0.1%)	7,773	7,694	7,616
Rate of increase in pensions payment (increase or decrease by 0.1%)	7,814	7,694	7,575
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	7,499	7,694	7,894

Impact on the Group’s Cash Flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The Group has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Group anticipates to pay £0.374m contributions to the scheme in 2018/2019.

The weighted average duration of the defined benefit obligation for scheme members is 25.7 years.

Note 21: Termination Benefits

The Group terminated the contract of one employee in 2017/18, incurring liabilities of £27k. The amount has been payable to an officer from the TVCA reflecting a service restructure.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18** **£000s**	2016/17 £000s
£1 to £20,000	-	1	-	-	-	1	-	3
£20,001 to £40,000	1	-	-	-	1	-	27	-
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-		-	-	-	-
Total	**1**	1	**-**	-	**1**	1	**27**	3

Note 22: Provisions

The Group has not been required to establish any provision's in year.

Note 23: Contingent Liabilities

The Group has no contingent liabilities.

Note 24: Post Balance Sheet Events

The Group has no post balance sheet events to report.

Note 25: Statement of Accounting Policies

General Principles

The Statement of Accounts summarise the Group's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Group is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Group Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Income from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 25: Statement of Accounting Policies

Post Employment Benefits
Employees of the Group are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Group.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Group and its predecessor.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.

- The assets of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet at their fair value:
  quoted securities – current bid price
  unquoted securities – professional estimate
  unitised securities – current bid price
  property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- *current service cost:* the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- *past service cost* : the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability: i.e. net interest expense for the Group - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- *actuarial gains and losses:* changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Group to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Events after the Reporting Period
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

Note 25: Statement of Accounting Policies

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

Financial Assets
Loans and receivables are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Group has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:
- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Leases
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.
Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Overheads and Support Services
The costs of overheads and support services are charged to service segments in accordance with the Group's arrangements for accountability and financial performace.

Note 25: Statement of Accounting Policies

Provisions, Contingent Liabilities and Contingent Assets
Provisions
Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Group may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.
Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.
Contingent Liabilities & Contingent Assets
A contingent liability arises where an event has taken place that gives the Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. A contingent asset arises where an event has taken place that gives the Group a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves
The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Group expenditure.
Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Group.

Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Group has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT
VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 25: Statement of Accounting Policies

Fair Value Measurement

The Group measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

Responsibilities for the Annual Financial Statements

The Authority's Responsibilities

The Tees Valley Combined Authority Group is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Group, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Groups Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of Tees Valley Combied Authority Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2018.

J Gilhespie **Date: 31 May 2018**
Director of Finance

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2018.

J Gilhespie **Date: 31 July 2018**
Director of Finance

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEES VALLEY COMBINED AUTHORITY

Appendix A

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge
A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency
A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method
This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Appendix A

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

a) goods or other assets purchased for resale;
b) consumable stores;
c) raw materials and components purchased for incorporation into products for sale;
d) products and services in intermediate stages of completion;
e) long term contract balances; and
f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Appendix A

Glossary of Terms

Non Current Assets
Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets
Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence
The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves
Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves
Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 10

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

31st May 2018

REPORT OF FINANCE DIRECTOR

INTERNAL AUDIT CHARTER & PROPOSED AUDIT PLAN 2018-19

SUMMARY

The purpose of this report is to advise Members of the Internal Audit Charter and proposed annual Audit Plan for the coming financial year 2018-2019.

RECOMMENDATION

i. That the Audit and Governance Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

ii. That the Audit and Governance Committee approves the proposed Audit Plan for 2018-2019 (**Appendix B**).

iii. That the Audit and Governance Committee notes the indicative strategic Audit Plan for 2019-2023 and that there are sufficient resources available to deliver that plan.

DETAIL

1. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Authority to:

    a. “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Public Sector Internal Audit Standards

2. The Public Sector Internal Audit Standards were published on 18th December 2012 and updated in March 2016. These standards, which are based on the requirements of the Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They are mandatory and apply to all internal audit service providers, whether in-house, shared or outsourced.

3. There are three distinct areas covered by the standards:-

    - A definition of Internal Auditing;
    - A Code of Ethics designed to promote an ethical, professional culture; and
    - The International Standards for the Professional Practice of Internal Auditing.

4. CIPFA has provided guidance on the application of Public Sector Internal Audit Standard in the form of an Application Note. The Internal Audit Charter (attached) has been prepared in accordance with the Public Sector Internal Audit Standards and this guidance.

Internal Audit Charter

5. Under the standards, the Procurement and Governance Manager is required to prepare an Internal Audit Charter. This is a high level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.

6. The revised charter attached sets out the approach for the period 2018-2023 and gives details of:

    - Purpose of the Internal Audit Service
    - Scope of Internal Audit work
    - Access to Information
    - Resourcing of the Service
    - Future Development of the Service

7. The Internal Audit Charter is attached at **Appendix A**.

Audit Plan

8. The standards state that a risk based plan designed to implement the audit charter and allow an annual internal audit opinion to be prepared should be produced. As part of the process for considering how we would deliver a shared service we reviewed our approach to assessing risk and prioritising the work we will undertake. The new approach utilises a process of assessing the risk posed in each area taking account of other forms of assurance as well as a periodic review of a sample of data to establish if there is any evidence to

suggest our previous opinion may no longer be valid. This approach allows us to monitor more frequently than we currently do whilst spending less time undertaking detailed testing programmes on areas where there is no evidence to suggest there have been any changes from the previous audit.

9. The risk assessment uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment. This process will be further refined to take account of the monitoring work mentioned in para 9.

10. The work to be undertaken for the Tees Valley Combined Authority is part of a broader plan which covers Stockton-on-Tees Borough Council and Darlington Borough Council. The plan for TVCA is formulated in a slightly different way to the main plan as much of the assurance work will be undertaken as part of other audit work and as such represents an allocation of time set aside to examine samples relative to TVCA as part of these audits. The audit plan outlined in Appendix B identifies the areas where the combined authority can expect to receive assurance and when. There are two exceptions to this where specific audits applicable only to the combined authority will be undertaken, Investment Fund Management and Concessionary Travel Scheme. These audits therefore represent a significant proportion of the time allocated during the year.

11. As part of the process, the plan is subject to consultation with the Authority's external auditors. High priority is given to key financial systems, any significant corporate projects and specific areas requested by Management.

12. The proposed level of resources within the service can be identified as gross audit days based on 7.6 FTE's with 2 officer part-time. This is equivalent to 1976 audit days in 2018/2019. Allowances have been made for annual leave, bank holidays, sickness, training and administrative duties. No allowance has been made for staff turnover.

13. The proposed Internal Audit Plan for 2018-19 and indicative plans for 2019-20, 2020-2021, 2021-2022 & 2022-23 are attached at **Appendix B.**

14. The planned audit work to be undertaken on behalf of the Tees Valley Combined authority is incorporated into a broader audit plan. Based on the assumption that the same level of annual resources shown above will be available for the entire period 2018-2023 there is sufficient resources deliver this broader audit plan and subsequently prepare an opinion to the combined authority.

Development of the Audit Service

15. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:

    - Implement the changes required for the shared service itself updating procedures as appropriate.
    - Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
    - Establish how the service can place reliance on other sources of assurance.
    - Continue to update monitoring and reporting procedures.
    - Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.
    - Developing good relationships with managers in Darlington and the Combined Authority.
    - The service will be the subject of an external peer review during the year in accordance with Public Sector Internal Audit Standards.

FINANCIAL AND LEGAL IMPLICATIONS

16. None

RISK ASSESSMENT

17. The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

CONSULTATION

18. Not Applicable

Contact Officer: Andrew Barber, Audit & Risk Manager
Telephone No. 01642 526364
E-mail: a.barber@stockton.gov.uk

Appendix A

Internal Audit Charter

Introduction

This document will outline how the internal audit service to Stockton-on-Tees Borough Council, Darlington Borough Council and the Tees Valley Combined Authority will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

Purpose of the Service

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

Each authority is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

Internal Audit's Responsibilities

The service will be delivered in accordance with the purpose outlined above and by ensuring it:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focussed
- Promotes organisational improvement

The service will ensure it complies with the IIA International Standards for Internal Audit by adopting the Public Sector Internal Audit Standards.

For the purposes of applying these standards "the board" are represented by the Audit and Governance Committee through the scheme of delegation in place within each authority. "Senior

Management" is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.

The service will report the findings of its work to the board and to senior management a minimum of 4 times per year. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.

Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes.

Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The "Chief Audit Executive (CAE)" role as specified by the standards is undertaken by the Audit & Risk Manager. An annual report will be produced giving and overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.

Day-to-day line management for the service will be provided by the Procurement and Governance Manager with the Finance and Business Services Department of Stockton-on-Tees Borough Council.

In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Procurement and Governance Manager have operational responsibility, the Audit & Risk Manager has the right to agree the scope of/report findings of this work to any member of senior management. The Audit & Risk Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.

The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:

- Integrity
- Objectivity
- Competence
- Confidentiality
- Conflicts of Interest

Failure to abide by this code will result in action being taken against individuals through either the Council's disciplinary process, professional disciplinary process or a combination of both.

An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.

In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.

The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the Audit and Governance Committee.

Delivery of the Service

An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.

Each audit in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and as risk changes the plan will be amended to reflect the changing risk. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-Assessment returns and where applicable the schools risk action groups.

Before presenting the plan to the board for agreement managers within each authority will be consulted on the content of the plan to ensure the work will meet the needs of the authority. The plan will be presented to the board before the 31 March in each financial year.

The scope of each audit review will be risk assessed to ensure the coverage is appropriate.

A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.

The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

A Quality Assurance and Improvement Programme (QAIP) will be developed, updated annually and will be presented to the board for agreement prior to 31 March each year.

The QAIP will detail:

- Performance measures for assessing the service
- Complaints procedure
- Process for reviewing compliance with the Standards.

Regular reports will be presented to the board on the outcomes of the QAIP

Appendix B

Tees Valley Combined Authority – Internal Audit Plan 2018-2023

Audits	Risk Rating	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Absence Management	3.6	✓	✓	✓	✓	✓
Active Directory	0.6	✓	✓	✓	✓	✓
Anti-Fraud Management	15.2	✓	✓	✓	✓	✓
Bank Reconciliation	17.6	✓	✓	✓	✓	✓
Business Continuity & Emergency Planning	15.0	✓	✓	✓	✓	✓
Change Control	2.4	✓	✓	✓	✓	✓
Cloud Computing	4.0	✓	✓	✓	✓	✓
Creditors	7.0	✓	✓	✓	✓	✓
Data Protection	8.4		✓		✓	
Debtors	6.2	✓	✓	✓	✓	✓
Declaration of Interests/Gifts & Hospitality	0.7		✓			
Desktop Management	0.6			✓		
Environmental Controls	0.6				✓	
Financial Management	15.4	✓	✓	✓	✓	✓
Firewalls	0.4	✓	✓	✓	✓	✓
Freedom of Information	6.0				✓	
Hardware Controls	0.0	✓				✓
Health & Safety	5.6			✓		
ICT Backup & Recovery / Disaster Recovery	0.6			✓		
ICT Project Management	1.6	✓				✓
Information Management	16.0	✓	✓	✓	✓	✓
Insurance	7.2				✓	
Internet	1.3				✓	

Network Management	3.4	✓				✓
Officer Payments - Mileage	3.1	✓	✓	✓	✓	✓
Officer's Travel & Subsistence	1.0				✓	
Outlook/Email	0.8				✓	
Pension Payments/Early Retirement	9.0	✓		✓		✓
Performance Management Framework	15.0	✓	✓	✓	✓	✓
Recruitment Services	5.4	✓	✓	✓	✓	✓
Remote Access	0.6	✓				✓
Scheme of Delegation	4.2		✓			
Server Operating Systems	1.0	✓	✓	✓	✓	✓
Software Controls	1.7		✓			
Treasury Management	3.2	✓	✓	✓	✓	✓
VAT	4.8	✓	✓	✓	✓	✓
Virtualisation	1.0	✓	✓	✓	✓	✓
Website & Intranet	0.6				✓	
Payroll & Absence Recording	6.7	✓	✓	✓	✓	✓
Investment Fund Management	17.2	✓	✓	✓	✓	✓
Concessionary Travel Scheme	10.6	✓			✓	
Total Number of Audits		27	25	25	30	26

Appendix C

Internal Audit Quality Assurance and Improvement Process

Understanding the Purpose of Internal Audit

The requirement to have an internal audit function is set out in the accounts and audit regulations 2015. They state:

> “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

The proper practices referred to are the Public Sector Internal Auditing Standards (PSIAS) and they have applied the following definition:

> “Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

These requirements can be broken down into the following three areas:

- Adding Value & Improving Operations
- Adequate Coverage of all Risk Management, Control and Governance Processes (i.e. the system of internal control)
- Processes that are Systematic and Disciplined

In order to ensure the service is able to achieve these requirements we need to ensure our people are managed effectively.

The service has developed a balanced scorecard which is supported by an action plan to measure and monitor our achievement of these objectives.

Internal Audit Balanced Scorecard

Stewardship - Adequate Coverage

- Portfolio reviewed including senior management by 31 December
- Plan of audit work for the financial year agreed by 31 March
- Annual report produced by 30 June giving an independent audit opinion supported by sufficient, reliable, relevant and useful information.
- Percentage of audit portfolio covered in year. Target 45%.
- Anti-Fraud and Corruption Strategy reviewed annually and published by 30 June.
- NFI matches reviewed. High Priority - 3 Months, Remainder - 9 Months
- Performance updates presented at each Audit Committee meeting

Stakeholders - Add Value and Improve

- Portfolio reviewed including senior management by 31 December
- Plan of audit work and Audit Charter for the financial year agreed by 31 March
- Overall satisfaction rating. Target 90%
- Time to issue draft report following completion of fieldwork. Target 14 Days
- Time to issue final report following client response. Target 3 Days
- 3* and 4* recommendations implemented by original due date. Target 90%
- Cost of assurance audits completed within 15% of budget time. Target 90%

Purpose - To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

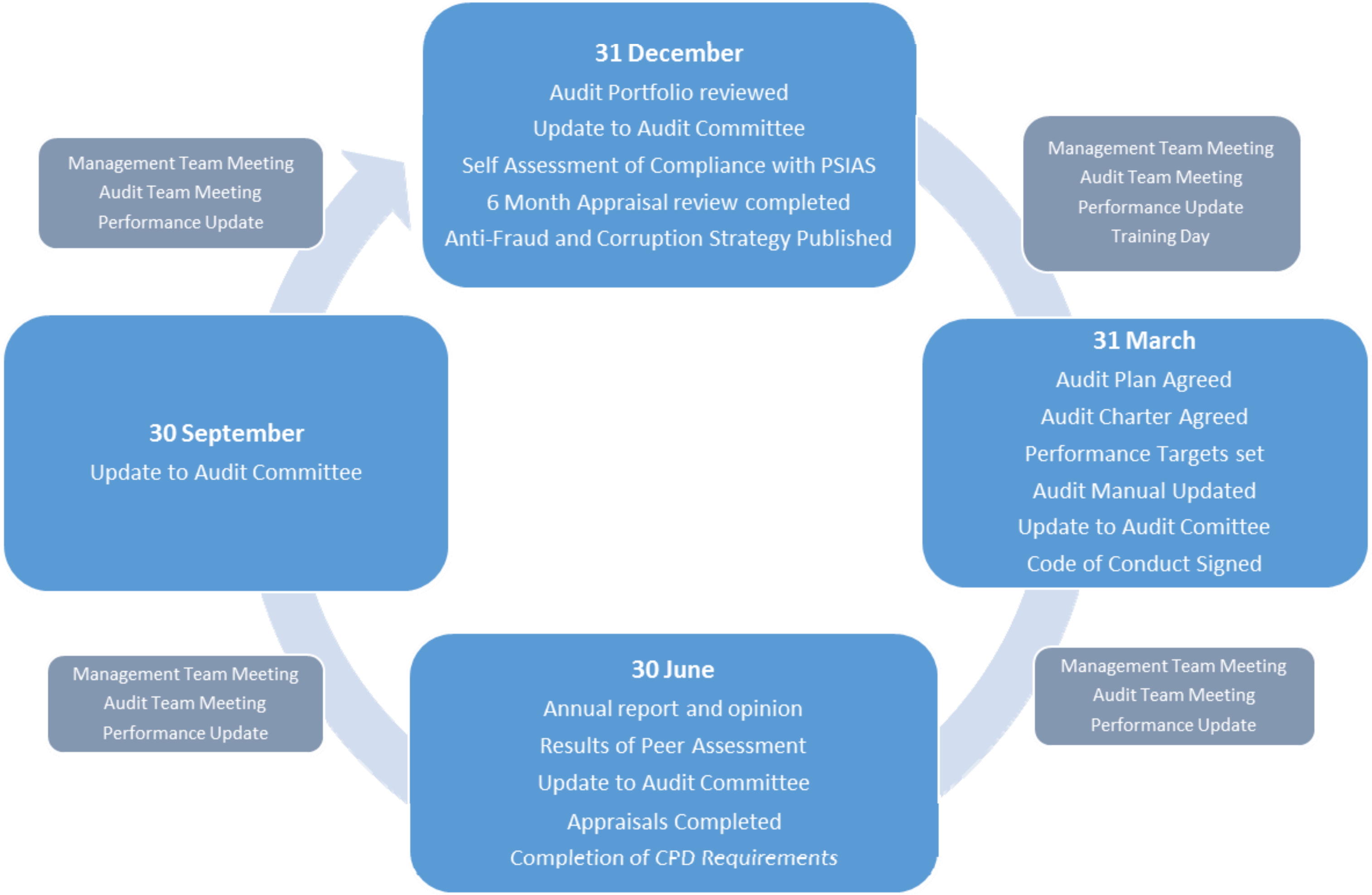
Process

- Assessed as complying with the Public Sector Internal Audit Standards by a group of peers
- Management of the audit process, number of audits released for review prior to planned release date. Target 90%
- Management meetings undertaken at least every 2 months.
- Audit manual reviewed and updated by the 31 March each year.
- Accuracy of final reports, number of final reports needing to be re-issued. Target < 5

People

- Completion of CPD requirements. Target 100% of staff with a minimumm of 20 Hrs.
- Annual training day delivered by 31 December
- Audit team meetings held at least every 2 months
- Appraisals undertaken by 30 June with a 6 month review
- 100% of auditors agree to abide by the auditor code of conduct
- Time lost to sickness/vacancies. Target 23 days

Internal Audit Assurance Cycle



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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 11

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

31st MAY 2018

REPORT OF ADULT EDUCATION MANAGER

ADULT EDUCATION BUDGET

SUMMARY

The purpose of this report is to bring to the attention to the Audit and Governance Committee of the forthcoming Adult Education Budget in 2019/20, to the Tees Valley Combined Authority as part of the Devolution Deal.

RECOMMENDATIONS

There are no recommendations to the Audit and Governance Committee at this time.

DETAIL

1. The Adult Education Budget is an element of national skills funding that is provided to equip adults aged 19 and over with the skills and learning they need for work, apprenticeships or further learning. This includes provision for statutory elements such as a first full level 2 (equivalent to 5 GCSE's A-C), maths and English qualifications.

2. The budget includes provision for formal learning and qualifications primarily delivered by Further Education Colleges, Community learning primarily delivered by Council Adult learning services, a small element of vocational learning in Sixth Forms and a wide range of learning provided by independent training providers.

3. The Adult Education Budget is currently administered by the Education and Skills Funding Agency (ESFA). As part of the Devolution Deal, Tees Valley, and the other devolution areas, sought full devolution of this funding in order to raise local skill levels, promote reform and improved performance, and strengthen the links between training and local job opportunities. Whilst this has been delayed by a year, the 2018/19 (academic year) is the official transitional year.

4. From academic year 2019/20 there will be full devolution of funding which will enable the Combined Authority to allocate funding directly to skills providers, determine the outcomes to be achieved and manage performance of these providers.

5. A funding formula for calculating the size of the grant to combined authorities will take into account a range of demographic, educational and labour market factors. An indicative and working budget of £30.5m p.a has been suggested by the Department for planning purposes. It is intended that the final and full budget amount will be devolved to the Tees Valley Combined Authority.

6. In preparation for the devolved budget, the Adult Education Team (that is within the Education, Employment and Skills Department) will be considering all existing systems and processes within the Combined Authority to support the financial health and risk assessment, contractual payment structure, and internal auditing and monitoring of the AEB providers, including performance management.

   It is envisaged that some of these functions will be shared with the Education and Skills Funding Agency (ESFA) as part of the overall data sharing agreement. For example, it is anticipated that the outcomes of the overall provider financial health assessments currently undertaken by ESFA, will continue and will be shared with the Combined Authorities. However, it is also intended that the Combined Authority will also want to undertake, at a local level, financial health assurance against the AEB in order to demonstrate that effective controls are in place.

Role of the Audit and Governance Committee

1. In preparation for the devolution of the Adult Education Budget, the Combined Authority is reviewing and considering its wider governance arrangements. It is anticipated that during the transitional year (2018/19 academic year), an AEB Programme Board/Committee will be established, and this is currently being explored in line with the existing policies and procedures.

2. In order to demonstrate that the Combined Authority meets the “Readiness Conditions” set out by the Department for Education, we are required to demonstrate that robust audit and governance arrangements are in place to oversee the implementation of the Adult Education Budget during the transitional year of 2018/19, and following full devolution in 2019/20.

   The AEB Team asks that the Audit and Governance Committee considers the initial “Project Risk Register”, and thereafter on a regular basis throughout the transitional year. In addition to this, there will be other relevant reports submitted to this Committee that may impact on the functions of the Combined Authority as set out in paragraph 6 above, and that arise from the AEB Programme Board/Committee.

   Therefore, further reports will be submitted to this group as follows:

26 July 2018	-	AEB Project Risk Register
27 September 2018	-	AEB Internal Audit Plan Requirements and Recommendations

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

3. The content of this report is categorised as low risk.

CONSULTATION

4. None required.

Name of Contact Officer: Jacqui Banks
Post Title: Adult Education Manager
Telephone Number: 01642 524838
Email Address: jacqui.banks@teesvalley-ca.gov.uk

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Tees Valley Combined Authority

Tees Valley Combined Authority Audit & Governance Committee

Forward Plan 2018/19

Standing Items

Minutes from the Previous Meeting
Announcements from the Chair
Forward Plan
Date and Venue of the Next Meeting

Date	Venue	Item / Responsible Officer
Thursday 26th July	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Selection of Chair/Vice Chair External Audit – Completion report and Value for Money Opinion Annual Financial Statements – Approval after Audit Annual Governance Statement - Approval
Thursday 27th September	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Annual Letter External Audit Progress Report Treasury Management Annual report
Thursday 29th November	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report Treasury Management Strategy 2018/19 – Mid Term Review
Thursday 28th February 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report

		External Audit Strategy Memorandum (Audit Plan) Internal Audit Charter & Audit Plan Treasury Management Strategy 2019/20 Anti-Fraud & Corruption Agreement Work Programme 2019/20

Contacts:
Sally Henry – Governance and Personnel Officer
Tel – 01642 524405
Email – sally.henry@teesvalley-ca.gov.uk

TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER –2018

Meeting	Item	Action	Owner	Target Date	Update
19th Jan. 2018	Minutes	Meeting was not quorate so minutes to be considered at next meeting	TVCA	Next meeting of A&G	
19th Jan. 2018	Forward Plan	Additional meeting be convened in March and items scheduled for February meeting be split between February & March meetings	TVCA		
1st Dec. 2017	Introductions	Low attendance so Chair requested this be fed back to members	TVCA	ASAP	Complete
1st Dec. 2017	Minutes	Meeting was not quorate so minutes to be considered at next meeting	TVCA	Next meeting of A&G	
1st Dec. 2017	Internal Audit Report	A summary of recommendations and an Exec Summary be included in the future	SBC		
1st Dec. 2017	Corporate Risk Register	A&G to be included under current controls for Risk Ref CO2	TVCA		
1st Dec. 2017	Treasury Management Strategy Mid-Term Review	A training session for Committee members to be arranged	TVCA	Jan 2018	Complete
1st Dec. 2017	General Reserves	A meeting of A&G be convened early 2018 to discuss General Reserves	TVCA	Jan 2018	Complete