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| Mazars External Audit | |
| <p>1. As independent auditors, Mazars have stated on page 4 of their update, “no assurance is provided”. How do we as taxpayers now get assurance around the authority’s finances during the 2022 financial year? Given the continued inability of the STDC to provide value for money to Teessider taxpayers in the past, does the committee have any confidence in the STDC being entrusted with public money going forward?</p> | <p>The External Auditors are required to complete their work on Value for Money and have done so. The outcome is provided in the Audit Completion report - Value for Money section. There are no additional matters to raise other than those already covered in the Independent Review. Given the Review, the Auditors had no alternative other than to reach this opinion for the value for money statement.</p> <p>Please see Mazars confirmation that "the Corporation has responded comprehensively to the findings of the report" [Independent Review].</p> |
| <p>2. This question is specifically for the A&G committee, and as members of the public we would wish to see a response that provides evidence that you have understood the report, the implications of it, and effectively challenges both the auditors and TVCA/STDC for what is a damning report. You are our vehicle of check & challenge and there are some serious questions around both the work carried out by Mazars and the financial activities of the TVCA/STDC</p> <p>1.What is your response to the report?</p> <p>2.What aspects particularly concern you?</p> <p>2.What actions will you take as a result?</p> | <p>STDC Audit & Governance Committee considered the papers at the meeting on 6 December 2024 and their comments are recorded in the meeting minutes.</p> |

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| <p>3. This question is specifically for the Officers of TVCA, Finance and Monitoring.</p> <p>30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 ('The Amendment Regulations') came into force. The Amendment Regulations require the Authority to publish its Accountability Statements, which include the financial statements and auditor's opinion for the year ended 31 March 2022, by 13 December 2024 ('the backstop date').</p> <p>Under the section; Basis for disclaimer of opinion in Mazars report, they outline that;</p> <p>The backstop date introduced by the Amendment Regulations has impeded our ability to obtain sufficient appropriate evidence upon which to form an opinion on the financial statements as there has been insufficient time to perform all necessary audit procedures.</p> <p>A backstop date of 13 December 2024 for statements ending 31 March 2022, and Mazars were unable to obtain sufficient and appropriate evidence to form an opinion!</p> <p>1. Why?</p> <p>2. Who is responsible for Mazars' inability to obtain the information they needed? Is it Mazars under/poor performance or is it TVCA/STDC officers obstructing or not facilitating their ability to obtain the information needed?</p> <p>3. The report identifies that Mazars' fee was £42,606. Having read through the report it appears to me that they have done nothing other than to regurgitate and agree with the findings of the government commissioned independent review (the Tees Valley review), recommend that the corporation implement the resulting action plan and issue a disclaimer. Given a major part of this was about establishing Value For Money, do TVCA/STDC consider their fees as value for money? Have these costs already been paid, if not do you intend to renegotiate?</p> | <p>1. Mazars have explained at the last STDC AGC that they had determined that they did not have the time or capacity to complete the 2021/2022 and 2022/23 accounts. The 2021/22 and 2022/23 accounts therefore will also be disclaimed to allow the organisation to publish its accounts by the backstop date. Mazars' lead audit partner apologised on behalf of Mazars.</p> <p>2. We would draw your attention to page 42 of the pdf pack where Mazars confirmed that "During the course of the audit we did not encounter any significant difficulties, and we have had the full co-operation of management."</p> <p>3. The issues in respect of the backstop and public sector audit market is a national issue affecting public bodies across the country.</p> <p>The management of fee levels associated with Public Sector audit work is progressed via the Public Sector Auditor Appointments (PSAA) who have nationally procured the majority of local authority audits across the country. The PSAA will consider the impact of the backstop process across all clients and audit firms to determine recommended fee levels.</p> |

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| <p>4. This question is specifically for the TVCA officers, Finance and Monitoring.</p> <p>Under value for money arrangements, Mazars outline that their consideration of the Panel’s findings and the Authority’s response and action plan and in our view, there is sufficient evidence to indicate that for the year ending 31 March 2022, the Authority did not have in place adequate arrangements for:</p> <ol style="list-style-type: none"> 1. Financial sustainability - specifically the arrangements to ensure that it identifies all significant financial pressures and liabilities and has arrangements in place to mitigate them. 2. Governance – specifically how it monitors and ensures appropriate standards such as meeting statutory requirements, how it monitors and assesses risks, how it gains assurance over the effective operation of internal controls and how it ensures it makes properly informed decisions. 3. Improving economy, efficiency and effectiveness – specifically how it delivers its role within significant partnerships, monitors performance against expectations and ensures action is taken where necessary to improve. We recommended that the Authority implement the actions it published in September 2024. These actions were in response to all the recommendations made by the Panel and are designed to address all the findings in the report. <p>For 2022/23 we repeat the findings and recommendations in respect of the significant weaknesses in value for money arrangements</p> <ol style="list-style-type: none"> 1. This is a damning statement, have any officers been held responsible for the significant weaknesses identified and what have been the consequences? | <p>The significant weaknesses referred to in the Auditor’s completion report are entirely in respect of the Independent Review report. The Corporation, alongside TVCA, constituent Local Authorities and their statutory officers have comprehensively responded to the Independent Review. Following the completion of the Auditor’s Value for Money work they have not identified any other areas for consideration. The External Auditors have confirmed that "the Corporation has responded comprehensively to the findings of the report" [Independent Review]."</p> | |

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| <p>5. Question specifically for TVCA/ STDC officers; Finance and Monitoring:</p> <p>Mazars outline that;</p> <p>2014 Finance Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Corporation and to consider any objection made to the accounts.</p> <p>They are referring to the Inspection Notice, and for 23/24 the notice has been written by Ernst Young. The inspection notice for 23/24 accounts is quite clear and not in the least ambiguous. It states;</p> <p>These rights may be exercised from 1 October 2024 and 12 November 2024 between the hours of 10.00 am and 4.00pm.</p> <p>From & And are the operative words here. However, that wasn't what was meant. It should have read from & to or between. A member of the public was denied the right after making a request on 13 November to be told the window of opportunity closed on the 12 November. Due to this error by the current auditors the opportunity was missed.</p> <p>1. On TVCA website, where do you inform members of the public, the electors, that they can question the Auditors and inspect the accounts?</p> <p>2. Is it clear and intuitive for members of the public to navigate through the website to the inspection notice?</p> <p>3. Will you be communicating to this Ernst Young in order they correct this badly written notice?</p> | <p>1. The inspection notice is included in the transparency section, within the accounts sub section.</p> <p>2. We believe it is clear.</p> <p>3. The inspection notice is not written by EY.</p> <p>4. The accounts inspection ran between the dates listed in the question and was exercised by a number of individuals.</p> | |

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| | <p>4. Due to this error will the opportunity to inspect the accounts & question the auditors be reviewed and offered to the members of the public affected?</p> | |
| 6. | <p>This question is specifically for members of the Audit & Governance Committee:</p> <ol style="list-style-type: none"> 1. Were you aware that after publication of the Tees Valley review in January 2024, discussions took place with the corporation (as confirmed by Mazars) after which it was agreed that they would delay completing their considerations until the response to the 28 recommendations was submitted, which was, as you know 27 September 2024? 2. Were you a party to these discussions or involved in agreeing this delay? 3. We're the implications of this decision explained to you? 4. At any point between 27 September 2024 and receiving Mazars report were you made aware that they were having difficulties obtaining the evidence they needed to complete their considerations? 5. At any point, before receiving their report were you made aware that they would issue a disclaimer? <p>Question specifically for TVCA/STDC monitoring officers. Financial and Monitoring</p> <ol style="list-style-type: none"> 1. Is there a record of the discussions with Mazars which led to the agreement that they would delay completing their considerations until after the response to the Tees Valley review was submitted? | <ol style="list-style-type: none"> 1. Yes - this was reported to STDC AGC on 23 February 2024 and 17 June 2024. 2. As above 3. At the time of the above STDC AGC meetings, the Government was in consultation regarding the backstop date. <p>The Government proposals in respect of the backstop arrangements were formalised on 9 September 2024. Mazars confirmed the implications of this at the next available meeting of STDC AGC meeting on 18 November 2024.</p> <ol style="list-style-type: none"> 4. Yes – at each STDC AGC meeting, briefings were given on the challenges in respect of completion of the Audit. The Committee expressed frustration at each meeting with progress and impressed the urgency to conclude the auditor work as soon as possible. 5. Mazars provided an update at the meeting on the 18 November 2024 to the STDC AGC where they announced their intention to disclaim. |

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| <p>2. Who ultimately agreed this?</p> <p>3. The backstop date of 13 December 2024 was issued on 30 September 2024. That's a three month window from responding to the recommendations on 27 September to the backstop. Was it not considered by the Finance officer that this would be insufficient time to obtain the evidence to issue their considerations resulting in a disclaimer?</p> <p>4. Were the implications of this disclaimer i.e. that recommendation 28 of the Tees Valley review could never be complete, as no proper external assessment of value for money was properly undertaken, considered?</p> <p>5. Did the Finance Director and/or Monitoring officer alert the board to this sequelae?</p> <p>6. What actions are you putting in place to ensure that recommendation 28 will be implemented and a full and proper external Value For Money assessment is carried out?</p> | <p>1. The discussions were held in public at the STDC AGC meeting on 23 February 2024 and 17 June 2024.</p> <p>2. This was a matter for Mazars as the independent external auditor to make this judgement.</p> <p>3. The backstop dates were formally confirmed by Government on 9 September 2024. The STDC AGC and Management were in agreement that all efforts to facilitate the completion of the Audit for the backstop date should be made. The Auditors have explained their rationale for the basis of disclaimer, in line with national guidance, due to their capacity.</p> <p>4. Recommendation 28 stated “The Director of Finance and Resources work with the external auditor to support completion of their value for money arrangements work for 2021/22, including any additional risk-based work that may arise in light of the Panel’s findings. The progress of those work should be reported to TVCA and STDC Audit Committees.</p> <p>Mazars have completed their Value for Money work as per the recommendation and their statutory responsibilities. Progress of this work was regularly reported to every STDC and TVCA Audit Committee. This recommendation is now complete.</p> <p>5. The Board have been updated on the Independent Review and the backstop date arrangements on 5 December 2024. The STDC Audit and Governance Committee on behalf of the Board</p> |

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| | | <p>managed the arrangements for the financial statement and update the Board regarding completion.</p> <p>6. Recommendation 28 has been implemented in full and the Auditors have completed their Value for Money work which is within their Audit Completion report. The disclaimer of the audit of the financial statements did not prevent Mazars from completing their Value for Money work.</p> |
| 7. | <p>1. Given the amount of time passed since the end of the financial year, how is it possible that the external auditor has not had the required time to fully assess the authority?</p> <p>2. How do you propose that assurance will be provided for Fiscal Year 2022/2023 and beyond? What actions are in place to address this item specifically?</p> | <p>Mazars have confirmed disclaiming the 2021/22 and 2022/23 financial year statements. Their Value for Money work covers 2021/22 and 2022/23 financial years and has been completed.</p> |
| | <p>1. Appendix 1 outlines the responsibilities of the Chief Financial Officer (CFO), in this case the Group Director of Finance and Resources, including but not limited to financial statements “give a full and fair view”. With no assurance provided by the external auditor, they have failed. What action has been taken against the CFO?</p> <p>2. Additionally appendix 1 states the CFO is responsible for the internal controls of the authority, as there are significant weaknesses in these (an inability to accurately collect evidence) what action has been taken to a) address these and b) taken against the CFO?</p> | <p>The Group Director of Finance and Resources has confirmed in their letter of representation to the Auditors that the accounts give a true and fair view. The Auditor disclaiming of the financial statements is a matter for the Auditors not officers. We would also draw your attention to the Ministerial comment in respect of disclaimed audits whereby they state: -</p> <p>"Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control."</p> |

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| | | All references to significant weaknesses are in respect of the Independent Review report recommendations. |
| 8. | <p>Recommendation 28 of the Tees Valley Review in January 2024 was that the Director of Finance and Resources work with the external auditor to support the completion of their value for money arrangements work for 2021/22.</p> <p>1. One year on from the Tees Valley Review, why has the CFO disregarded this recommendation?</p> | <p>Recommendation 28 has been implemented in full and the Auditors have completed their Value for Money work which is within their Audit Completion report. As stated earlier the disclaimer of the audit of the financial statements did not prevent Mazars from completing their Value for Money work.</p> |
| 9. | <p>1. Page 18 of Mazars' update states the STDC has outsourced its internal audit team, who provides this service?</p> <p>2. Have the internal auditors previously advised on any of the areas picked up on any of the actual and potential areas of significant weaknesses identified by the external auditors? If so, when, to whom, were they implemented and monitored?</p> <p>3. If these areas were not identified by the internal auditor, what action has since taken place? Eg. Service discussions, potential redress, switching provider?</p> | <p>1. This has already been communicated to STDC AGC and the internal auditors attend each meeting. The Internal Auditor is TIAA.</p> <p>2. The significant weaknesses identified by the external auditors are all in respect of the Independent Review report recommendations. The recommendations from the Independent Review in respect of Internal Audit have been fully documented by the Group Director of Finance and Resources commissioned CIPFA review of internal audit arrangements report.</p> <p>3. Please see above and the Independent Review action plan approved by TVCA Cabinet and STDC Board. The Review of Internal Audit has been completed in line with the recommendations from the Independent Review report. TIAA are</p> |

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| | | the new provider of internal audit services following a full procurement process. |
| 10. | <p>1. Will the STDC be adopting all recommendations received from the external auditor? If so, what is the timeline for adoption and implementation? Who is accountable for delivery of each and how will progress be monitored and reported?</p> <p>2. Overall there appears to have been a failure on a number of levels. From the internal auditors, the CFO and his team not developing adequate controls, the board not demanding comprehensive reporting, and the audit and governance committee not holding the board to account. What corrective action is being taken to change the culture within the corporation and authority?</p> | <p>1. The External Auditor recommendations are fully covered by the Action Plan in response to the Independent Review. As noted by the external auditors in their report: -</p> <p>“We recommend that the Corporation should implement the action plan it has developed in response to the Government commissioned independent panel report and ensure that it monitors its delivery and achievement</p> <p>2. The External Auditors report has no new findings, over and above the Independent Review report recommendations, following the completion of their work on value for money. The External Auditors report goes onto to cover the extensive arrangements in place across all aspects of value for money from pages 14-22 of their Audit Completion report in respect of value for money. The Action plan in response to the Independent Review report has been implemented.</p> |
| 11. | <p>On 27 September, in response to the Tees Valley review recommendations, TVCA reported:</p> <p>‘External Auditor meetings had taken place and the Director of Finance and Resources was doing everything he can to ensure that the audit work is finalised. Responses have been provided to the External Auditor questions following the review and External Auditor fieldwork for 2021/22 activity is largely complete. We are awaiting completion work from External Auditors following the</p> | <p>1. The Auditors have not expressed any difficulty obtaining appropriate sufficient information to complete their considerations. The auditors confirmed in their Audit Completion report that during the course of the audit they did not encounter any significant difficulties and that they have had the full co-operation of management. The Auditors have</p> |

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| <p>above activity for 2021/22 accounts.'</p> <p>How could the auditor have largely completed its work, when 3 months later it reported it had been unable to obtain all the evidence it needed?</p> <ol style="list-style-type: none"> 1. When did the officers first become aware that the auditors were having difficulty obtaining appropriate sufficient information to complete their considerations? 2. When did the officers become aware that the auditors would be disclaiming? 3. Did the officers alert any boards or committee's to the fact that the auditors were having difficulties and would potentially be issuing a disclaimer? | <p>explained their rationale for the basis of disclaimer, in line with national guidance, due to their capacity.</p> <ol style="list-style-type: none"> 2. The officers became aware of the External Auditor intention to disclaim in the discussions with auditors in the lead up to the last STDC AGC. 3. The Auditors had not expressed any difficulty obtaining appropriate sufficient information to complete their considerations. As above the STDC AGC was notified at the next available meeting following the Auditors' intention to disclaim became clear. <p>Briefings from External Auditors to the STDC AGC to advise of Government progress with the development of new national guidance regarding backstop dates occurred throughout the year.</p> |