

## ERNST AND YOUNG EXTERNAL AUDIT UPDATE

### SUMMARY

This report provides South Tees Development Corporation (STDC) Audit and Governance committee members with Ernst and Young's (EY) External Audit reporting for the year ended 31 March 2024. This reporting covers the Completion Report, including the draft audit report for the year ended 31 March 2024 and the draft Value for Money reporting for the year ending 31 March 2024.

### RECOMMENDATIONS

It is recommended that the STDC Audit and Governance:

- i. **NOTES** the Completion Report for the year ended 31 March 2024.
- ii. **NOTES** the Draft Audit Report for year ended 31 March 2024.
- iii. **NOTES** the Draft Value for Money reporting for the year ended 31 March 2024.

### DETAIL

1. As reported and discussed at previous STDC Audit and Governance committees, there is a significant backlog of outstanding external audits across the public sector. Last year, just one per cent of council and other local bodies published audited accounts on time.
2. The government is committed to overhauling the local audit system to enable taxpayers to get better value for money. A growing backlog will severely hamper necessary fundamental reforms to repair the system and will continue to undermine local accountability and governance.

## SOUTH TEES DEVELOPMENT CORPORATION

3. The Government, together with the Financial Report Council (FRC), the National Audit Office (NAO), and organisations in the wider system has taken a number of actions, which are designed to address the backlog and put local audit on a sustainable footing.
4. The term “audit backstop” refers to a deadline set by authorities to ensure that all outstanding local government audits in England are completed by a specific date.
5. For financial year 2023/2024 the back stop date has been set as 28 February 2025.
6. It has been confirmed with Claire Mellons, EY External Audit Partner, that the STDC Single Entity Statement of Accounts for the year 2023/2024 would be impacted by the audit back stop date.
7. EY has determined that there is insufficient time to complete its audit procedures to obtain sufficient appropriate evidence, and, in its view, the effects of the resulting lack of evidence is pervasive to the financial statements as a whole. As a result, it intends to issue a disclaimer of opinion on the corporation’s financial statements.
8. Appended to this report is the Completion Report including the draft audit report for the year ended 31 March 2024 and the draft value for money reporting for the year ending 31 March 2024.

### CONTEXT OF THE REPORT AND NEXT STEPS

9. This Audit Completion Report solely refers to the financial year April 1 2023 to March 31 2024. During this period, South Tees Development Corporation was involved in the independent Tees Valley Review, commissioned by Government, into allegations of wrongdoing at TVCA, STDC and Teesworks.
10. During this process, significant directors' and senior officers' resource were involved in a complex process with the review panel. With staff required to provide more than 700 documents and answer more than 185 queries as part of the investigation.
11. The Tees Valley Review report was published in January 2024, two months before the financial year end. This stated that there was “no evidence of wrongdoing or illegality” relating to the organisations it was investigating. It presented 28 recommendations, largely focused on Finance & Audit, Oversight, Overview & Scrutiny and Governance. From the publication date, teams worked to implement the findings, with a final report to Government on this submitted in September 2024.

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## SOUTH TEES DEVELOPMENT CORPORATION

12. The capacity issues as identified in EY's report is specifically focused on an atypical time in the operations of the Corporation with considerably increased workloads.
13. The delays in relation to internal audits and the internal audit opinion for 2023/24, have been fully addressed and a reasonable assurance opinion has been issued for the period.
14. Subsequent to the reporting window, STDC has worked to address the issues raised in both the Tees Valley Review and EY's report, in terms of capacity issues and in mitigating the risk of weakness in the Corporation's arrangements to secure value for money in its use of resources and to strengthen its governance arrangements. The full report to Government on the changes STDC / TVCA have made can be found here - <https://teesvalley-ca.gov.uk/about/wp-content/uploads/sites/2/2024/09/5-Tees-Valley-Review.pdf>
15. Of the 28 recommendations, all those pertaining to STDC / TVCA have been actioned and implemented.
16. These include, but are not limited to:
  - Updated policies and procedures including our Recruitment Policy, Assurance Framework, TVCA and STDC constitutions and associated regulations to address specific recommendations
  - The creation of a Statutory Officer Conflict of Interest Protocol
  - Recruitment for Finance and Risk and Audit teams to increase capacity, including separate Heads of Finance and Legal for TVCA and STDC
  - Regular reports to TVCA Cabinet from STDC, on STDC finances including the Medium-term Financial Plan, Borrowing Position and Future Revenues
  - A CIPFA review of internal audit arrangements with action taken to address the risks highlighted
  - The Local Government Association providing independent oversight of the implementation of the recommendations
17. The financial job market is a challenging environment for recruiters to secure the talent that they need, both in the private and public sectors. Recruitment was made increasingly difficult for STDC due to the adverse publicity and unfounded comments made in relation to the organisations which sparked the Tees Valley Review. However, we have now successfully secured additional capacity which we hope addresses the recommendations from EY's report.

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## **FINANCIAL IMPLICATIONS**

18. The financial implications are covered in the body of this report.
19. Further delays in publishing audited accounts hinder transparency and accountability, which can affect public trust.

## **LEGAL IMPLICATIONS**

20. The Statutory Instrument, laid alongside revised Code of Audit Practice from the National Audit Office (NAO), will introduce back stop dates for local bodies and their auditors to publish audited accounts, starting the process of repairing the foundations of local audit. This is led by the Government, together with the Financial Reporting Council (FRC), the National Audit Office (NAO).

## **RISK ASSESSMENT**

21. This document is categorised as medium risk.

## **CONSULTATION & COMMUNICATION**

22. Consultation has taken place by relevant government departments.

## **EQUALITY & DIVERSITY**

23. There are no equality and diversity implications arising from the subject matter of this document.

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<b>Post Title:</b>	Group Financial Controller
<b>Telephone Number:</b>	01325 792600
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# South Tees Development Corporation Completion Report for Those Charged with Governance

Year ended 31 March 2024

Report issued - 18 February 2025



Audit and Governance Committee  
South Tees Development Corporation  
Teesside Airport Business Suite  
Teesside International Airport  
Darlington  
DL2 1NJ

18 February 2025

Dear Audit and Governance Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit and Governance Committee of the South Tees Development Corporation ('the Corporation') with a detailed completion report covering our approach and outcomes of the 2023/24 audit.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit and Governance Committee, as the Corporation's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Corporation's wider arrangements to support the delivery of a timely and efficient audit. We will consider and report on the adequacy of the Corporation's external financial reporting arrangements and the effectiveness of the Audit and Governance Committee in fulfilling its role in those arrangements as part of our assessment of value for money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024 ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

We have also taken into account the Local Authority Reset and Recovery Implementation Guidance Notes (LARRIGs) issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

As reported in their November 2024 Audit Completion Report, the Corporation's former auditor issued a disclaimed audit report on the Corporation's financial statements for 2021/22 and 2022/23 under these arrangements to reset and recover local government audit. The Corporation published its draft 2023/24 financial statements on 15 September 2024. In-line with the prioritisation principles communicated to the Corporation on 21 August 2024, and the Corporation's ongoing focus on its 2021/22 and 2022/23 audits which completed in December 2024, we concluded that we would be unable to complete our audit procedures by the 2023/24 backstop date of 28 February 2025. We therefore did not undertake our planned procedures on the 2023/24 financial statements and have not been able to undertake any substantive audit work ahead of the planned backstop date of 28 February 2025. As a result, we anticipate issuing a disclaimed 2023/24 audit opinion.

We draw the attention of the Audit and Governance Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix E).

This report is intended solely for the information and use of the Audit and Governance Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Reid', with a horizontal line underneath.

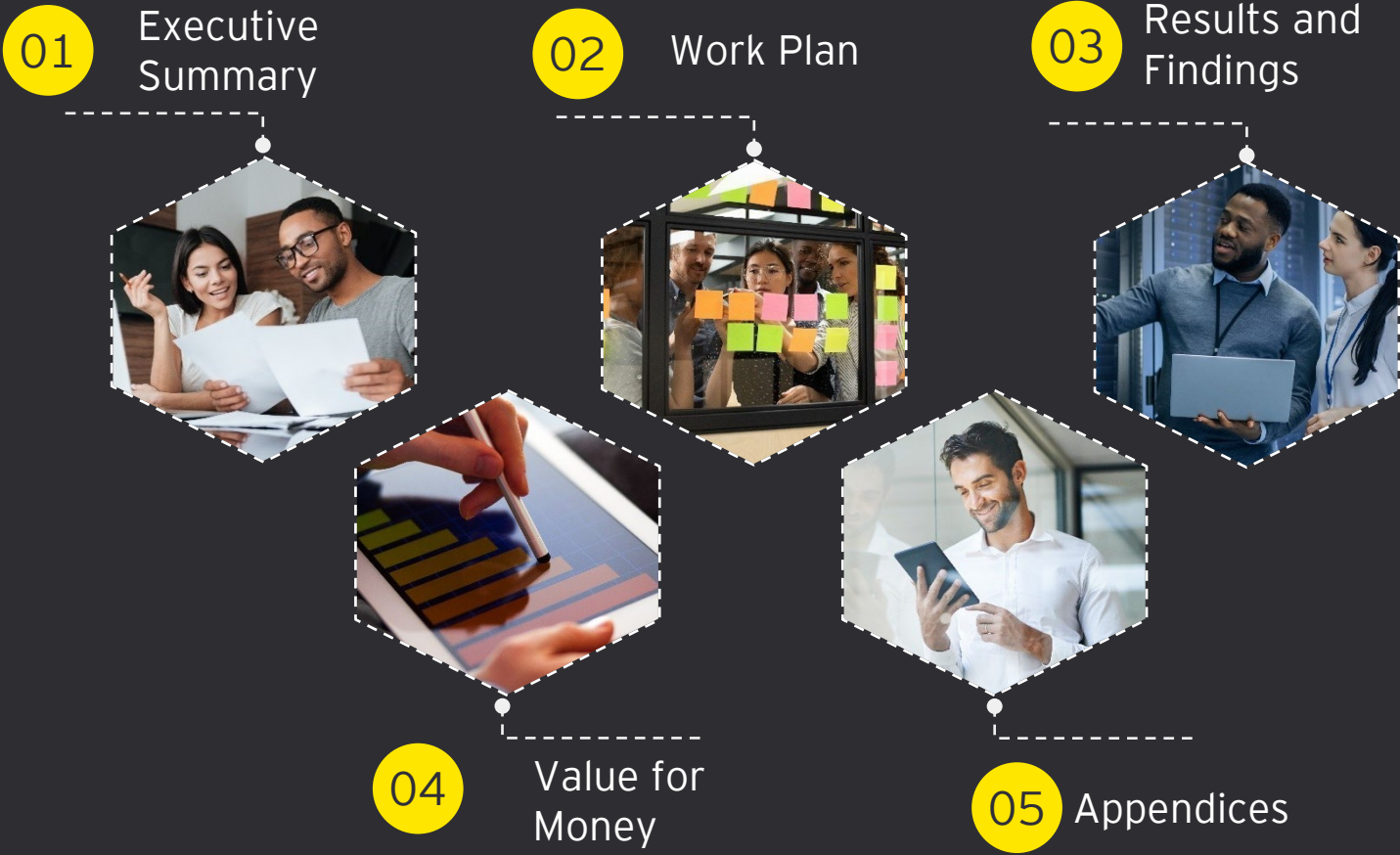
Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of the South Tees Development Corporation. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of the South Tees Development Corporation those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of the South Tees Development Corporation for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary



# Executive Summary – Context for the Audit

## Context for the audit – Ministry for Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting professions
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly DLUHC) has worked collaboratively with the FRC, and other system partners to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audits of the 2023/24 financial statements is 28 February 2025.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As reported in their November 2024 Audit Completion Report, the Corporation’s previous auditor issued a disclaimed audit report on the Corporation’s financial statements for 2021/22 and 2022/23 under these arrangements to reset and recover local government audit.

In my role as EY’s Head of UK Government and Public Sector Audit, I wrote to the Section 73 officer at the Corporation on 21 August 2024 to set out that we would be prioritising those 2023/24 audits that we considered met the following criteria:

- ▶ draft unaudited financial statements were published by 31 July 2024;
- ▶ there was evidence that finance teams could effectively and efficiently support the audit process; and
- ▶ have high-quality audit evidence and supporting information that is delivered in accordance with our agreed timetable and in advance of the commencement of the audit.

We concluded that the Corporation had not met these requirements as its draft financial statements were published on 15 September 2024 and, at that point, the Corporation’s finance team was still working with the Corporation’s former auditor to conclude the Corporation’s 2021/22 and 2022/23 audits. We therefore did not undertake our planned procedures on the 2023/24 financial statements and have not been able to undertake any substantive audit work ahead of the planned backstop date of 28 February 2025.



# Executive Summary – Report Structure and Work Completed

## Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (ISAs) UK and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office' Code of Audit Practice (NAO Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- ▶ Required independence procedures;
- ▶ Set a level of materiality;
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer;
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting;
- ▶ Identified significant, inherent and other areas of higher risk or focus;
- ▶ Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements;
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems or service organisations, which we report as appropriate;
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money commentary covering the year to 31 March 2024.

Section 5 - Appendices



# 02

## Work Plan



# Work Plan – Audit Scope

## Audit scope

This Completion Report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Corporation give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

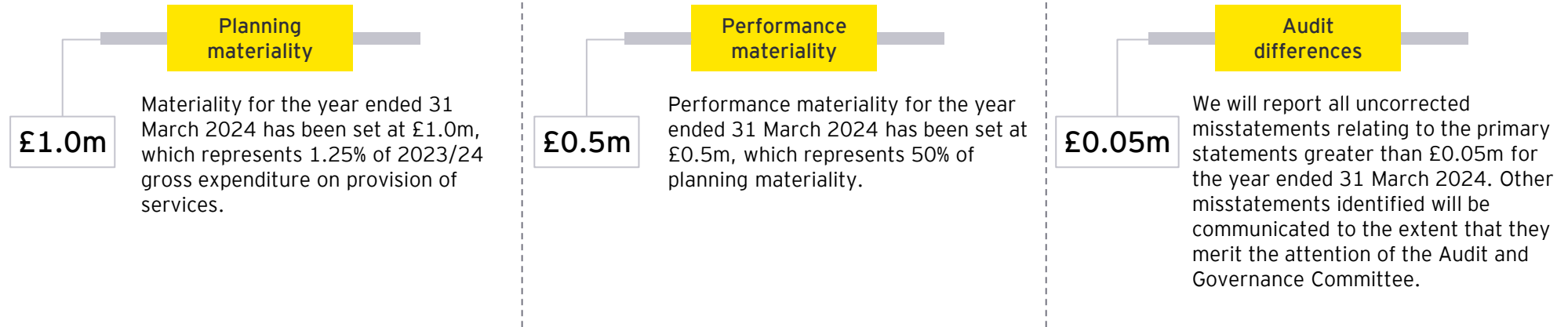
Given that SI 2024/907 imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77&A78).

Taking the above into account, for the year ended 31 March 2024 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing a disclaimed audit report.

# Work Plan - Materiality

## Materiality



These materiality levels have been set based on the main Corporation financial statements - we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Corporation's financial statements.

# Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Details
Misstatement due to fraud or error	Fraud risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition	Fraud risk	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Valuation of assets under construction	Significant risk	The Corporation holds material assets under construction, for which the draft financial statements also include material levels of impairment in 2023/24. The assessment of residual value, and hence of the size of these impairments, involves higher risk estimates due to the significant assumptions and judgments involved in this assessment. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.
Accounting for unusual transactions	Significant risk	Through our discussions with management, we have noted several individually material agreements or other transactions entered by the Corporation for which increased judgement is required in the determination of appropriate accounting treatments due to their unusual nature and/or terms. There is an increased risk of material misstatement where significant accounting judgements are required.
Valuation of defined-benefit pension balances	Inherent risk	<p>The assessment of the present value of future benefit obligations requires detailed actuarial calculations. Small changes in the assumptions used for these calculations can have a significant impact upon the financial statements.</p> <p>The Corporation’s draft statements also include a net asset position for which careful consideration of any applicable asset ceiling is required.</p>

# Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



# Work Plan – Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in your Corporation. Examples include where we have an investment in your Corporation; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is expected to be well below a 1:1 ratio, see Appendix B. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your Corporation. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



# Work Plan – Independence

## EY Transparency Report 2024

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)



## 03 Results and findings



# Results and findings

## Status of the audit

We wrote to the Corporation's Section 73 Officer on 10 December 2024 and 30 January 2025 setting out our assessment that the inspection period for the draft Statement of Accounts did not meet the requirements of regulation 15 of The Accounts and Audit Regulations 2015, as the draft Annual Governance Statement was not published on the website alongside the draft Statement of Accounts for 2023/24. Our recommendation was that the inspection period be re-commenced. At the time of writing this report, this action has not been taken. Due to the expectation that the Corporation will need to re-run the inspection period, which must last for 30 working days, the audit of the 2023/24 financial statements will not be able to conclude by the backstop date of 28 February 2025. We are required to report this fact to the Financial Reporting Council along with details as to why the Corporation is unable to meet the backstop date.

Our audit work in respect of the Corporation's opinion is well progressed. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Receipt of responses to our written enquiries, issued on 8 January 2025, from the Corporation's Monitoring Officer;
- ▶ Completion of subsequent events procedures; and
- ▶ Receipt of a signed management representation letter.

## Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified two risks of significant weaknesses in the Corporation's arrangements in respect of the year ended 31 March 2024:

- ▶ The findings of the Tees Valley Review; and
- ▶ The capacity of the Corporation's finance and risk & assurance teams.

Further commentary and our conclusions on these risks is provided in Section 4 of this report.

## Audit differences

We have identified two matters for which further adjustment of the 2023/24 financial statements are expected prior to the Statement of Accounts being authorised:

- ▶ On 5 February 2024, judgement was issued in the legal case brought by the Corporation against PD Ports in relation to access rights to the Teesworks site. The ruling found in PD Ports favour in relation to 6 of the disputed rights, and a further hearing on 27 March 2024 determined that the Corporation should contribute towards the legal costs of PD Ports. Management have indicated a provision will be recognised for these costs, however this is not included in the draft financial statements. We have not performed procedures to audit the value of the provision to be recognised; and
- ▶ Our review of the Corporation's draft financial statements identified a several differences between the opening balances at 1 April 2023 and the closing balances per the Corporation's signed financial statements for the year ended 31 March 2023. We note that the Corporation issued its draft financial statements several months prior to issuing its final Statement of Accounts for the prior year, therefore differences likely reflect changes made to the 2022/23 statements during this period. The Corporation should ensure that its financial statements for 2023/24 are updated to reflect the final 2022/23 closing positions.



# Results and findings

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Corporation. We have two matters to report to you as a result of this review:

- ▶ The Annual Governance Statement includes commentary on the work of the Corporation's internal auditor and the overall status of their work for 2023/24. Whilst the position articulated was correct at the time the Annual Governance Statement was produced, it is now out-of-date and should be updated prior to issuance of the final Statement of Accounts. We would expect that the updated narrative includes recognition of the significant delays in the completion of internal audit's 2023/24 work programme due to capacity constraints within the Corporation's risk & assurance team, in part due to the need to support the Tees Valley Review, and their ability to support internal audit procedures as highlighted by the Head of Internal Audit in their Annual Report. Similar updates are required to the narrative on the status and conclusions of the Corporation's external audit; and
- ▶ The Annual Governance Statement includes a section on the Tees Valley Review which acknowledges the nature of concerns which prompted the review and the review's conclusions in relation to those concerns (i.e. no evidence to support allegations of corruption or illegality). The statement also acknowledges that 28 recommendations were made by the review and provides details elsewhere in the statement on a number of these. The overall findings of the review with regards to the adequacy of the Corporation's governance and transparency are however not disclosed, therefore the overall impression readers are likely to take from disclosures is that the review did not raise any significant concerns, and this would not be an accurate reflection on the review as a whole.

Prior to issuance of the final Statement of Accounts we would also expect management to update the Annual Governance Statement to reflect our observations on the Corporation's arrangements to secure value for money its use of resources reported in Section 4 of this report.

We also wish to bring to the Audit and Governance Committee's attention the fact that the Annual Governance Statement was not published and available to members of the public during the public inspection period. This is a requirement of regulation 15 of The Accounts and Audit Regulations 2015, and hence in our view the inspection period for the draft Statement of Accounts did not meet the requirements of The Accounts and Audit Regulations 2015.



# Results and findings

## Other reporting issues (cont.)

We have two matters relating to the Corporation's compliance with laws and regulations to bring to the attention of the Audit and Governance Committee:

- ▶ In September 2023, the Health and Safety Executive announced that it was taking over from Cleveland Police as the primary investigator of a 2019 fatal accident on the Teesworks site. The accident occurred prior to the transfer of South Tees Site Company to the Group from the then Department for Business, Energy and Industrial Strategy (BEIS). Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to evaluate the potential impact of this matter on the financial statements; and
- ▶ As reported on the previous page, it is our view the inspection period for the draft Statement of Accounts did not meet the requirements of The Accounts and Audit Regulations 2015 as the Corporation did not make the Annual Governance Statement available for inspection during this period as required by regulation 15 of The Accounts and Audit Regulations 2015.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Corporation to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

Section 4 to this report sets out our conclusion that a significant weakness exists in the Corporation's arrangements to secure value for money in its use of resources in relation to the capacity of the Corporation's finance and risk & assurance teams. In our view, this weakness is sufficiently serious that it warrants further consideration of whether it is appropriate for us to issue recommendations to the Corporation under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 ('statutory recommendations'). We are currently consulting internally on whether to take this action, with a view to concluding our consideration prior to completing the 2023/24 audit and will provide a future update to the Audit and Governance Committee on this point. Further details of the significant weakness in the Corporation's arrangements identified are set out in Section 4.

Section 4 to this report also sets out our conclusions that a significant weakness exists in the Corporation's arrangements to secure value for money in its use of resources in relation to the Tees Valley Review. We note that there has already been extensive reporting of the recommendations of that review both internally to the Corporation and externally, therefore our considerations on whether to issue the Corporation with statutory recommendations does not extend to this significant weakness in the Corporation's arrangements.



# Results and findings

## Areas of audit focus

We identified a number of key areas of focus for our audit of the financial statements of the Corporation. We concluded we would disclaim our audits and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

## Control observations

During the audit, we did not identify any significant deficiencies in internal control other than those highlighted in our value for money commentary. Details of our value for money observations are provided in Section 4.

In addition, we have not identified any observations or improvement recommendations in relation to management's financial processes and controls to bring to the Audit and Governance Committee's attention other than those set out in our value for money commentary within Section 4.

## Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Corporation, and its members and senior management and its affiliates, including all services provided by us and our network to the Corporation, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity



# Results and findings

## Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Corporation's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits.

Other than the matters reported elsewhere in this report, we have no matters to bring to your attention.



# Results and findings

## Expected modification to the audit report

As reported in their November 2024 Audit Completion Report, the Corporation's previous auditor issued a disclaimed audit report on the Corporation's financial statements for 2022/23 under the Government's legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance). The reasons for the 2022/23 disclaimed audit report were set out in the aforementioned 2022/23 Audit Completion Report.

As set out within Section 1, due to the late publication of the Corporation's draft 2023/24 financial statements and the focus of the Corporation's finance team on supporting the Corporation's previous auditor with the completion of their 2021/22 and 2022/23 audits, we concluded that the Corporation did not meet the criteria we set out to the Corporation's Section 73 Officer for prioritisation of audit resources in the delivery of 2023/24 audits, and we did not have the audit resources necessary to perform the 2023/24 audit before the backstop date. We therefore did not undertake our planned procedures on the 2023/24 financial statements.

We are therefore unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements and anticipate issuing a disclaimed 2023/24 audit opinion.

In addition, as reported within Section 4 of this report we have concluded that significant weaknesses exist in the Corporation's arrangements to secure value for money in its use of resources for the year ended 31 March 2024 with regards to:

- ▶ The findings of the Tees Valley Review; and
- ▶ The capacity of the Corporation's finance and risk & assurance teams

Our audit report will reflect these significant weaknesses in the Corporation's value for money arrangements.



# 04 Value for Money



# Value for Money – Executive Summary

## Purpose

Auditors are required to be satisfied that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on the Corporation's arrangements. In doing so, we comply with the requirements of the 2024 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken during the year and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2023/24.

The Ministry for Housing, Communities and Local Government (MHCLG) has worked collaboratively with the FRC and other system partners, to develop measures to address the delay in local audit and has published its response in September 2024. The NAO has published its Local Audit Reset and Recovery Implementation Guidance (LARRIG) which has not amended auditors' responsibilities with regards to value for money reporting.

The report sets out the following areas which have been assessed up to the point of issuing this report:

- ▶ Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- ▶ An explanation of the planned responsive audit procedures to the significant risks identified;
- ▶ Findings from our planned procedures; and
- ▶ Summary of arrangements over the period covered by this report (later in this section).

# Value for Money – Executive Summary

## Risks of significant weakness

In undertaking our procedures to understand the body’s arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- ▶ Our cumulative audit knowledge and experience as your auditor;
- ▶ Reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- ▶ Our review of Corporation committee reports;
- ▶ Meetings with the Group Director of Finance and Resources;
- ▶ Information from external sources; and
- ▶ Evaluation of associated documentation through our regular engagement with Corporation management and the finance team.

We identified two significant risks as part of our risk assessment procedures, cutting across each of the three specified reporting criteria. We set out our identified significant risks and the procedures performed to respond to these risks in the table below:

Description of risk identified	Work performed to address the risk of significant weakness
<p><b>Tees Valley Review</b></p> <p>In May 2023, the then Secretary of State for Levelling Up, Housing and Communities commissioned an independent review of the Corporation and the Teesworks Joint Venture (the ‘Tees Valley Review’). This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks.</p> <p>In January 2024, the review panel issued their report on the results of this review. The report concluded that “Based on the information shared with the Panel, we have found no evidence to support allegations of corruption or illegality. However, there are issues of governance and transparency that need to be addressed and a number of decisions taken by the bodies involved do not meet the standards expected when managing public funds. The Panel have therefore concluded that the systems of governance and finance in place within TVCA and STDC at present do not include the expected sufficiency of transparency and oversight across the system to evidence value for money”.</p> <p>The concerns raised by the review in relation to governance and transparency within the Corporation are indicative that there is a risk of significant weakness in the Corporation’s arrangements to secure value for money in its use of resources.</p>	<ul style="list-style-type: none"> <li>• We reviewed the independent panel’s report on the Corporation and Teesworks Joint Venture, including the report’s observations on the oversight provided by the Corporation of the activities of Teesworks;</li> <li>• We considered the conclusions of the Corporation’s previous auditor, who concluded that a significant weakness in arrangements existed during the year ended 31 March 2023 in relation to the matters raised by the review;</li> <li>• We considered the timing of the publication of the independent panel’s report and the Corporation’s implementation of an action plan to response to the report’s recommendations; and</li> <li>• We evaluated whether the above indicates that a material weakness was present during 2023/24 and considered the implications for our auditor reporting.</li> </ul>

# Value for Money – Executive Summary

## Risks of significant weakness

### Description of risk identified

#### Capacity of the Corporation's finance and risk & assurance teams

There was significant delay in the completion of the Corporation's 2021/22 and 2022/23 external audits, which both concluded in December 2024 shortly ahead of the 13 December 2024 backstop date for 2022/23 and earlier years' audits. Delayed audit timelines have been a challenge across the sector.

The Corporation was also delayed in publishing its draft 2023/24 financial statements, doing so on 15 September 2024, three and a half months after the 1 June 2024 deadline for commencement of the public inspection period for 2023/23 financial statements.

The Corporation's internal auditor has also reported challenges in completing their planned work programme due to the available capacity within the Corporation's risk & assurance team to support audit work, in part due to the workload placed upon the Corporation in supporting the Tees Valley Review. The Annual Report of the Head of Internal Audit for 2023/24 was only issued in January 2025.

These are indicators that there may be insufficient capacity within the Corporation's finance and risk & assurance teams to support the level of activity required of them. In turn, this may impact upon how the Corporation ensures that it makes informed decisions and properly manages its risks.

**Note:** The Corporation utilises the group finance and risk & assurance teams of its parent, the Tees Valley Combined Authority ('the Authority'), for the provision of such services and receives group internal audit services provided to the Authority. References throughout this report to the Corporation's finance and risk & assurance teams and internal auditor should be read in this context. Nevertheless, the Corporation remains responsible for ensuring that it has proper arrangements in place for securing value for money in its use of resources, including that the services it receives via other entities meet its needs.

### Work performed to address the risk of significant weakness

- We have held discussions with management on the status of the Corporation's 2021/22 and 2022/23 audits and the reasons for delays in their completion;
- We have made enquiries of the Corporation's predecessor auditor, in-line with normal practice on communications between auditors upon a change of external auditor;
- We have evaluated the Corporation's compliance with the requirements of the Accounts and Audit Regulations 2015 with regards to the public inspection period;
- We have reviewed the reporting of the Corporation's internal auditor to the Audit and Governance Committee;
- We have made enquiries of the Corporation's internal auditor, including their observations of the Corporation's internal control environment; and
- We evaluated whether the above indicates that a material weakness was present during 2023/24 and considered the implications for our auditor reporting.

# Value for Money – Executive Summary


## Reporting

Our commentary for 2023/24 is set out over pages 27 to 34. The commentary on these pages summarises our understanding of the arrangements at the Corporation based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2023/24. We include within the value for money commentary below the associated recommendation(s) we have made to the Corporation.

In accordance with the NAO's 2024 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether we have concluded that there is a significant weakness in the Corporation's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Governance:</b> How the Corporation ensures that it makes informed decisions and properly manages its risks	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> <li>Capacity of the Corporation's finance and risk &amp; assurance teams</li> </ul>	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> <li>Capacity of the Corporation's finance and risk &amp; assurance teams</li> </ul>
<b>Financial sustainability:</b> How the Corporation plans and manages its resources to ensure it can continue to deliver its services	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> </ul>	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> </ul>
<b>Improving economy, efficiency and effectiveness:</b> How the Corporation uses information about its costs and performance to improve the way it manages and delivers its services	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> </ul>	<ul style="list-style-type: none"> <li>Tees Valley Review*</li> </ul>

\* The observations and associated recommendations of the Tees Valley Review are varied and wide ranging. Accordingly, we consider that this risk is relevant to all 3 of the reporting criteria set out in the NAO's 2024 Code.



# Value for Money – Commentary

**Governance: How the Corporation ensures that it makes informed decisions and properly manages its risks**

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its financial reporting requirements; and ensures corrective action is taken where needed*

The Corporation's position against its annual budget and medium-term financial plan are reported to the Corporation's Board on a quarterly basis. The reporting package includes consideration of outturn reports, comparison of actual performance against forecast, and the identification of financial pressures which are reviewed to understand the reasons for them. Where appropriate, corrective action, which may include the identification of additional savings or planned deployment of the Corporation's reserves, is identified.

The Corporation's outturn for 2023/24 of £112.8 million represented a significant decrease from the £213.8 million in 2022/23 and reflects that the Corporation's significant demolition programme is now in its final stages. Of the £112.8m outturn for 2023/24, £101.1 million related to project development expenditure and was broadly consistent with the £101.8 million budget for 2023/24 with some cost pressures on demolition work and enabling studies being offset by deferral of site preparation works for the park and ride project into 2024/25.


The majority of the Corporation's resources are deployed on its main projects and programmes, with the Corporation's core administrative costs (including borrowing costs) accounting for just £11.7 million (10%) of its total outturn and being delivered within the Corporation's budget of £12.5 million for 2023/24.

The Corporation has its own Head of Finance, but otherwise utilises the group finance team of its parent the Tees Valley Combined Authority (TVCA) to support its activities. References in the rest of this commentary to the Corporation's finance team should be read in this context.

The Accounts and Audit Regulations 2015 required the Corporation to commence the public inspection period of its draft 2023/24 financial statements no later than 1 June 2024. The Corporation did not meet this deadline, as it published its draft financial statements on 15 September 2024 and commenced the public inspection period on 19 September 2024. A significant contributor to the delays in the publication of the Corporation's draft financial statements was the impact on the Corporation's finance team of both the 2021/22 and 2022/23 external audits being ongoing (both concluded in December 2024) and the need to support the independent review into the Corporation and the Teesworks joint venture.

In addition, the Accounts and Audit Regulations 2015 require that the draft financial statements made available during the inspection period are accompanied by the Annual Governance Statement and the Narrative Report. Our view is that the Corporation did not meet this requirement as it did not publish the Annual Governance Statement alongside the draft financial statements. This was raised to the Corporation's Section 73 Officer in December 2024 and management acknowledge that the Annual Governance Statement should have been published for inspection at the same time as the financial statements. The Annual Governance Statement has subsequently been published on the website as part of the public November Audit and Governance Committee papers, and management is looking in to whether this is sufficient to meet the requirements of the regulations. At the time of writing this report we are yet to receive managements conclusion on this matter, and the supporting rationale for the conclusion reached. Given the inspection period has not been re-commenced as we recommended in December, and should management conclude that they believe they have complied with the Regulations we will be required to go through an internal consultation process on whether we can accept this view, the Corporation will now miss the 28 February 2025 backstop date for finalisation of its 2023/24 Statement of Accounts.

Similar to its use of the group finance team, the Corporation utilises the group risk and assurance team of TVCA to support its risk management and assurance activities. References in the rest of this commentary to the Corporation's risk and assurance team should be read in this context.



# Value for Money – Commentary

## Governance: How the Corporation ensures that it makes informed decisions and properly manages its risks

Internal audit services are also provided to the Corporation as part of a wider group arrangement with TVCA, with the internal audit programme for 2023/24 consisting of reviews applicable to both TVCA and the Corporation and associated reports issued to both entities.


For the 2023/24 financial year, the Corporation's internal auditor changed from RSM to TIAA. The Corporation's new internal auditor issued their annual audit plan in August 2023, proposing 7 audits. None of the planned audits were completing during the 2023/24 financial year, with 6 of the audits being completed between May 2024 and January 2025 and 1 deferred into the 2024/25 internal audit work programme. When internal audit were able to complete their work programme, their conclusion was that 'substantial assurance' could be obtained for two of their reviews and 'reasonable assurance' for three of their reviews. The final review was a follow-up on previous recommendations and did not offer an overall conclusion. The capacity of the Corporation's risk & assurance team to support the Corporation's new internal auditor in the execution of internal audit reviews was a significant factor in the delayed delivery of the Corporation's internal audit work programme, in part as the same team was supporting the Corporation in responding to the Tees Valley Review. Since 31 March 2024, the Corporation has transferred responsibility for supporting internal audit in the delivery of their work from the risk & assurance team to the finance team.

The above matters are indicative that there is insufficient capacity within the Corporation's finance and risk & assurance teams to properly manage the Corporation's activities alongside those activities of other group bodies for which the group finance and risk & assurance teams are also responsible. These capacity limitations have meant the Corporation has not complied with its statutory reporting obligations, including timeliness of accounts publication, and have impacted the level of assurance the Corporation has been able to obtain over the operating effectiveness of its internal controls by delaying the work of its internal auditor. Whilst we have not noted specific observations in these areas, it is also possible that these capacity challenges could have a wider impact, such as on the quality of information prepared to inform internal decision making and the deployment of the Corporation's resources. We are therefore unable to conclude that the Corporation had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources during the year to 31 March 2024. We make the following recommendation to the Corporation in relation to this significant weakness in its arrangements:

1. We recommend that the Corporation work with the Tees Valley Combined Authority to review the capacity within the group finance and risk & assurance teams to ensure that there is sufficient capacity to support the breadth of the Corporation's activities, including supporting the internal and external audit work programmes, and meet its statutory reporting obligations;
2. We recommend that the Corporation reviews its processes around the public inspection period to ensure that it fully understands the statutory requirements of the inspection period and has arrangements in place to ensure that these requirements are satisfied.

***How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee***

The Corporation's governance structures are built around its Constitution, which sets out the key responsibilities of members and officers. Oversight of the Corporation's operations in accordance with its Constitution is provided by the Corporation's Board, who also set the strategic priorities for the Corporation, and the Audit and Governance Committee.



# Value for Money – Commentary

## Governance: How the Corporation ensures that it makes informed decisions and properly manages its risks

The Audit and Governance Committee is the committee within the Corporation is formally charged with oversight of governance. The Audit and Governance Committee approves the annual work programme of the Corporation's internal auditor and receives reports on the work of the Corporation's internal and external auditors. Regular reporting is also provided to the Audit and Governance Committee on the implementation of previous audit recommendations. As of the date of this commentary, the Corporation's internal auditor has not formally reported their overall opinion in respect of their 2023/24 work programme to the Corporation (see commentary above on timing of this work) however their work programme was performed across TVCA and the Corporation and an overall conclusion that *'It is satisfied that, for the areas reviewed during the year, Tees Valley Combined Authority has reasonable and effective risk management, control and governance processes in place'* has been reported in respect of this programme to the TVCA Audit and Governance Committee.


The internal audit work programme for 2023/24 included a review of the Corporation's risk management processes and concluded that 'reasonable assurance' could be obtained over the operation of these processes.

On 25 May 2023, the then Secretary of State for Levelling Up, Housing and Communities commissioned an independent review of the Corporation and the Teesworks Joint Venture, in which the Corporation holds a 10% interest. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks, and a request for an independent review from the TVCA Mayor due to concerns that continued allegations would undermine confidence in the site and put future private sector investment at risk. The independent review was performed by a 3-member panel.

On 29 January 2024, the review panel issued its report titled the 'Tees Valley Review'. The report stated found that *'based on the information shared with the Panel, we have found no evidence to support allegations of corruption or illegality'*. The report however went on to state that *'however, there are issues of governance and transparency that need to be addressed and a number of decisions taken by the bodies involved do not meet the standards expected when managing public funds. The Panel have therefore concluded that the systems of governance and finance in place within TVCA and STDC at present do not include the expected sufficiency of transparency and oversight across the system to evidence value for money'*. The review panel issued a total of 28 recommendations aimed at TVCA, the Corporation, TVCA's constituent authorities and central government.

In response to the recommendations, the Corporation worked closely with TVCA to establish an Action Plan that aimed to set out the detailed actions required by the relevant parties to ensure that the relevant parties undertake the work required to both agree the actions necessary to incorporate the recommendations made by the review panel and to ensure that they are incorporated both into the culture and governance structures of the Corporation. A Statutory Officer Working Group (SOWG), consisting of the three statutory officers of TVCA (who are also the statutory officers of the Corporation) and a selection of statutory officers from TVCA's constituent authorities, was established to oversee the implementation of the Action Plan.

The matters raised in the review panel's report are substantial and wide-ranging and indicate that there was a significant weakness in the Corporation's arrangements to secure value for money in its use of resources that cuts across all three of the reporting criteria under the NAO's Code of Audit Practice of governance, financial sustainability and improving economy, efficiency and effectiveness. Whilst the Corporation has taken steps to respond to the review panel's recommendations, these actions were only developed towards the end of 2023/24, and implementation only began in 2024/25, therefore the significant weakness would have been present for most, if not all, of the year to 31 March 2024. We are therefore unable to conclude that the Corporation had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources during the year to 31 March 2024. We make the following recommendation to the Corporation in relation to this significant weakness in its arrangements:



# Value for Money – Commentary

## Governance: How the Corporation ensures that it makes informed decisions and properly manages its risks

1. We recommend that the Corporation continues the implementation of its Action Plan to address the recommendations of the Tees Valley Review. This should include working with TVCA to ensure that the proposed peer review by the Local Government Association to ensure that the changes have been properly embedded within TVCA also considers the extent to which changes have been embedded within the Corporation.

### ***How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud***

The Corporation utilises its internal auditor to support it with the identification of fraud risks and appropriate steps to mitigate the risk of fraud, as part of the overall monitoring of internal controls. During the year, the Corporation's internal auditor completed a review of the Corporation's arrangements for the identification, recording, monitoring and reporting of risk management. The review found that the Corporation's risk management is '*appropriately directed by the Risk Management Framework and is supported by guidance notes*' and that '*reporting to committees provides an appropriate level of information with detailed analysis where required*', however it noted that '*risk registers were found to not be fully populated with controls for some of the risks identified*' and '*recent resource issues suggest that resilience is currently insufficient to ensure that all risks are reviewed with risk owners at the prescribed timeframe*'.

### ***How the body approaches and carries out its annual budget setting process***


The Corporation's annual budget setting process is set out in the Corporation's Constitution. Due to the close working between the Corporation and TVCA, draft budget proposals are prepared by the Group Chief Executive and Group Director of Finance and Resources at the group level incorporating the plans of the Corporation. A detailed Corporation-specific budget is then developed beneath the group plan based on the budget allocated therein.

All planned capital expenditure is required to have a financing plan in place prior to approval, which may include deployment of the Corporation's own resources (i.e. its revenue or existing reserves), contributions from external sources (i.e. government grants or private sector contributions) or through borrowings. An annual Treasury Management Policy is approved alongside the budget and sets out the Corporation's planned borrowing arrangements during the budget period.

### ***How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)***

As well as setting out the governance structures of the Corporation, the Corporation's Constitution includes the Corporation's Code of Conduct which sets out the expectations of members and officers. The Code of Conduct includes a mixture of rules and guidelines to ensure the Corporation promotes efficiency and maintains transparency to stakeholders.

Due to the significant overlap between the leadership of the Corporation and that of TVCA, one of the recommendations made by the Tees Valley Review was that additional protocols are developed to ensure that boundaries between the two organisations are maintained, it is clearer which entity communications are being made on behalf of and that advice provided to the Corporation is given in the best interests of the Corporation.



# Value for Money – Commentary

**Financial sustainability: How the Corporation plans and manages its resources to ensure it can continue to deliver its services**

## *How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Corporation's Constitution requires the Corporation to set out proposals for the allocation of its resources in accordance with the South Tees Regeneration Master Plan. This is then incorporated into the TVCA's Investment Plan, the current version of which covers the period 2019-2029 and is subject to annual reconfirmation of remaining extant back to the Corporation by TVCA.

An annual budget and medium-term financial plan (MTFP) are prepared prior to the start of each financial year setting out detailed budget proposals for the financial year and indicative budgets for the remaining financial years of the Investment Plan. Quarterly reports on performance against the budget for the year are provided to the Corporation's Board, along with commentary of emerging cost pressures or opportunities.

The majority of the Corporation's current activity is linked to its capital programme for remediation and redevelopment of the Teesworks site, with potential financial risks monitored at the individual project level.

## *How the body plans to bridge its funding gaps and identifies achievable savings*

As noted above, the majority of the Corporation's current activity is capital in nature therefore potential budgetary pressures are more likely to impact the pace at which works take place or the levels of borrowing required to support those works, rather than the breadth of the Corporation's activities.


Borrowings form a planned part of the Corporation's financing and regular focus is given via the Treasury Management Policy as to both the required levels of borrowings to support its activities and the best timing to enter into new borrowings based on the advice of its external treasury advisor, Arlingclose. Where the need to borrow arises, the Corporation seeks to access lending by the Public Works Loan Board via TVCA to minimise the interest rate payable and provide greater certainty over its future cashflows.

The Corporation considers that its longer-term sustainability is dependent upon securing the anticipated tenancies and associated income from the Teesworks site once remediation and redevelopment works are concluded. Whilst works are ongoing, the Corporation seeks to maximise revenues generated during the development stage of the site to supplement tenancy income until occupancy levels increase in the future.

## *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Corporation's overall strategic objective is to enable transformational regeneration of the Teesworks site into a world class employment-generating zone and economic growth enabler for the Tees Valley. Delivery of this overarching objective is supported by the South Tees Regeneration Master Plan, which includes strategic plans for attracting private sector investment to supplement the investment made by the Corporation.

The South Tees Regeneration Master Plan was developed in conjunction with the TVCA's Strategic Economic Plan and Investment Plan. Any significant financial pressures within the Corporation are reported up to TVCA for consideration at the group level. Further details of the arrangements at group level are outside of the scope of this commentary.



# Value for Money – Commentary

**Financial sustainability:** How the Corporation plans and manages its resources to ensure it can continue to deliver its services

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

Development of the Corporation's budget is integrated with the development of its annual Treasury Management Strategy to ensure that its approved budget fully reflects the anticipated borrowing costs for the coming year.


The nature of the Corporation's activities mean that its revenues are closely tied to the progress of its capital projects, for example as remediation and redevelopment work is completed and private sector tenants move into parts of the Teesworks site. The progress of significant capital projects is therefore a key consideration in preparing the Corporation's budget, with any associated accelerations or delays in project delivery also being built in to financial projections on a quarterly basis and reported to the Corporation's Board.

In setting its financial budgets, the Corporation works closely with TVCA on both the levels of funding which will flow from TVCA to the Corporation to support its activities and on the practical delivery of supporting projects which are outside of the Corporation's direct control but contribute to the wider redevelopment of the area immediately around the Teesworks site.

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*

As a capital expenditure focused organisation primarily delivering remediation and regeneration there can be significant time lags between the timing of investment by the Corporation and the financial benefits of that investment, for example the Corporation may only start to receive revenues from individual parts of the site after remediation work is completed and the area occupied by a private business. Reporting to the Corporation's Board therefore focuses on the progress of the Corporation's main capital projects, including any significant changes to forecast cost or timetable, as the warning sign of a potential financial pressure.

The Corporation's Programme Assurance Framework and Risk Management Framework establish the principles for risk management by the Corporation, including forward looking for potential future financial risks so that mitigating action can be taken. Updates on identified risks are provided to the Corporation's Audit and Governance Committee.



# Value for Money – Commentary

Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services

## *How financial and performance information has been used to assess performance to identify areas for improvement*

The TVCA Group Chief Executive Officer and the Corporation's Chair provide quarterly updates to the Corporation's Board on the progress of key projects and other developments which underpin the overall the activities of the Corporation. Deeper dives are performed into individual projects or activities where significant decision points are approaching or there are other reasons to do so, for example significant unplanned developments. Key topics reported on to the Board during 2023/24 include the development of the Teesside Freeport, maintenance and security of the Teesworks site, development of energy infrastructure and the activities of the Teesworks joint venture. There was also significant reporting to the Board during 2023/24 in relation to the Tees Valley Review and associated findings and recommendations, as well as quarterly reporting of performance against the Corporation's budget and forecast performance for the remainder of the financial year.

## *How the body evaluates the services it provides to assess performance and identify areas for improvement*

The Corporation's project management incorporates detailed timeline projections for significant projects, which are regularly updated as part of the ongoing monitoring and management of individual projects. Where there are changes in expected delivery of a project, the reasons for this are investigated to identify any lessons to be applied on either the remainder of the project or other Corporation projects.


A significant milestone for the Corporation during 2023/24 was confirmation from the Environment Agency on 15 November 2023 that decontamination of the Teesworks site had progressed sufficiently that remaining levels of the most hazardous pollutants had dropped below the thresholds set out in The Control of Major Accident Hazards [COMAH] Regulations 2015 and, as a result, COMAH status had been removed from the site.

## *How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

Under The South Tees Development Corporation (Establishment) Order 2017 which established the Corporation, the Corporation only has responsibility for, and the powers to redevelop, the 4,500 acre site on the South bank of the river Tees designated to it by that legislation. The South Tees Regeneration Master Plan, which underpins the Corporation's activities, recognises that its activities are therefore only part of the overall solution for the wider redevelopment of the Teesside region.

The Corporation works closely with TVCA to ensure that its activities are aligned to TVCA's wider economic plans for the region and has a representative on the Freeport Board which makes recommendations to TVCA on matters relating to the Teesside Freeport.

Attracting private sector investment to the Teesworks site is a key objective of the Corporation, and the delivery of future economic benefits (both to the Corporation and to the wider region through economic investment) form central elements of both its project appraisal and project management activities.



# Value for Money – Commentary

Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits*

The Corporation does not have its own procurement team, instead it utilises the group procurement team of its parent TVCA to support its activities. References in the rest of this commentary to the Corporation's procurement arrangements should be read in this context of being provided through TVCA.

The Corporation determines the procurement route to follow based on the value of the goods and services to be procured. Procurement of goods and services are done centrally through the Procurement department. Goods and services valued at a maximum of £10,000 may be approved by Procurement Managers. Goods and services exceeding £10,000 may only be approved by Procurement Directors. Following these initial approvals, all procurements are routed for additional approvals by the Finance Director and where necessary, the legal department, prior to goods or services being commissioned.

The Corporation aims to maximise the benefits obtained from deployment of its resources through procurement policies which include assessment of the quality and benefits of a proposed outlay, as well as the associated costs, and recognise that the lowest price obtainable does not always reflect the best value obtainable.

The Corporation also uses its procurement policies to support the wider objective behind redevelopment of the Teesworks site of promoting economic growth in the Tees region, with a focus on engaging local small and medium sized enterprises (SMEs) within its supply chain to promote local economic growth.



# 05 Appendices

# Appendix A – Management Representation Letter

## Management representation letter

We are finalising the wording of our management representation letter and will share this with management and the Chair of the Audit and Governance Committee prior to concluding our audit.

# Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Corporation;
- ▶ The Corporation has an effective control environment; and
- ▶ The Corporation complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Corporation should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix E.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA to discuss and agree fees.

	Current year	Scale fee	Prior year (1)
	£	£	£
Scale fee (1)	84,750	84,750	23,675
Scale fee variation (1) (2)	TBC	N/A	Unknown
<b>Total audit</b>	<b>TBC</b>		<b>TBC</b>
Non-audit services	-	N/A	-
<b>Total other non-audit services</b>	<b>-</b>	<b>N/A</b>	<b>-</b>
<b>Total fees</b>	<b>TBC</b>		<b>TBC</b>

Notes overleaf

# Appendix B – Fees

## Notes

- (1) The prior year audit was performed by the Corporation's previous auditor. Scale fees for both the current and prior year were set by PSAA and the increase between the prior year and the current year reflects the transition to the 'new' PSAA contract which covers the period 2023/24 to 2027/28. We are not party to submissions by the Corporation's previous auditor in relation to scale fee variations for 2022/23 and therefore are unable to report on these amounts.
- (2) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by MHCLG and the FRC, PSAA will use its fee variation process to determine the final fee the Corporation will have to pay for the 2023/24 audit. In doing so, PSAA will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.
- (3) The external audits of the Corporation's two subsidiaries, South Tees Site Company Limited and South Tees Developments Limited, are not performed by the group auditor and fees for these audits are not reported in this report.

# Appendix C - Required communications with the Audit and Governance Committee

We have detailed the communications that we must provide to the Audit and Governance Committee.

## Our reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	This Completion report for Those Charged with Governance

# Appendix C - Required communications with the Audit and Governance Committee

## Our reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility</li> </ul>	This Completion report for Those Charged with Governance

# Appendix C - Required communications with the Audit and Governance Committee

## Our reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	This Completion report for Those Charged with Governance
Internal controls	Significant deficiencies in internal controls identified during the audit	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	This Completion report for Those Charged with Governance

# Appendix C - Required communications with the Audit and Governance Committee

## Our reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	This Completion report for Those Charged with Governance

# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the Corporation), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

### Examples of Non-Compliance with Laws and Regulations (NOCLAR)

#### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

#### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

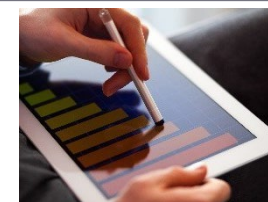
# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

# Appendix E – PSAA Statement of Responsibilities

As set out in Appendix B our fee is based on the assumption that the Corporation complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Corporation should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## ***Preparation of the statement of accounts***

*26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.*

*27. In preparing their statement of accounts, audited bodies are expected to:*

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- during the course of the audit provide responses to auditor queries on a timely basis.*

*28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.*

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