

Annual Audit Letter

Tees Valley Combined Authority



For the year ended 31 March 2017



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority ('the Authority') for the year ended 31 March 2017. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Code of Audit Practice issued by the National Audit Office ('the NAO'). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statements opinion	On 29 September 2017 we issued our opinion that: <ul style="list-style-type: none">the financial statements give a true and fair view of the Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 29 September 2017 we issued our opinion that: <ul style="list-style-type: none">the Narrative Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 29 September 2017 we issued our conclusion that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	We reported to the NAO, in line with their instructions, on 29 September 2017.
Matters that we report by exception	We have not identified any matters to report in relation to: <ul style="list-style-type: none">whether the Annual Governance Statement is in line with our understanding of the Authority and the requirements of the Delivering Good Governance in Local Government Framework 2016;reports in the public interest or written recommendations made under s24 of the 2014 Act;exercise of other audit powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 29 September 2017.

Audit of the financial statements

Financial statements opinion

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.

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

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

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£668,000
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• Senior officer remuneration• Related Party Transactions
Trivial threshold	£20,000

Our response to significant risks

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

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought.</p>
<p>Recognition of grant income</p> <p>Grant income received by the Authority from Government and other grant paying bodies often includes specific conditions that must be met before the Authority should recognise the income in its accounts. Because of the nature of grant income with conditions, there is a risk that the Authority recognises grant income in the incorrect reporting year.</p>	<p>We performed specific procedures to provide assurance that grant income is included in the correct year.</p>	<p>Our work provided the assurance we sought.</p>

Valuation of the defined benefit pension scheme and pensions estimates (IAS19)

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

We identified any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally commissioned by the NAO.

Our work provided the assurance we sought.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our 2016/17 audit did not identify any significant deficiencies to report.

Value for Money (VFM) conclusion

Value for Money conclusion

Unqualified

Summary of our work

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

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

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

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p><i>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</i></p> <ul style="list-style-type: none"> • Constitution in place which is available on the Authority's website, updated February 2017 to reflect move to an elected Mayor. • Constitution includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Devolution deal also available on the Authority's website. • Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website (updated December 2016). • New Authority therefore new management team in place in 2016 including Managing Director (MD) and three other directors. <p><i>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</i></p> <ul style="list-style-type: none"> • No data quality issues in respect of performance information we are aware of. 	Yes

	<ul style="list-style-type: none"> • Audit and Governance Committee met only once in the year in March 2017, but has undertaken its work programme for the year with a backward look, and agreed a forward work programme. • Medium term planning is undertaken and plans are in place; current MTFP covers the period 2017/18 to 2020/21, and is updated at least annually. Initial budget and Medium Term Financial Plan (MTFP) was set at the start of the year and this went to the April 2016 Board. • Update on the financial position, proposed 2017/18 budget and updated MTFP presented to the Board in January 2017. • Separate Investment Plan in place – approved by the Board in March, details funding available and how planning to deliver the SEP. <p><i>Reliable and timely financial reporting that supports the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Periodic reporting to members in the year, at start of the year and January 2017 (also considered by the Overview & Scrutiny Committee). • Authority plans, strategies and MTFP are all on the Authority's website. Includes section on future plans/developments and the role of the Combined Authority. • MTFP is updated as part of the current year's budget setting process. <p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <ul style="list-style-type: none"> • Management assurance framework; May 2016 and updated August 2016 Risk register in place for individual Local Growth Fund Programme cost which is maintained by the Managing Director and the Chief Financial Officer. • Devolution deal implementation Plan incorporates high level risks. • Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee. • Programme of Internal Audit work at the Authority, delivered by Stockton BC's IA function (under delegated arrangements). • Arrangements to produce 2016/17 Annual Governance Statement in place, and separate internal audit opinion prepared for the Authority. 	
Sustainable resource deployment	<p><i>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</i></p> <ul style="list-style-type: none"> • First year of the Authority, there are however no significant gaps in funding in the MTFP. MTFP updated January 2017. • Nature of the Authority's funding and expenditure (i.e. largely grant income which is then paid out to approved schemes linked to the SEP) does not indicate any significant risk to achievement of strategic priorities in the short term. 	Yes

	<p><i>Managing and utilising assets effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority • SEP identifies future large scale capital schemes/priorities. <p><i>Planning, organising and developing the workforce effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. A capacity review was undertaken by the MD in 2016, and the Authority is continuing to review capacity as its responsibilities continue to develop. 	
Working with partners and other third parties	<p><i>Working with third parties effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs on Teesside and other public and private organisations. • Authority structure includes the Teesside LEP (transferred from Stockton BC as at 01/04/2016) – Tees valley Unlimited. The LEP continues to have a separate Board and members of the LEP are none voting members of the Authority (other than the Chair who is a voting member). • LEP members are drawn from a wide range of other public bodies (i.e. education) and private companies. • SEP and website identify organisations that the Authority is working with in order to achieve its strategic priorities – i.e. Tess Valley Strategic Transport Plan – Connecting the Tees Valley. <p><i>Commissioning services effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Overall aim of the Authority and the Tees Valley Local Enterprise Partnership is to maximise the amount of investment in Tees Valley, to achieve economic growth and to create more jobs and success for the area. How the Authority plans to deliver this is set out on its website and in its SEP. • This is in the short term being delivered through provision of grants to other external bodies (i.e. Local Authorities, Education establishments, and local business) rather than through direct commissioning of its own services. <p><i>Procuring supplies and services effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • This has in part been delegated by the Authority to Stockton BC. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6). 	Yes

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to our VFM conclusion exists. We did not identify any significant audit risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM.

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts	Submission to NAO completed
Other information published alongside the financial statements	Consistent

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

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Authority. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Authority, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Authority.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Authority in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to undertake specified work in line with their instructions. We did this and issued our return to them on 29 September 2017.

Other information published alongside the financial statements

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

Our fees

Fees for work as the Authority's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in June 2017.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£30,000	£30,000
Other non-Code work	~	~

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

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

Future challenges

Financial outlook and operational challenges

The environment in which the Authority operates is challenging. The UK's planned exit from the European Union means that there is great uncertainty about large elements of income and this makes planning difficult in the medium to long term. The Authority recognises this risk and has plans in place to manage it where this is possible.

Despite this, the Authority has significant ambitions which also bring an element of risk. The Authority's Investment Plan is one of a suite of documents that set out what it hopes to achieve over the coming years, to 2021 and will require close monitoring.

In addition, a Mayoral development corporation has been established to concentrate on the regeneration of the former SSI steelworks site.

The Mayor, Members and management therefore have much to focus on in the coming year.

How we will work with the Authority

We will focus our 2017/18 audit on the risks that these challenges present to the Authority's financial statements and its ability to maintain proper arrangements for securing value for money. We will also share with the Authority relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that the finance team face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be working with officers to ensure a smooth process to an earlier accounts and audit timetable that will take effect in the 2017/18 financial year.