



# Annual Audit Letter

Tees Valley Combined Authority (and Group)  
Year ended 31 March 2018





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2018. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	Our report issued on 27 July 2018 included our opinion that the financial statements: <ul style="list-style-type: none"><li>• give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.</li></ul>
Other information published alongside the audited financial statements	Our report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 27 July 2018 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.
Statutory reporting	Our report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and Group and whether they give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the financial performance for the year then ended.

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

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

### Our 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 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 overall materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of gross revenue expenditure.	£1.537m for the Authority and for the Group.
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£46,000

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls (Authority and Group)</b></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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in respect of:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work provided the assurance we sought. We found no indication of management override of controls.</p>
<p><b>Defined benefit liability valuation and associated IAS19 entries (Authority and Group)</b></p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</p>	<p>Our work provided the assurance we sought. We found no indication of material estimation error in respect of pensions.</p>

### 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 work did not identify any significant internal control deficiencies in 2017/18 to report, and there are none from 2016/17 to follow up.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

#### Our audit approach

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

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

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

Our auditor's report, issued to the Authority on 27 July 2018, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> <li>• Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct.</li> <li>• Devolution deal in place and available on the Authority's website.</li> <li>• Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website.</li> <li>• Management team in place.</li> <li>• No data quality issues in respect of performance information we are aware of.</li> <li>• Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management; albeit quoracy of meetings has been a challenge in 2017/18.</li> <li>• Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2017/18 to 2020/21, and is updated at least annually.</li> <li>• Periodic reporting to Cabinet in the year.</li> <li>• Management assurance framework in place together with risk register.</li> <li>• Devolution deal implementation plan incorporates high level risks.</li> <li>• Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee.</li> <li>• Programme of Internal Audit work at the Authority delivered by Stockton BC's IA function (under delegated arrangements).</li> <li>• 2017/18 draft Annual Governance Statement produced, and final approved by Cabinet.</li> </ul>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• MTFP in place for the period the period 2017/18 to 2020/21.</li> <li>• 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. Potential Brexit risks being monitored.</li> <li>• 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.</li> <li>• 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.</li> <li>• HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. The Authority is continuing to review capacity as its responsibilities continue to further develop.</li> </ul>	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> <li>• Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs in the Tees Valley and other public and private organisations.</li> <li>• Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies.</li> <li>• SEP and website identify organisations that the Authority is working with in order to achieve its strategic priorities; Tees Valley Strategic Transport Plan – Connecting the Tees Valley.</li> <li>• The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).</li> </ul>	Yes

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant value for money audit risks. We kept this under review throughout our audit and were satisfied that there were no significant risks apparent.

## 4. OTHER REPORTING RESPONSIBILITIES

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

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

### Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Authority which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 July 2018.

### Other information published alongside the financial statements

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

## 5. OUR FEES

### Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in May 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£30,000	£30,000
Other non-Code work	Nil	Nil

### Fees for other work

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

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 6. FORWARD LOOK

### Financial outlook and operational challenges

The Authority has a MTFP in place and keeps it updated. To some extent, its long term funding arrangements remain unclear as a result of the UK's planned exit from the European Union, and the impact this will have on European funding streams, and funding from the UK central government. Officers are keeping the position under close review.

Effective prioritisation of projects is key if the Authority is to deliver its ambitions and the Authority will also need to keep its own internal control arrangements under review as it takes on new devolved functions to ensure they remain fit for purpose, including the devolution of the Adult Education Budget for which it has been preparing for some time, as well as the oversight it has over the South Tees Development Corporation.

### How we will work with the Authority

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19, which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases.

We will continue to offer accounting workshops to finance officers and the audit team 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.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

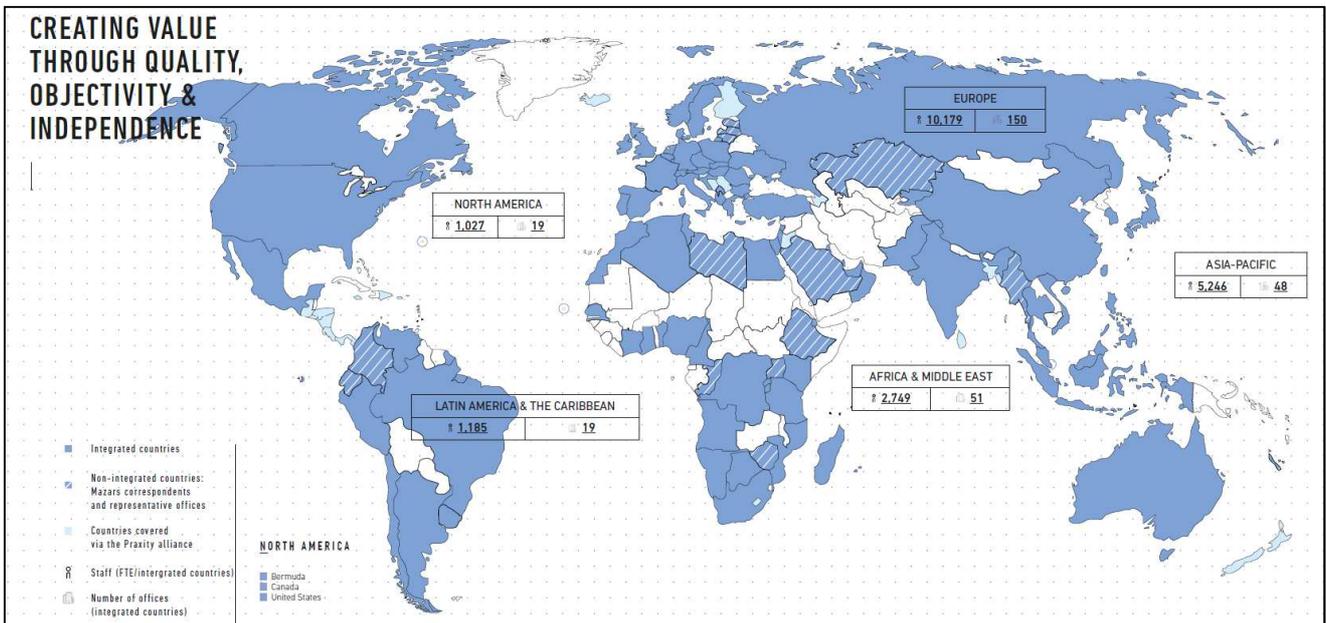
6. Forward look

# MAZARS AT A GLANCE

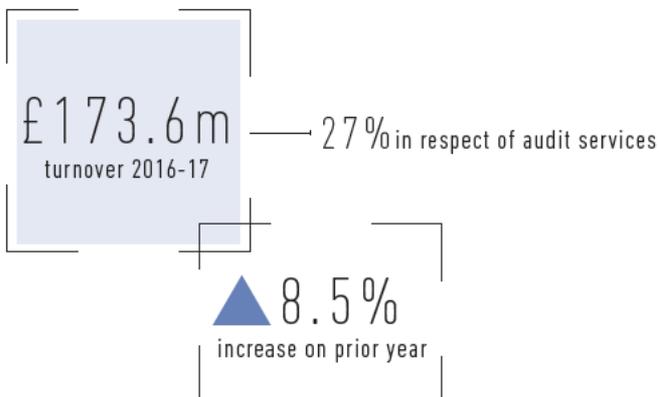
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