

Audit and Governance Committee Members
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Dear Members

Update/conclusion of pending matters– audit completion report

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 11 July 2019.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Note 20; Grant income	Has been amended to disclose capital and revenue grants receipts in advance.	Complete
Cash flow statement	An amendment for £31m has been made to the Cash Flow statement to correct the treatment of capital grants; there is no impact on the bottom line.	Complete
Debtors	We received the loan agreement between TVCA and STDC on 12 July 2019. The loan agreement was not signed by the relevant parties until early July 2019. We have made an internal control recommendation in the section below relating to this. The loan to Goosepool Group has been amended to be shown in the TVCA Single entity statements as a long term, rather than a current debtor.	Complete
Other matters	Note 11 Employee Remuneration; is to be amended to reflect periods of office, and to reflect people rather than roles. A leasing note is to be added that was omitted from the draft statements. Note 21 Financial instruments credit risk; required amendment to correct the misclassification between short term and long term financial assets.	Complete

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Matter	Update/conclusion reached	Status
<p>Review of the component auditors work on Goosepool Group</p>	<p>At the time of writing this letter, we have just received initial acknowledgment of our group instructions from the component auditor. We therefore need to review them and determine if there is any impact on our audit approach.</p> <p>We have been advised that the work of the Goosepool Group component auditor is nearing completion and have agreed to review their work on 23 July.</p> <p>As such at the time of writing this update letter our work remains ongoing. As once we have reviewed their work, we will then be able to determine if we need to undertake any further procedures ourselves on entries that feed into TVCA Group.</p> <p>We will brief the Audit and Governance Committee verbally at its meeting on 24 July.</p>	<p>Ongoing</p>
<p>Group consolidation</p>	<p>Our work, linked to the final outcome of the work described above is ongoing.</p> <p>At this stage, we have the following matters to report to you:</p> <ul style="list-style-type: none"> • Note 5 Estimation uncertainty required amendment to reflect uncertainties relating to the Group statements; • Note 6 Tangible Fixed assets required material amendments as the entries for 'infrastructure' included the gross book values and depreciation of the assets acquired and a revaluation adjustment in year, rather than showing the acquired value as an in year addition for the TVCA Group; • the following notes required amendment to separate reporting for TVCA and TVCA Group; Note 9 Capital Adjustment Account, Note 19 Capital Expenditure and Financing, Note 20 Grant income, and Note 23 Termination Benefits; • IFRS require that a deferred tax liability (and an equal adjustment to goodwill) should be recognised in respect of fair value adjustments arising on a business combination which was not reflected in the draft TVCA Group statements; • In accordance with IFRS, the useful economic life and residual value should be determined and the depreciation calculated accordingly. This was not reflected appropriately in the draft statements; and • Under IAS 38, goodwill is not amortised, therefore, this should be reversed at TVCA level. 	<p>Ongoing</p>

Matter	Update/conclusion reached	Status
<p>Group consolidation (continued)</p>	<p>As we reported in our Audit Completion Report, very significant material adjustments are to be made to reclassify and revalue the assets that were accounted for as a single 'infrastructure asset' in the draft statements. This will also impact on Goodwill. At this stage, we now understand that the audit of Goosepool Group by the component auditor will cover all of these reclassifications and management have advised us they will not need to make any further adjustments to comply with Code reporting requirements. If this is the case, then once we have reviewed their files to gain comfort over their audit work, we will not be required to appoint our own valuation expert as we reported in our Audit Completion Report. We will however need to undertake our own work to satisfy ourselves that the reporting approach adopted in TVCA group is appropriate. We will review the amended TVCA Group statements when available to ensure that the adjustments have been made appropriately and the reporting in TVCA Group complies with the Code.</p> <p>The following matters have arisen in respect of the audit of South Tees Development Corporation Group, which have led to adjustments in the Tees Valley Combined Authority Group statements, other than those which are clearly trivial for TVCA Group or have been already reported separately for TVCA group:</p> <ul style="list-style-type: none"> • Affecting TVCA Group Balance Sheet/CIES; £3.225m adjustment to Group Land and Buildings, with corresponding adjustments to Revaluation reserve and CIES; • Affecting TVCA Group Balance Sheet; £208k adjustment to Group debtors and creditors; • Affecting TVCA Group Note 11 employee remuneration; required adjustment in respect of the disclosure for the recharge for the Director of Finance; and • Affecting TVCA Group Note 22 Defined Benefit Pension Scheme required adjustment to accurately reflect the information from the actuary. 	<p>Ongoing</p>
<p>Annual Governance Statement</p>	<p>We have now received a copy of the 2018/19 Head of Internal Audit Opinion, and have completed our review of the Annual Governance Statement.</p> <p>We have requested management amend the draft Annual Governance Statement to make reference to the Goosepool Group within the TVCA group structure.</p>	<p>Complete</p>
<p>Fraud, Laws and regulations, Provisions and Contingencies and Going Concern</p>	<p>The response to our request to 'those charged with governance' remains outstanding and as such we cannot complete our work in this area.</p>	<p>Ongoing</p>

Matter	Update/conclusion reached	Status
Pension-related entries	We have now received and reviewed the response and have the assurance we sought. There are no matters that we need to report to you.	Complete
Review of Events after the Balance Sheet date.	We will discuss subsequent events with management and review available post balance sheet information at the point we are due to sign the audit opinion. We will also review the management representation letter when it is received. If any matters arise from this which we need to report to you we will issue a further letter.	Ongoing, and on track
Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.	<p>We are unable to review the amended statements until all other points are cleared above and the audit is complete.</p> <p>Our internal review and closure processes are on track, and will be ongoing up until the point we are due to sign the audit opinion.</p>	Ongoing.

Internal Control recommendations

Since issuing our Audit Completion Report, and linked to our findings above, we make the following internal control recommendations:

Priority Ranking	1 - High
Description of deficiency	Loan agreements for the intra group loans between TVCA, STDC, and STDL were not signed until July 2019.
Potential effects	Lack of clarity about responsibilities and obligations between the different group organisations, including payment terms if signed agreements are not in place.
Recommendation	If funds are made available to other bodies in the group, this should be underpinned by formal agreements, which should be signed at the time the funds are released.
Management response	<i>Management to advise response</i>



If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Cameron Waddell

Partner

For and on behalf of Mazars LLP