



Annual Audit Letter

South Tees Development Corporation
Period ended 31 March 2018





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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 Corporation and we take no responsibility to any member or officer in their individual capacity or to any third party.

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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 South Tees Development Corporation (the Corporation) for the period ended 31 March 2018. Although this letter is addressed to the Corporation, 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 | <p>Our report issued on 26 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Corporation's financial position as at 31 March 2018 and of its expenditure and income for the period then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. |
| Other information published alongside the audited financial statements | <p>Our report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p> |
| Value for money conclusion | <p>Our report concluded that we are satisfied that in all significant respects, the Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2018.</p> |
| Reporting to the group auditor | <p>The Corporation is classed as a minor body, and as such does not complete a WGA return. As such, we have not reviewed a return for the Corporation for 2017/18.</p> |
| Statutory reporting | <p>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 Corporation.</p> |

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 Corporation and whether they give a true and fair view of the Corporation's financial position as at 31 March 2018 and of its financial performance for the period 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 Corporation'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 Risk 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 period ended 31 March 2018:

| | | |
|---------------------------------|--|--------|
| Financial statement materiality | Our financial statement materiality is based on approximately 2% of gross revenue expenditure. | £4,680 |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £140 |

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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 Corporation's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Risk 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>Management override of controls 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"> • accounting estimates impacting on amounts included in the financial statements; • significant transactions outside the normal course of business; and • journals recorded/other adjustments made in preparation of the financial statements. | <p>Our work provided the assurance we sought. We found no indication of management override of controls.</p> |
| <p>Defined benefit liability valuation and associated IAS19 entries 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.

Management will need to ensure that internal controls remain under review as the organisation grows and to ensure that additional controls are added as the Corporation's arrangements become more complex.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Corporation 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 Corporation 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 Corporation on 26 July 2018, stated that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the period ended 31st March 2018.

| Sub-criteria | Commentary | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <ul style="list-style-type: none"> • Constitution in place which is available on the Corporation's website, dated June 2017, which includes financial regulations, Delegation to officers and Code of Conduct. • Corporation has a Master Plan which details the plan in place for the redevelopment and regeneration of the South Tees site, and it is available on the Corporation's website. • Board with elected Mayor of Tees Valley Combined Authority (TVCA), leaders of the 2 local authorities and other members from the wider business community, South Tees Site Company Ltd (STSC) and LEP/TVCA board members. • Management team in place including CEO (also CEO of STSC) and DoF (also DoF of TVCA). • No data quality issues in respect of performance information we are aware of. • Audit and Risk Committee meets on a regular basis, which will oversee internal and external audit and risk management. • 2017/18 budget and Medium Term Financial Plan (MTFP) in place. • Periodic reporting to Board in the year. • Risk management arrangements developed in the year, which is ongoing. | Yes |

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3. VALUE FOR MONEY CONCLUSION

| Sub-criteria | Commentary | Arrangements in place? |
|---|---|------------------------|
| Sustainable resource deployment | <ul style="list-style-type: none"> • Master Plan and MTFP in place. • Master Plan identifies future large-scale capital schemes/priorities. • Corporation does not currently have any significant assets of its own, other than cash. • HR/payroll functions provided by Stockton BC (Xentrall). • Finance function supported by TVCA. | Yes |
| Working with partners and other third parties | <ul style="list-style-type: none"> • Master Plan details the key strategic plans and priorities and how it will work with partners to develop the South Tees site. • The Corporation has written procedures for procuring products and services, which are within its Constitution | Yes |

Management and the Board of the Corporation will need to ensure that initial arrangements and policies and procedures for securing economy, efficiency and effectiveness in its use of resources, put in place as the organisation was created and since, are embedded during the next 12 months, and that arrangements remain under review and are adjusted appropriately as the organisation grows and becomes more complex.



3. VALUE FOR MONEY CONCLUSION

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 Corporation being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant audit risks. The work we carried out in relation to the significant risk is outlined below.

| Risk | Work undertaken | Conclusion |
|--|---|--|
| Internal Audit appointment | | |
| At planning stage, the Corporation was in the process of appointing an internal audit function and until such time and appropriate risk assessment and work carried out for 2017/18 a gap in the governance framework existed. | We liaised with management to track the progress of the appointment of Internal Audit for 2017/18 and delivery of a Head of Internal Audit Opinion for 2017/18, and reviewed relevant Committee papers. | Our work mitigated the risk we identified at the planning stage. |
| Medium Term Financial Plan | | |
| At planning stage, we had not reviewed the medium term financial plan (MTFP). | We reviewed the MTFP and considered the income forecasts. | Our work mitigated the risk we identified at the planning stage. |



4. OTHER REPORTING RESPONSIBILITIES

| | |
|--|----------------------|
| Exercise of statutory reporting powers | No matters to report |
| Completion of group audit reporting requirements | Below 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 Corporation'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 Corporation 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 Corporation is classed as a minor body, and as such does not complete a WGA return. As such, we have not reviewed a return for the Corporation for 2017/18 or made any report to the NAO.

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 Corporation. 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 Corporation's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Risk Committee in April 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 | £18,000 | £18,000 |
| Other non-Code work | Nil | Nil |

Fees for other work

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

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6. FORWARD LOOK

Financial outlook

The Corporation has put in place medium term financial plans, which show a balanced position over the medium term.

Officers and the Board will need to ensure they are kept under regular review and are adjusted as circumstances change as the Corporation's role gets fully under way.

Operational challenges

The Corporation's master plan sets out its ambitions. In undertaking its role, the Corporation faces significant challenges as it seeks to lead one of the most significant developments in England in modern times.

Initial arrangements around areas such as risk management and project delivery management have been put in place in its first period since it was established, and management and the Board recognise that they will need to ensure they are refreshed and remain fit for purpose as the Corporation's role grows. This includes ensuring that management capacity remains appropriate, and ensuring appropriate legal and technical advice is obtained, including from the Corporation's own Monitoring Officer where appropriate.

How we will work with the Corporation

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.

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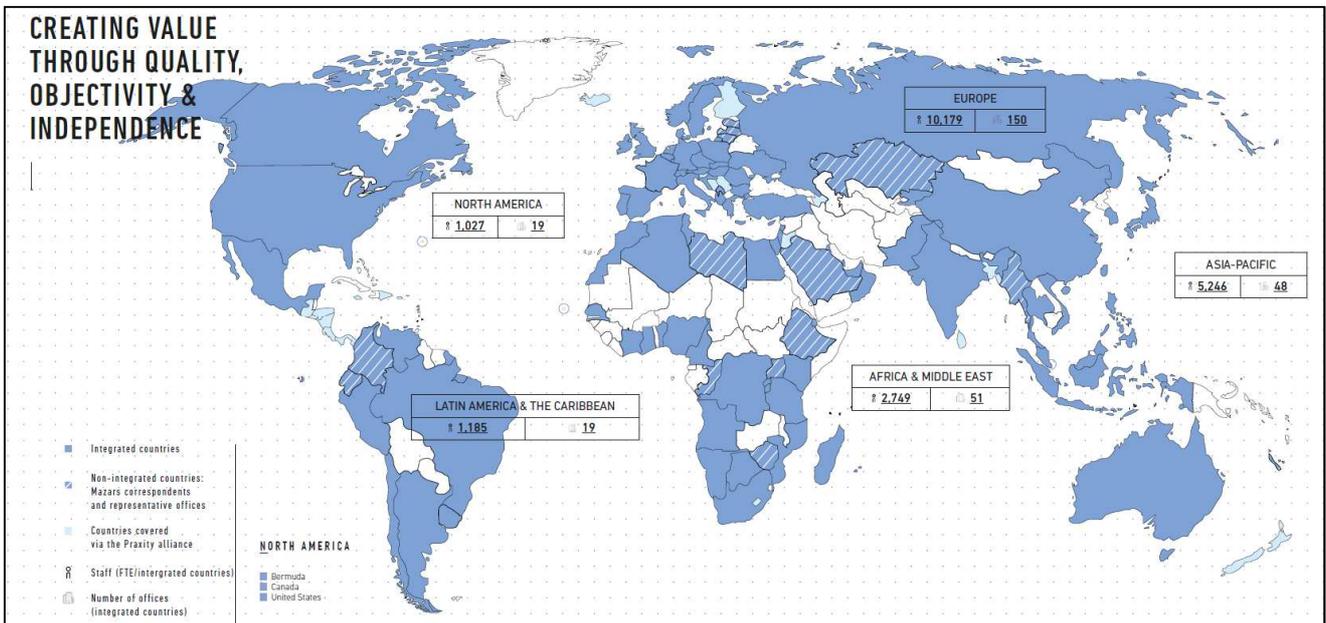
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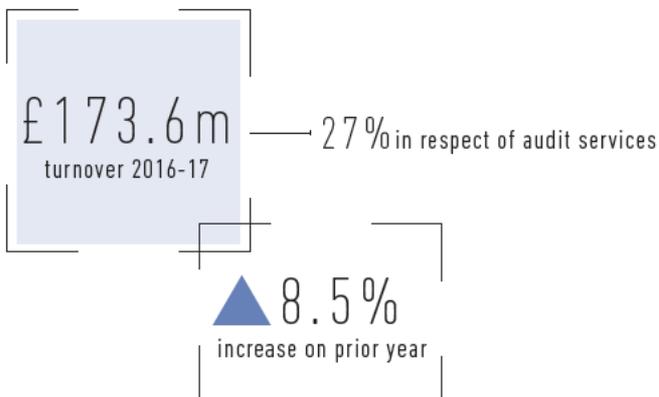
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