

## **Audit and Standards Committee**

Tuesday 18 January 2022 at 10.00 am

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE1 8QH

[www.northoftyne-ca.gov.uk](http://www.northoftyne-ca.gov.uk)

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## **SUPPLEMENTAL AGENDA**

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# Audit Completion Report

North of Tyne Combined Authority  
Year ended 31 March 2021

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January 2022



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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to North of Tyne Combined Authority are prepared for the sole use of North of Tyne Combined Authority and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



Members of the Cabinet  
And Members of the Audit and Standards Committee  
North of Tyne Combined Authority (NTCA)  
North Tyneside Council  
Quadrant West  
The Silverlink North, Cobalt Business Park  
North Tyneside  
NE27 0BY

14 January 2022

Mazars LLP  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Dear Members

## **Audit Completion Report – year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our updated Audit Strategy Memorandum which we presented to the Audit and Standards Committee on 20 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07896 684 771.

Yours faithfully

*Gavin Barker*

Gavin Barker  
Mazars LLP

# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 04 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (relevant to NTCA and Group);
- Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to NTCA and Group); and
- Defined benefit liability valuation (relevant to NTCA and Group).

Section 05 sets out internal control recommendations and section 6 sets out audit misstatements. Section 07 outlines our work on NTCA's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, matters remaining outstanding as outlined in section 02. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions.



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that NTCA has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 07 of this report.



### Whole of Government Accounts (WGA)

At the time of preparing this report, we have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. Until this work is completed we are unable to issue our certificate.



### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NTCA and to consider any objection made to the accounts. No questions or objections have been received.

# 1. Executive summary

## COVID-19 impacts

The Covid-19 pandemic continued to impact on NTCA and its subsidiaries and on the audit process this year. The audit team continued to work remotely. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers, these challenges were overcome.

There were also delays in completing the audit this year. We highlighted these to officers and Members early in 2021. However, the eventual delays were longer than originally anticipated. We are grateful to officers and Members for their understanding in the difficult circumstances faced by the audit team in relation to completion of the 2020/21 audit work. We would particularly like to thank the finance team for their co-operation and for being available throughout the audit work to answer our queries.

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# 02




Section 02:




**Status of the audit**

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# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
<b>Work still outstanding at the point of drafting this Audit Completion Report</b>		<p>We are finalising our testing in a number of areas, and continuing to write up our documentation of the audit file. We continue to discuss some matters arising with officers.</p> <p>We deem the risk of significant audit issues arising from the work that requires completion to be low. We will be able to provide a verbal update to Members when we present our report.</p> <p>In addition, we will provide a follow up letter setting out how any issues arising are resolved immediately prior to signing the audit opinion through issuance of a follow up letter.</p>
<b>WGA</b>		<p>Our audit work will be completed once the Group Instructions have been received from the National Audit Office.</p>
<b>Audit quality control and completion procedures</b>		<p>Our audit work is subject to ongoing review and quality control procedures. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing management’s going concern assertion.</p>

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



# 03

## Section 03: **Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our updated Audit Strategy Memorandum in July 2021. We have not made any changes to our audit approach since we finalised our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £9.787m for the Group and £5.081m for NTCA using a benchmark of 2% of total assets. Our final assessment of materiality, based on the final financial statements is £12.437m and £7.490m for the Group and NTCA respectively, using the same benchmark.

## Group audit approach

The Group consists of Nexus, North East Metro Operations Limited (NEMOL) and Tyneside Transport Services Limited. We are responsible for the direction, supervision and performance of the group audit. Mazars is also the external auditor for NEMOL.



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

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## Significant risk – management override of controls

### Management override of controls (single entity and group)

#### Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

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 override could occur there is a risk of material misstatement due to fraud on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting 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.

#### Audit conclusion

Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

Executive summary

Status of audit

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Value for Money

Appendices

# 4. Significant findings – significant risk: revenue recognition

Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)

**Description of the risk**

Revenue recognition has been identified as a significant risk due to:

- cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and
- grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.

**How we addressed this risk**

We addressed this risk through performing audit work over:

- the design and implementation of controls management had in place to ensure income was recognised in the correct period;
- cash receipts around the year end to ensure they had been recognised in the right year;
- the judgements made by management in determining when grant income was recognised;
- for Tyne Tunnel toll income, performed a substantive analytical review; and
- for major grant income, obtained counterparty confirmation

**Audit conclusion**

Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

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## 4. Significant findings – significant risk: net defined benefit liability (pensions)

<b>Defined benefit liability valuation (relevant to single entity and group accounts)</b>	<b>Description of the risk</b>
	<b>How we addressed this risk</b>
	<b>Audit conclusion</b>

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 addressed this risk through performing audit work over:

- evaluating the management controls you had 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 which is commissioned annually by the National Audit Office.

The entries for the pension liability are derived from information provided by the actuary, and relate to pensions administered by Tyne and Wear Pension Fund.

The actuary bases NTCA and the Group entities share of the Pension Fund assets based on actual asset performance for part of the year, but with an estimate in relation to the final quarter of the financial year. In normal circumstances this results in an estimate that is not significantly different to the actual asset performance at the end of the financial year and is a fair basis for the disclosures. In the final quarter of 2020/21, there was more volatility in asset values than is normally the case. Consequently, during the audit officers requested an updated report from the actuary based on final asset performance to see whether any differences were material and would need to be adjusted in the financial statements.

In relation to the NTCA single entity statements, the difference in asset values was only £215k, which is below the triviality level which means that we do not need to report this difference as an unadjusted misstatement.

Nexus, a significant component within the NTCA Group, also requested and obtained a revised report from the Actuary during their audit process. As Nexus has many more employees than NTCA, the impact was much more significant and this led to a material adjustment to the Nexus financial statements. The outcome was an increase of £13.550m in the re-measurement gain on assets as measured by the Actuary in the revised valuation report.

The impact on the NTCA Group statements is estimated at £6.035m. This is not material to the Group statements, and consequently management do not intend to adjust for this and this is the position reflected on page 22 of this report.

It is important for Members to understand that although these figures seem significant, they are disclosures of estimated assets and liabilities at a point in time, and subject to significant estimation. In addition, none of these issues impact on the outturn position or the usable reserves available to the Authority or its Group entities.



# 4. Significant findings

## Qualitative aspects of NTCA's accounting practices

We have reviewed NTCA's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to NTCA's circumstances.

Draft accounts were received from NTCA on 20 July 2021, well ahead of the revised statutory deadline and were of a good quality. When we completed our audit work, we found that the financial statements were supported by comprehensive working papers, and officers were helpful in responding promptly to any queries we raised.

## Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

## Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No questions or objections have been raised.

## Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but the Audit Certificate will not be issued until the following procedures are complete:

- Value for money - We are yet to complete our work in respect of the NTCA's arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the NTCA's arrangements that require us to make any recommendations.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions to enable this work to be undertaken.

We will update Members when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.



# 05

## Section 05: **Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal controls we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	0
<b>3 (low)</b>	In our view, internal controls should be strengthened in these additional areas when practicable.	2  (Group position, both issues relate to subsidiary Nexus)

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# 5. Internal control recommendations

## NTCA – single entity issues

No internal control recommendations have been identified in relation to the 2020/21 audit.

## NTCA: Follow-up on previous internal control points

In our 2019/20 work, we reported three internal control recommendations, and our follow up of these issues is set out below:

- The need to develop and publish a partnership register on the NTCA website (Level 2 issue) – a list of significant partnerships has been published on the NTCA website. We now consider this issue to have been addressed and closed.
- Strengthen quality control arrangements in relation to the production of the draft financial statements (Level 2 issue) – fewer issues were identified in the 2020/21 audit, indicating that procedures have improved. We now consider this issue to have been addressed and closed.
- Obtaining related party disclosures from Members (Level 3 issue) – at the time of preparing this report, we had still not completed our review in this area.

## Group position - Nexus reporting issues

Pages 19 and 20 of this report document the internal control recommendations and management response in the audit of Nexus, a significant subsidiary in the NTCA group.



# 5. Internal control recommendations

## Nexus: Other deficiencies in internal control – Level 3

### Description of deficiency

### Related Party Disclosures

We identified the following as part of audit work:

- It was noted that Nexus appointed five Non-Executive Directors during financial year 2020/21 and they were not initially included in requests to complete a Related Party confirmation return. During discussions regarding the returns, it was agreed to seek returns from the Non-Executive Directors. All five Non-Executive Directors subsequently submitted a return; and
- It was identified that some officers who have left the organisation did not complete a related party confirmation return as part of the exit process.

### Potential effects

There is a risk that non-executive directors may not update the register of interests in a timely manner. As such at year end if there has been any material related party transactions with non-executive directors these may not be appropriately disclosed within the accounts; and

There is a risk that at year end any material related party transactions with officers who have left the organisation part way through the year may not be appropriately disclosed within the accounts.

### Recommendations

- Non- Executive directors should continue to complete a declaration in subsequent years in line with current practices with the Directors and Heads of Service. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required; and
- Officers leaving the organisation should complete a related party declaration form as part of the exit process. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required.

### Management response

The recommendation was implemented during the course of the 2020/21 audit and the declarations will continue to be obtained going forward.



# 5. Internal control recommendations

## Nexus - Other deficiencies in internal control – Level 3

### Description of deficiency

#### Asset Impairment process

Managers are requested to look at “Major assets” (no definition given), that have been “damaged significantly or had become effectively obsolete and unusable”, to identify “only those exceptional situations where an asset which may be in the books at a high value has, for whatever reason, become incapable of being used properly.”

We are not aware of any asset lists being provided to Managers for them to assess, or even to identify assets with a high NBV.

#### Potential effects

Impaired assets may not be identified.

Property, Plant and Equipment may be overstated in the Accounts.

#### Recommendation

Full impairment review of all assets be performed. Each manager could be given a list of the assets under their supervision, and they could assess each one against its NBV. This would be a simpler task if the asset list could be summarised by “headline” assets, as the client intends.

#### Management response

The impairment review process will be formalised by ensuring that each manager is given a list of assets to check for indication of impairment. Should any indication of impairment be found, an estimate of the recoverable value of the asset will be obtained and compared against the net book value of the asset, to assess if any impairment is required.

## Nexus - Follow-up on previous internal control points

Our 2019/20 audit work did not identify any significant deficiencies which we needed to follow up.



# 06

Section 06:

## Summary of misstatements

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# 6. Summary of misstatements

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £225,000 (NTCA) and £375,000 (Group).

## Unadjusted misstatements

There are no unadjusted misstatements in relation to the NTCA single entity financial statements. There is one misstatement that was identified during the course of our audit, relating to the Group statements only, which management has assessed as not being material either individually or in aggregate to the Group financial statements and does not currently plan to adjust.

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	Comprehensive Income and Expenditure Statement / Movement in Reserves Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Pension Liability			6,035	
Cr: Pension Asset				6,035
Dr: Adjustment through the Movement in Reserves Statement	6,035			
Cr: Re-measurement Gains on Assets		6,035		

Being an increase of £6.035m in re-measurement gain on assets as measured by the Actuary in a revised valuation report for Nexus (The £6.035m is NTCA's share based on the devolution population calculation of the total re-measurement gain of £13.550m). This did not impact on the usable reserves position. As this adjustment is not material to the Group statements, management has decided not to amend the financial statements.

## Adjusted misstatements

No further amendments have been identified during the course of the audit that require adjustment by management.





# 6. Summary of misstatements

## Disclosure amendments

There are no significant disclosure amendments that need to be brought to the attention of Members.

## Other issues

The financial statements for NTCA include a share of the Joint Transport Committee assets and liabilities. We have reported in previous years an unadjusted misstatement in relation to cash balances between NTCA and NECA (the North East Combined Authority). In 2019/20 the figure was £796k. We reported this as follows: “On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process.”

On reflection, our view is that we do not need to report this as an unadjusted misstatement, but we do note that there is a difference, and this year the value of the difference is £553k. The reason for not disclosing this as an error is that it is the result of a reasonable estimation process, but there is a relatively small and non-material variation when we carry out a comparison of this against the devolution percentages. No further action is required in relation to this issue.

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# 07

## Section 07: **Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider whether NTCA 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** – how NTCA plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how NTCA ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how NTCA uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that NTCA has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on NTCA's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report.

We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed, in accordance with the latest guidance issued by the NAO.

## Status of our work

We are yet to complete our work in respect of NTCAs arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on NTCA's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to NTCA's arrangements. As noted above, our commentary on NTCA's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

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# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

To: Mr Gavin Barker  
Director  
Mazars LLP

Date:

## North of Tyne Combined Authority (NTCA) and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of NTCA and Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within NTCA and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NTCA and Group committee meetings, have been made available to you.



# Appendix A: Draft management representation letter

## Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on NTCA and Group's financial position, financial performance and cash flows.

## Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by NTCA and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

## Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- Information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- The amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NTCA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

## Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NTCA and Group have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



# Appendix A: Draft management representation letter

## Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NTCA and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NTCA and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

## Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of NTCA and Group's related parties and all related party relationships and transactions of which I am aware.

## Charges on assets

All NTCA and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is, therefore, not considered necessary.

## Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.



# Appendix A: Draft management representation letter

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed .Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on NTCA and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that NTCA and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

### Unadjusted misstatements

I confirm that there were no unadjusted misstatements in the 2020/21 statement of accounts. IF THERE ARE UNADJUSTED MISSTATEMENTS PLEASE LIST THEM HERE OR INCLUDE THEM IN AN APPENDIX.

Yours faithfully  
Chief Finance Officer  
Date: .....

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# Appendix B: Draft audit report

## Independent auditor’s report to the Members of North of Tyne Combined Authority and the Group

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of North of Tyne Combined Authority and Group for the year ended 31 March 2021, which comprise the North of Tyne Combined Authority and Group Comprehensive Income and Expenditure Statements, the North of Tyne Combined Authority and Group Balance Sheets, the North of Tyne Combined Authority and Group Movement in Reserves Statement, the North of Tyne Combined Authority and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of North of Tyne Combined Authority and Group as at 31<sup>st</sup> March 2021 and of North of Tyne Combined Authority and Group’s expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of North of Tyne Combined Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officers’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on North of Tyne Combined Authority and Group’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.



# Appendix B: Draft audit report

## Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement and the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer’s Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of North of Tyne Combined Authority and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for North of Tyne Combined Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of North of Tyne Combined Authority and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.



# Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and Those Charged with Governance the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by North of Tyne Combined Authority and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and Those Charged with Governance on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and Those Charged with Governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on North of Tyne Combined Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on North of Tyne Combined Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.



# Appendix B: Draft audit report

## Responsibilities of North of Tyne Combined Authority

North of Tyne Combined Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of North of Tyne Combined Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

## Matters on which we are required to report by exception under the Code of Audit Practice

- We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Use of the audit report

This report is made solely to the members of North of Tyne Combined Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of North of Tyne Combined Authority those matters we are required to state to them in an auditor’s 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 members of North of Tyne Combined Authority, as a body, for our audit work, for this report, or for the opinions we have formed.



# Appendix B: Draft audit report

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to satisfy ourselves that North of Tyne Combined Authority and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker  
Director  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Date

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# Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and, therefore, we remain independent.

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# Appendix D: Other communications

Other communication	Response
<b>Compliance with laws and regulations</b>	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
<b>External confirmations</b>	We did not experience any significant issues with respect to obtaining external confirmations.
<b>Related parties</b>	<p>Issues were identified in respect of related parties disclosures, as set out in section 04 'significant matters discussed with management' along with an internal control recommendations raised in section 05.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going concern</b>	<p>We have not identified any evidence to cause us to disagree with the Chief Finance Officer that North of Tyne Combined Authority will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

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# Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud  Page 38	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Those Charged with Governance, confirming that</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. management;</li> <li>ii. employees who have significant roles in internal control; or</li> <li>iii. others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



Gavin Barker, Director  
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## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

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