

Date: Wednesday 24th February at 9 am

Venue: Microsoft Teams meeting

Membership:

Chris White – (Chair - Independent member)

Paul Booth - (STDC Board)

Professor Jane Turner – (Teesside University)

John Baker – (Independent Member)

Cllr Peter Berry (TVCA A&G Representative)

Agenda

1. Welcome & Introductions

2. Apologies for Absence

3. Declarations of Interest

4. Minutes of previous meeting

Attached

5. Chief Executive's Update

Attached

6. External Audit – Annual Audit Letter – STDC and Group

Attached

7. External Audit Progress Report

Attached

8. Internal Audit progress report

Attached

9. Follow Up of Previous Internal Audit Management Actions

Attached

10. Internal Audit Actions Update

Attached

11. Demolition Framework Update

Attached

12. Risk Management Policy and Framework approval.

Attached

13. Risk Register Update

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Attached

14. Electricity Infrastructure Update

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Attached

15. Forward Programme & Action Register

Attached

16. Date and Time of Next Meeting:

TBC

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sharon Jones, Governance & Scrutiny Officer, Sharon.jones@teesvalley-ca.gov.uk. 01642524580.

South Tees Development Corporation Declaration of Interests Procedure

1. The purpose of this note is to provide advice and guidance to all members of the Development Corporation Board and Audit & Risk Committee on the procedure for declaring interests. The procedure is set out in full in the Development Corporation's Constitution under the "Code of Conduct for Members" (Appendix 3).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Development Corporation. As a general principle, members should act impartially and should not use their position at the Development Corporation to further their personal or private interests.
3. There are two types of personal interests covered by the Constitution:
 - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
 - i. a member of your family;
 - ii. any person with whom you have a close association;
 - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
 - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
 - v. any body as described in paragraph 3 b) i) and ii) below.
 - b. Any other personal interests. You have a personal interest in any business of the Development Corporation where it relates to or is likely to affect:
 - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Development Corporation;
 - ii. any body which:
 - exercises functions of a public nature;
 - is directed to charitable purposes;
 - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

4. Financial relationships between the Development Corporation and individual councils do not in themselves create a conflict of interest for Council Leaders who are also Development Corporation Board members. Nor is it a conflict of interest if the Development Corporation supports activities within a council boundary. Nevertheless, there are specific circumstances where the Board may consider entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Development Corporation. If no declaration is received from elected members within 28 days the matter may be referred to the Head of Paid Service of your local authority and Leader of the political group you represent on your council for action. If a Declaration is not submitted within an appropriate timescale you may be prevented from attending committee meetings. Details of any personal interests registered will be published on the Development Corporation's website, with the full register available at the Development Corporation's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Development Corporation will include a standing item at the start of each statutory meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

10. Members can seek the advice of the Monitoring Officer if they consider that the disclosure of their personal interests contains sensitive information.

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE

These minutes are in draft form until approved at the next Committee meeting and are therefore subject to amendments.

Date: Wednesday 16th December 2020

Time: 9 am

Venue: Microsoft Teams Meeting

Attendees:		Apologies:
Chris White (Chair - CW)	Darlington Building Society	Julie Gilhespie – Group CEO
Paul Booth (PB)	STDC Board Member	
Cllr Peter Berry (CPB) (TVCA Representative)	Redcar & Cleveland Borough Council	
John Baker (JB)	Independent Member	
Jane Turner (JT)	Teesside University	
John McNicholas (JM)	STDC	
Gary MacDonald (GM)	STDC	
Mike Russell (MR)	STDC	
Natalie Robinson (NR)	STDC	
Nolan Gray (NG)	STDC	
Gareth Roberts (GR)	Mazars	
Cameron Waddell (CW)	Mazars	
Chris Potter (CP)	Tait Walker	
Phillip Church (PC)	RSM	
Peter Judge (PJ)	TVCA	
Sharon Jones (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	Welcome and introductions	The Chair welcomed everyone to the Meeting.		
2.	Apologies for Absence	Apologies as above. The Meeting was noted as being quorate.		
3.	Declarations of Conflict of Interest	There were no declarations of interest		
4.	Minutes of previous meeting	The minutes of the meeting held on 19 th November 2020 were agreed as a true record.		
5.	Group Chief Executives Update	<p>A report was circulated providing an update to the Committee on Key activity within STDC since the last meeting.</p> <p>The Group Director of Finance and Resources also provided verbal updates on some areas of the report.</p> <ul style="list-style-type: none"> • Vesting declarations have been made and progressed • Business case funding has been received from BEIS/MHCLG in time with timelines agreed. • Teesworks attended the Offshore wind NE virtual conference. • Teesworks have also entered the latest round of bidding for an offshore wind hub. The deadline for bids is January. Government have allocated £160m for the UK. £70m of this will be for port infrastructure. Once the bid has been submitted this will be fed back to this committee and any questions taken. It is a confidential bidding process. 		

		<ul style="list-style-type: none"> Electrical infrastructure Joint Venture process is continuing. This is to look for a partner to engage in managing the Private Wire Network on site. There has been a successful procurement process and it is now in the advanced stages. The next step is moving to preferred bidder stage. Board agreed the strategy, approach and next steps at the November meeting. A final report will go to January Board to finalise the agreement. Finance update – Attached as an appendix is the update that went to Board in November. There is a copy of the pro forma template which will be used for reporting to BEIS & MHCLG quarterly shown at Appendix 1. This will be sent to Board after each submission. <p>Discussion took place around the following areas:</p> <ul style="list-style-type: none"> Port infrastructure bid – if the bid is not successful then there is a back-up plan. Alternatives have been looked at and there are other options which will allow us still to develop out the site. If these become the way forward, then they will appear in the risk register at this stage. The provided CEO report is useful but a translation piece for this committee that would walk through the risks in more detail is required. The Risk Register update should connect the dots, but it is agreed that a 1-page update within the CEO report to cross reference and highlight the risk register items can be added for future meetings. <p>Resolved that the update is noted</p>	<p>Add additional page to CEO Report to link to RR</p>	<p>MR/NR</p>
6.	External Audit Progress Report	<p>A verbal update was provided by Mazars regarding External Audit Progress</p> <p>The final letters have been circulated to Members since the last meeting. There were some pension fund assurance issues at the last minute which prevented conclusion until it was resolved. Assurance was given that the matter was not a significant issue and accounts were therefore closed on 4th December, which was</p>		

		<p>only a few days after the target date. Accounts are now published. The Annual Audit letter will be provided at the next meeting to close out the year fully.</p> <p>It is intended to provide an update regarding the new responsibilities around value for money at the next meeting. This is part of the new audit code. Responsibilities have changed due to the new code and we are working through how this will be managed.</p> <p>From a Teesworks perspective existing governance structures and reporting methods are being used to capture the value for money information and officers are confident this will capture what is needed to comply with requirements of the code. This is something that will be looked at throughout the year ahead.</p> <p>RESOLVED that the update is noted.</p>		
7.	External Audit – Annual Audit Letter STDL	<p>A report was provided by Tait Walker.</p> <p>The Committee were advised that moving forward STDL accounts will be managed via the Agresso Financial system and the process of migrating accounts on to that system is in progress. Currently the process is dual running of systems and journaling in the data. There is a plan in place to accelerate this through for year end and accounts will all be migrated in time for next year's accounting.</p> <p>The highlighted bad debt item was already known at budget setting and was provided for when setting the budget. This debt has also already featured in the group accounts last year, it is not another bad debt.</p> <p>RESOLVED that the report was noted, and the accounts will be signed off before the Christmas break.</p>		
8.	ARC Induction training proposal	<p>A report was circulated detailing a proposed induction and training plan for the Committee.</p> <p>Feedback was welcomed from Members with regard to the detail of the proposal.</p>		

		<p>Discussion took place around the following areas:</p> <ul style="list-style-type: none"> Dates for the sessions will be added to diaries in the New Year Will the intended strategic planning session also cover project scope – There may need to be a separate session to cover this, but the aim is to roll out the first set of briefings and then agree bespoke briefings on specific items if needed and appropriate. This will be done in line with the Forward Plan to ensure the timing is right for briefings on particular projects. It would be useful for the Committee to have sight of a full list of projects. This is being worked on via the planned implementation of PMO. The risk register for each project can be communicated via this and real time reporting can be given. The proposal allows a useful opportunity to look at mapping projects against the Assurance Framework controls and give assurance around the churn of project risk registers. The training schedule needs to be fluid and allow for flex if and when needed. It is important that this drives a culture change across the group and is rolled out across all committees. It was confirmed that the process has started for TVCA O&S Committee and that Governance are working on an effectiveness and skills audit across the group to give assurance that the right skills are at the right table. <p>RESOLVED that the detail of the report and the proposals were noted.</p>	<p>Coordinate meetings into diaries – Jan 2021</p> <p>Project risk reporting to align into risk reporting</p>	<p>Governance Team</p> <p>NR</p>
9.	Internal Audit Progress Report	<p>An Internal Audit Progress Report was circulated.</p> <p>RESOLVED that the Report was noted.</p>		
10.	Internal Audit Actions Update	<p>A paper was circulated detailing progress against Internal Audit actions.</p>		

		<p>It was noted that Paragraph 1 and the table underneath have not been updated. This will be amended, and a refreshed paper circulated. 15 actions have now been marked as complete by management. All other actions are marked as in progress. 11 items are showing as overdue. There is an appended detailed narrative against all of those actions.</p> <p>Officers are pushing hard to complete these actions. The timescales to resolve some of these goes beyond what was originally set.</p> <p>There is only 1 high priority action which is linked Project Management Office.</p> <p>It was agreed that whilst the committee understand why actions are outstanding and what is being done to address this the report needs to contain ageing detail of the overdue actions and a planned resolution date.</p> <p>The PMO full roll out is due to take place at the end of March next year. This will give full consistent controls across the Board.</p> <p>Resolved that the detail of the report is noted</p>	<p>Add ageing detail and planned resolution date into the report</p>	<p>MR</p>
11.	<p>Resource Levels Update</p>	<p>A paper was circulated detailing an update on resources across the STDC Group following the acquisition of South Tees Site Company (STSC).</p> <p>The Committee were advised that updated organisational charts are in the process of being completed to give a visual overview. These should be available by end of January.</p> <p>Concerns were raised that the paper does not confirm if staffing levels are correct going forward and that projects won't happen as they should if the right resources are not in place. It was advised that this piece of work is a work in progress and as plans and resource requirements change this, and any associated risks, will be made clear.</p> <p>Resourcing for Health & Safety and security on site will be addressed. A Senior level resource, EHSC Senior Manager, has been appointed. The current H&S team sit underneath that post. The new resource, once in post, will assess what other resources are needed to move forward.</p>		

		<p>The Committee felt that they should have sight of some form of workforce plan. This would allow an overview of resource planning in order to have sight of the associated risks. It was advised that Clare Winter has been appointed as new Group HR Manager and she will be looking at the delivery group structure. Once the organisational chart is completed then an updated briefing can be provided detailing this and an overlay of risk.</p> <p>PB & JM advised that they have been working on creation of a macro plans for the site over the next 5 years. Each plan has specific resource requirements attached to it and will therefore show a resource profile needed in order to complete the programme. This can be brought to the next meeting as an example if required.</p> <p>Resolved that the detail of the report is noted.</p>	<p>A Resource plan to be produced & delivered twice yearly to Committee to cover people risk perspective and how this is monitored.</p> <p>Macro plan to be provided as an example at the next meeting</p>	<p>GM</p> <p>JM</p>
12.	Decontamination Project Update	<p>A Report was circulated providing an update on the decontamination project.</p> <p>It was noted that this project has a Risk Register attached to it which is a living document and is updated on a fortnightly basis. This document will be shared with Committee members prior to the next meeting.</p> <p>Resolved that the detail of the report is noted.</p>	<p>Decontamination Project risk register to be shared</p>	<p>NR</p>
13.	Risk Update	<p>A resolution to exclude the press and public under paragraph 3 of schedule 12A of the Local Government Act 1972 was agreed.</p> <p>A Paper was provided detailing a risk management update.</p>		

		<p>It was agreed that there is a need to dovetail the SC Board and activity to both ARC and DC Board. Reporting lines need to cover this, and reports need to crosscut through all required channels.</p> <p>Resolved that the detail of the update is noted</p>	Discuss at management meeting how to take this forward.	GM
14.	Forward Programme & Action Register	<p>The Forward Plan and Action Register were noted. Items raised today will be added to the Forward plan for February's meeting and this will be circulated this once updated.</p> <p>Actions from the previous meetings were discussed:</p> <p>July Tata Retention – Meetings are reconvening in the new year to discuss this and take legal advice on the final costings. This will then be taken forward to Tata. The deadline is mid Feb.</p> <p>Internal audit plan – outsourcing of financial systems assurance – ongoing.</p> <p>October All items covered.</p>	Update FP	SJ
15.	Date and Time of Next Meeting	Date of next Meeting – 24 th February 2021 at 9am.		

AGENDA ITEM 5

REPORT TO THE STDC AUDIT AND RISK COMMITTEE

24th FEBRUARY 2021

REPORT OF THE GROUP CHIEF EXECUTIVE

GROUP CHIEF EXECUTIVE UPDATE

SUMMARY

The purpose of this paper is to provide an update to the Committee on the key activity within STDC since the last meeting.

RECOMMENDATIONS

It is recommended that the Committee notes the content of this update report.

ORGANISATIONAL DEVELOPMENTS

1. Ongoing emphasis has been given to developing proposals for a new Quay on the South Bank area of the site following approval of an internal business case in relation to the development of the Quay by STDC Board on 25th November. In early January an application was also made to government for £70m of funding for the Quay and surrounding areas linked to the creation of the UK's principle offshore wind manufacturing hub
2. Progress has also continued in relation to the High voltage joint venture with confirmation of the preferred bidder and the commencement of detailed discussions around structuring and commercial arrangements.
3. On site, work continues at pace on the Metals recovery (South Bank) and Dorman Point (Prairie) site preparation works.
4. The wider TVCA and STDC Group team has also been providing contributions to Tees Valley's Freeport bid to government which will create tax and custom's zones across the Teesworks site. These include the South Bank Offshore wind development and parts of Dorman Point, Lackenby, Steel House, Long Acres and the Foundry. A successful Freeports bid will lead to some reprioritizing of programmed activity across the group in order to ensure that the Freeport zones have maximum impact.

COMMERCIAL

5. An application was made to the Offshore Wind Manufacturing Investment Scheme to support the proposed South Bank development.
6. Several significant projects are continuing through commercial negotiation with Teesworks facilitating site inspections and ground investigation work.
 - Teesworks continues to support the Local Authorities' waste project team in its preparation for the latter stages of its procurement processes. Discussions are ongoing regarding utilities connections, road layout, ecology off-set and ground remediation.
 - Discussions continue in respect of the South Bank and a cluster for offshore wind.
 - Managed recovery and reuse or sale of materials from site.
7. Electrical Infrastructure JV Procurement Process - Following the completion of the bid evaluation exercise, the team notified the preferred bidder of selection. Workstream meetings with the preferred bidder team were scheduled throughout January to move forward with the finalisation of the joint venture, delivery and contractual arrangements on the basis of the bid as evaluated, and they are carrying out some site visits to finalise their due diligence on the HV assets. Subject to that work we are projecting financial close to be end Feb 2021.
8. The team also notified the unsuccessful bidders of the result of the evaluation and fed back on their scoring, as required by the procurement regulations. The standstill period has expired without any unsuccessful bidder representations.
9. The finalisation of the joint venture documentation was delegated to the STDC Chair and the Group Chief Executive at the Board meeting in November 2020. The Board will receive a further update report at its next meeting

PROGRAMME DEVELOPMENT

10. Dorman Point (150-acre site)

- Eston Road Highway Access Scheme (new roundabout)
 - (a) Preliminary construction activities: 75% complete.
 - (b) Main works construction start date: February/March 2021.
 - (c) Programmed completion: September 2021.
- Site Preparation and Ground Remediation Works, Phase 1 (40 acres, western zone of site)
 - (a) Construction progress: 35% complete
 - (b) Programmed completion: Jun-21.
- Site Preparation and Ground Remediation Works, Phase 2 (50 acres, eastern zone of site)
 - (a) Construction progress: 10% complete
 - (b) Programmed completion: Aug-21.
- Site Preparation and Ground Remediation Works, Phase 3 (30 acres, central zone of site)
 - (a) Works scheduled for later in 2021 – dates to be determined
- Site Preparation and Ground Remediation Works – Phase 4 (30 acres – former SSI land)
 - (a) Works scheduled for later in programme – dates to be determined, but a start in 2021 is likely.

11. Metals Recovery Area (50-acre site)

- Site Preparation and Ground Remediation Works

- (a) Materials Management Plan successfully secured with the Environment Agency
- (b) Construction progress: 50% complete
- (c) Programmed completion: Mar-21.

12. South Bank

- South Bank Quay (Phase1 (450 linear metres) and Phase 2 (600 linear metres))
 - (a) Overwater ground investigations: site works complete, analysis and reporting ongoing, due for completion in Feb-21.
 - (b) Marine Works License applications submitted - ongoing.
 - (c) Application for Planning Permission submitted - ongoing.
 - (d) Development of the contract strategy for delivery of Phase 1 is ongoing, with the procurement process for the appointment of a Design & Build contractor to commence during Q1 2021.
 - (e) The plan is to commence Phase 1 construction as early as Aug/Sep 2021, with completion scheduled between Dec-22 and Mar-23.
- Landside Works
 - (a) Phase 1 (c. 100 acres, upstream land area) – advance site clearance works complete.
 - (b) Phase 1 main site preparation and ground remediation works – scheduled for commencement in Q1 2021.
 - (c) Phase 2 (c. 80 acres, downstream land area (Tarmac site)) – main site preparation and ground remediation works scheduled for commencement in May 2021, focusing on the area in close proximity to the new quay, to have this completed ahead of quay construction.

13. Demolition Works

- Package 1 – Various Buildings, Prairie Site
 - (a) Works ongoing – completion will be achieved during Q1 2021.
- Package 2 – Heavy Fuel Oil (HFO) Tank Farm and Buildings at South Bank
 - (a) HFO Tank Farm: 85% complete.
 - (b) Buildings at South Bank: 90% complete.
 - (c) Programmed completion: end-Feb-21 latest.
- Package 3 – Various SSI Assets, Advance Demolitions
 - (a) Torpedo Ladle Repair Shop Complex (Dorman Point): this project will commence in February 2021 and is scheduled for completion by early June.
 - (b) The Foundry (Redcar site) – Coal Handling Facility, RDL Stores, Tube City, various conveyors: projects due to commence in Q1 2021 and be complete during May 2021.
 - (c) South Bank Gas Holder: demolition planned for summer 2021, subject to completion of Ammonia Washers demolition project and similar for Benzole Washers facility at South Bank Coke Ovens.
 - (d) Programmed completion: August 2021.
- Package 4 – Primary Demolition Programme Demolition Contractors Framework
 - (a) Procurement of the Demolition Contractors Framework is ongoing and will conclude by the end of March 2021.
 - (b) The Framework will address the majority of the demolition projects across the site, including all of the large-scale, complex facilities, such as: Redcar Blast Furnace; Redcar Coke Ovens; the Sinter Plant; Lackenby Steelmaking Complex (BOS/CONCAST); and South Bank Coke Ovens.

- (c) Work is ongoing to rationalise the timescale for the Primary Demolition Programme, with a view to having the majority, if not all, of the demolitions complete within a 3-year period commencing April 2021.
- (d) The first projects under the Framework will be awarded in April 2021.

14. SLEMS Area (60-acre site)

- (a) Work continues in assessing our options on soil treatment methodologies to address the environmental liability that is the 1.0M tonnes of BOS oxide stored on the SLEMS site.

15. Net Zero Teesside Site

- (a) Dialogue with the NZT team continues.
- (b) Phase 1 of the site preparation and ground remediation works are currently scheduled to start in November 2021.

16. Hydrogen Rail Project

- (a) We are continuing our consultations with Northern Trains Ltd (NTL) on the potential for realising this project on Teesworks.

17. Materials Handling – Sirius Material Supply Agreement

- (a) The Material Supply Agreement with Sirius (York Potash Limited) has now been signed.
- (b) Deliveries of the Redcar Mudstone material from the tunnel boring operations commenced on 05-Jan-21.

18. Ground Investigations

- (a) The following ground investigations are ongoing:
 - South Bank Quay
- (b) The following ground investigations are planned over the coming two months:
 - South Bank Hinterland Phase 2 area (Tarmac site).

19. Redcar Gate Entrance Improvements

- (a) Construction progress: 75% complete.
- (b) Programmed completion (revised): 12-Feb-21.
- (c)

FINANCIAL IMPLICATIONS

- 20. The financial implications of programme activity are captured in the STDC Delivery Group meetings throughout the year. The Group received regular financial updates linked to programme milestones and a procurement pipeline has been produced to integrate with the programme plan. This will ensure spending profiles are monitored and key critical expenditure path items are identified.
- 21. The finance Update provided to the STDC Board in January is included as **Appendix 1**

LEGAL IMPLICATIONS

- 22. Whilst matters with legal implications are discussed in this report, this update report has no specific legal implications

RISK ASSESSMENT

23. Analysis below presents data from Teesworks Risk Registers as of January 2021 which are prepared in accordance with the Group Risk Management approach and are reviewed on a regular basis by senior management. Risk registers set out:

- key risks which have been identified;
- type of risk e.g. legal, reputational, financial;
- consequences if the risk is realised;
- risk owner;
- controls or actions in place to manage the risk;
- risk score determined by probability and impact;
- additional controls to be put in place and tracking implementation.

24. The following key risks, highlighted above in this report are documented in the risk registers as follows:

Reference in CEX	Register	Risk ID	Commentary
South Bank Quay – Risk Register	Teesworks Strategic	GSR-R037	Risk Review session scheduled 29/01/2021.
Offshore Wind	TVCA Corporate	C03	Business Case and associated requested material submitted to Government for Offshore Wind.
Utility management	Teesworks Strategic	GSR-R027	Procurement processes have been developed with specialist Legal advisers to ensure compliance with public procurement rules in order to hit required timescales.
Electrical infrastructure Procurement Process	Projects RAID log	DEP-4	Dependency on JV procurement processes tracked as part of fortnightly Operational group.
Programme Development – Dorman Point	Teesworks Strategic	GSR-R012/R013	Land preparation and development risks and issues discussed as part of fortnightly Operational Group.
Decontamination & Demolition	Project Risk Register Teesworks Strategic	Multiple risks	D&D risks are tracked through Demolition sessions and Project Operations Group. 2 highest scoring risks re: Decon. Relate to the nature of residues and increased costs to SC for increasing resource to support. Both risks are being managed and have treatment plans to resolve.
Net Zero Teesside	Teesworks Strategic	Multiple risks	All Teesworks strategic risks are tracked against objectives – one of which is contributing towards the delivery of Net Zero. Adherence to this objective can be quantified and tracked.
Hydrogen Rail	Project Risk Register TVCA Corporate	Multiple Risks C18	Further work ongoing to review project risk. Controls in place to ensure opportunities are maximized through regular meetings with key stakeholders.

Reference in CEX	Register	Risk ID	Commentary
Redcar Gate House	Projects RAID log	RISK-6	Key reputational risk of not completing by target date (12/02/2021), progress of work monitored in fortnightly Operational group. No current threat of further delays identified.

CONSULTATION & COMMUNICATION

25. This paper has been prepared directly from separate reports prepared by the Senior Management team of STDC. As the purpose of this report is to provide updates/ information no further consultation has been undertaken/ is necessary.

EQUALITY & DIVERSITY

26. No specific impacts on groups of people with protected characteristics have been identified

Name of Contact Officer: Julie Gilhespie

Post Title: Group Chief Executive

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Appendix 1

REPORT TO THE STDC BOARD

27th JANUARY 2021

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

FINANCE AND MEDIUM-TERM PLAN UPDATE

SUMMARY

The purpose of this paper is to provide a finance update to the Board and to review the STDC Group budget for 2020/21 and medium-term plan for the three-year period to 31 March 2023. The review is undertaken considering developments in the delivery programme and land acquisition activities since the last update provided to November Board.

The Medium term financial plan has been updated to reflect the proposed Quay development at South Bank Wharf, which was approved at the November meeting.

RECOMMENDATIONS

It is recommended that the STDC Board:

- i. Notes the finance update provided in this report
- ii. Endorses the updated medium-term plan for the three years to 31 March 2023,

FINANCIAL PERFORMANCE UPDATE – SEPTEMBER 2020 (EXCLUDING STSC)

1. The following update relates to the financial performance of STDC group to 30 November 2020. Variances are compared to the MTFP presented to Board in November

	Year to	Year to	Year to	original	
	Date	Date	Date	Year to	Year to
				Mar-21	Mar-21
STDC	Actual	Plan	Var	Budget	MTFP
Expenditure overview	£'000	£'000	£'000	£'000	£'000
Core operations and running costs	1,205	1,269	64	2,102	2,813
STDL site management costs	592	835	243	1,296	1,173
Enabling expenditure and projects	2,712	4,258	1,545	5,276	6,498
Capital works projects	7,074	9,225	2,151	21,005	29,965
Land purchase projects	15,135	15,000	(135)	11,000	18,390
Capital expenditure HV JV	-				1,550
Gross expenditure	26,718	30,587	3,869	40,678	60,390

2. Eight months into the year spend to date is £26.7m versus a phased target of £30.5m and an overall MTFP target spend of £60.3m The original budget for the year was £40.6m
3. Overall spend to date represents 66% of the original budget t activity level (which aligns to government funding targets) and 44% of the MTFP target which assumed significant acceleration in the second half of the year creating an end- loaded budget.
4. Whilst there is a £3.8m variance reported against the phased delivery target to November, delivery leads have high confidence that delivery will exceed the original budget target and consequently ensuring funding targets are met whilst delivering a significant proportion of the MTFP target.
5. The £4.9m variance against phased targets comprises the following:
6. **Core operations and site management costs** – Combined expenditure is £0.3m behind the phase delivery profile. This reflects a real saving to date as headcount increases have tracked behind plans and repairs and maintenance costs on site are tracking behind budget. The associated revenue budgets can be carried forward to support future expenditure.
7. **Enabling expenditure and projects** –is tracking £1.5m behind the phased plan, the variance arises due to later than anticipated starts to a programme of bridge assessment across site and the establishment of a materials management facility on site to manage infill material (which will ultimately significantly reduce site materials costs). Both projects are now in delivery and spend is underway
8. **Capital projects** are tracking £2.1m behind the phased target and reported delivery of £7m represents 23% of the MTFP target (33% of the original budget target). It is important to note that targets were always end loaded as government funding under the business case was not released until period 7.
9. A high-level review of programmed/procured delivery has been undertaken to give assurance over the likely outturn position for the year compared to the MTFP targets. Outputs of the review are summarised below:

	Year to	Year to	Year to	Year to		
	Date	Date	Date	Mar-21		
	Actual	Budget	Var	MTFP		
Capital works projects	£'000	£'000	£'000	£'000	RAG	Notes
Prairie (Dorman point)	2,069	2,262	193	10,017		End loaded profile with maximall potential spend of £10.6m
South Bank	3,624	5,002	1,377	10,912		Core aspects, OSW enabling, Metals recovery, OWTF demolition and South bank site prep costs on track
HV Electrical infrastructure	233	482	248	1,120		Costs wil transfer to JV agreed in leio of investment £1,550k
Steel House	-	1,100	1,100	900		Some slippge expected outturn likely to be c £300k
Redcar (Including NZT)			-	1,033		Principally demolitionactivity on foundry and NZT masy see some slippage
Teardrop (Longacres)			-	985		Planing and GI completed dec with start feb - may be some slippage
Gatehouse/entrances			-	4,100		£2m of sepdn to be rephased into 2021/2 this is in line with ringfenced funding profile
Other	1,147	379	(768)	900		
	7,074	9,225	2,151	29,967		

10. Major areas of delivery at the Prairie and South Bank (which together account for c 72% of the MTFP target for the year are expected to outturn at or around expectations. Together works in these areas are expected to provide delivery of c £21m – equivalent to

the original delivery budget delivery for the year. These programmes of work should underpin funding claims to government.

11. HV electrical projects are expected to transfer to the Joint Venture partner at the end of the year, the projected delivery cost is likely to be replaced by an investment into the HV Joint venture entity. This revision has been reflected in the next iteration of the MTFP (See below)
12. Amber rated areas of delivery include steel house expenditure is likely to slip into 2021/22 with an anticipated outturn for the year of c £300k and slippage is also expected on activity added into the MTFP at teardrop and gatehouse with some spend moving into 2020/21
13. Gatehouses spend is expected to be £2.1m in the current year aligned to the first phase of activity with phase 2 now planned for 2021/22. This is in line with the agreed ring-fenced funding profile for this activity.(this revision has been reflected in the next iteration of the medium term financial plan (see below)
14. A detailed financial review of project activity is currently underway leading to an updated outturn target for the next board meeting considering any impacts.

SOUTH TEES SITE COMPANY

15. STSC performance is compared to the STDC group plan reflected in the business case to government and budget below: Performance reflects periods 7 and 8 only, being the period of STDC group ownership which aligns to entries in the group financial plan.

		STDC Plan		Var
	P7-8		P7-8	P7-8
	2021		2021	2021
STSC Expenditure	£'000		£'000	£'000
Keepsafe	2,381		2,369	(12)
"Tier3"	303		1,044	741
Invest to save	1,967		1,433	(534)
	4,651		4,846	195

16. Overall expenditure is marginally behind the levels anticipated in the STDC plan as at 30 November, due to phasing of activity in the Tier 3 and I2S projects.
 - **Keepsafe** – is tracking in line with expectations and reflects the costs of site management and security alongside the net impact of commercial resource sharing agreements and electricity distribution arrangements with tenants on site.
 - **Tier 3** – Budgets were originally set up by BEIS to act as a buffer to cover any unforeseen costs on site. Currently only a low level of expenditure is being reported in this category capturing ongoing management costs relating to an incident prior to transition.

- **Invest to Save** – reflect the costs of contracted arrangements and management costs required to decontaminate assets on the former SSI site prior to demolition. Costs are tracking slightly ahead of the phased target at this point in the year due to timing of delivery. However the overall programme is expected to be delivered within the parameters anticipated in the STDC business case

MEDIUM TERM PLAN REFRESH – THREE YEARS ENDED 31 MARCH 2023

17. Following approvals at the previous board Cycle the medium term financial plan has been updated to reflect the approval of the South Bank Wharf quay development and the progression to preferred bidder status on the proposed High Voltage infrastructure Joint Venture
18. The revised plan increases planned expenditure over the review period by £102m, driven principally by a proposed £135m investment in Quay infrastructure over the period. The overview position development is presented below:

	Year	Year	Year	2020-
	Mar-21	Mar-22	Mar-23	2023
	Forecast	Plan	Plan	Plan
January MTFP Update	£'000	£'000	£'000	£'000
Operations and running costs	2,843	4,853	5,686	13,381
STDL site management costs	1,173	1,147	1,181	3,501
STSC Keepsafe and decotaminatio	14,519	43,424	13,010	70,953
Enabling expenditure and projects	6,498	4,508	3,074	14,080
Capital projects	29,965	104,174	121,078	255,217
Land purchase costs	18,390	1,250	-	19,640
Capital investment - HV JV	1,550	1,550	1,550	4,650
Net expenditure	74,939	160,905	145,579	381,423
MHCLG operations funding	207	-	-	207
MHCLG Prairie Grant	10,017	1,340	-	11,357
TVCA ringfenced funding	253	-	-	253
TVCA site operations funding	7,874	2,226	-	10,100
TVCA other funding	33,226	60	-	33,286
BEIS redirected STSC funding	14,519	43,424	13,010	70,953
New Ask BEIS	2,308	2,576	8,809	13,694
New Ask MHCLG	4,435	35,475	-	39,910
Rentals and Quay income		1,025	6,811	7,836
MHCLG Site entrance funding	2,100	2,000	-	4,100
External borrowing/funding	0	72,779	116,949	189,728
	74,939	160,905	145,579	381,424
Planned income				
Prairie (Dorman Point)	-	24	24	48
Net Zero Teesside (Redcar)	-	1,001	1,231	2,232
Quay - Option B (South Bank)	-	-	5,556	5,556
	-	1,025	6,811	7,836

19. Movements in the plan since the November update are summarised below:

	November			January
	Plan		Change	Plan
2020- 2023	£'000		£'000	£'000
Operations and running costs	13,477		(96)	13,381
STDL site management costs	3,501		0	3,501
STSC Keepsafe and decotamination	70,953		-	70,953
Enabling expenditure and projects	14,060		20	14,080
Capital projects	152,863		102,354	255,217
Land purchase costs	19,640		-	19,640
Capital investment - HV JV	4,650		-	4,650
Net expenditure	279,144		102,279	381,423

20. **Operations and running costs** – changes to plan reflect a net adjustment to finance costs which have been adjusted to reflect increased borrowing for the Quay and also reflecting a lower planned interest rate based upon rates currently available through Th Public Works Loan Board which offsets the additional borrowings.

Capital projects.

21. The £102m increase reflects an increase in gross expenditure of £135m over the period to accommodate investment in the quay alongside and a reduction in planned direct investment in the HV network of £28m over the review period (as it is anticipated that this activity will transfer to the Joint Venture partner).

22. An analysis of movements in capital projects is provided below:

	January update				Nov MTFP	
	Year	Year	Year	2020-	2020-	
	Mar-21	Mar-22	Mar-23	2023	2023	
	Forecast	Forecast	Forecast	Plan	Plan	Change
Capital projects	£'000	£'000	£'000	£'000	£'000	£'000
Prairie (Dorman point)	10,927	9,890	3,150	23,967	23,057	910
South Bank (Enabling of offshore wind development)	11,601	8,163	2,500	22,264	21,575	689
Quay - Option B (South Bank)	1,700	53,839	79,330	134,870	-	134,870
HV Electrical infrastructure	180	1,945	4,588	6,713	34,418	(27,705)
Steel House	900	750	-	1,650	1,650	-
Redcar (Including NZT)	1,033	9,724	6,420	17,177	17,177	-
Teardrop (Longacres)	985	7,641	8,159	16,785	16,785	-
Gatehouse/entrances	2,100	3,000	-	5,100	4,100	1,000
Other	540	9,221	16,931	26,692	34,101	(7,409)
	29,965	104,174	121,078	255,217	152,863	102,354

- **Quay investment** - £135m of a total of £161m total investment in the quay is included in the Medium-term plan to 2023, the remaining £26m of expenditure is expected to be completed in the 2023/4 financial year.

- **HV Works** – Gross investment in HV works is assumed to reduce by £27.6m across the review period as customer funded connections and facilitation works are expected to transfer into the High Voltage joint venture partner.
- **Other Capital projects** – Planned activity on other capital projects has been reduced to reflect the increased emphasis on quay delivery in this iteration of the plan

Funding considerations

23. Adjustments made to the plan increase the total borrowing requirement over the MTFP period from £65m to £190m. The £125m increase follows the inclusion of quay expenditure in modelling.
24. Analysis has been undertaken in support of the quay investment and it is envisaged that these incremental borrowings will be funded using the forward revenues from the quay as security (commencing from 2022/3)
25. However, we estimate that (following allocation of some existing planned activity into the quay scheme) there is a general borrowing requirement outside of the Quay of c £54m which will need to be supported by commercial activity either through lease income or capitalisation.
26. Accordingly, the pace of the programme is inherently linked to the group's success in securing commercial deals and this is a key sensitivity which will be considered in the forthcoming budget cycle for 2021/22.

BUSINESS CASE REPORTING AND MONITORING

27. The STDC group had its first performance monitoring meeting with representatives from BEIS during December 2020. Following the meeting the second tranche of advance funding for the programme of £8.2m was approved and released in line with the parameters set in STDC's original business case.

FINANCIAL IMPLICATIONS

28. Financial implications are discussed in the body of this report.

LEGAL IMPLICATIONS

29. There are no legal implications associated with the recommendations of this report.

RISK ASSESSMENT

30. The key risks associated with the delivery of the revised plan is failure to deliver in line with programme / a material shift (forward or backward) in programme delivery phasing. Should key planning assumptions fail to materialise. STDC would consider any changes necessary to the delivery programme and forecast forward accordingly
31. By developing a "maximum case" which requires external funding there is a risk that delivery may fall behind planned levels, particularly if commercial activity does not allow

timely securitisation of income. However, in this circumstance some planned activity can be deferred whilst ensuring STDC achieves targets set in relation to its government and external income funding streams.

CONSULTATION & COMMUNICATION

32. Plans have been developed in consultation with the senior management team of STDC who have provided detailed input based on the developing programme of delivery activity.

EQUALITY & DIVERSITY

33. No specific impacts on groups of people with protected characteristics have been identified

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Annual Audit Letter

South Tees Development Corporation (and Group)

Year ended 31 March 2020





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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. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a 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) and the South Tees Development Corporation Group (the Group) for the year ended 31 March 2020. 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 auditor's report issued on 4 December 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Corporation's and Group's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's 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 auditor's 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 year ended 31 March 2020.</p>
Reporting to the NAO as group auditor	<p>The Corporation/Group do not prepare a WGA return as they are consolidated into Tees Valley Combined Authority Group. As such, we have not reviewed a return for the Corporation/Group for 2019/20.</p>
Statutory reporting	<p>Our auditor's 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/Group and whether they give a true and fair view of the Corporation's and Group's financial position as at 31 March 2020 and of its financial performance for the year then ended.

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

- the accounting policies are appropriate to the Corporation's/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 auditor's report, stated that in our view, the financial statements give a true and fair view of the Corporation's and Group's financial position as at 31 March 2020 and of its financial performance for the year then ended. We included an emphasis of matter paragraph in our report to highlight to readers the valuation uncertainty arising due to the COVID-19 pandemic, that was disclosed by the Corporation/Group in the financial statements. Our opinion was not modified in respect of this matter.

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure for the Corporation, and 2% of Total assets for the Group.	Corporation: £105k Group: £556.7k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Corporation: £3.15k Group: £16.7k
Specific materiality	We did not identify any areas where we considered that a specific materiality level should apply.	~



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 and Group'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, and subsequent follow up letters. 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
Management override of controls (Corporation and Group) 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.	We addressed this risk through performing audit work over: <ul style="list-style-type: none"> Accounting estimates impacting on 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. 	Our work provided the assurance we sought in each of these areas and did not highlight any material issues.
Property, Plant and Equipment Valuation (Group) The 2019/20 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE. The Corporation engaged a valuation expert to provide information on valuations. There remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of PPE to be an area of risk.	As the valuation of PPE was undertaken for Group reporting purposes we did not rely on the component auditor of the Corporation's subsidiary, and instead undertook our own audit work to consider the reasonableness of the chosen classification category of the PPE under the Cipfa Code, and gain assurance that the valuation was materially fairly stated. We assessed the competence, skills and experience of the Corporation's appointed valuer, and used indices provided by our own expert to assess the movement from 2018/19 to 2019/20 to gain assurance it was not materially misstated. We also considered the impact of COVID-19 on the valuation to gain additional assurance on it's reasonableness.	The valuer followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a "material valuation uncertainty" in relation to the valuation of the land valued. We requested management add a reference to this in the financial statements, and we included reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and did not modify our opinion on the financial statements. Our work provided the assurance we sought and did not identify any material issues.
Defined benefit liability valuation (Corporation and Group) 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 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 considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. We also considered national pensions issues arising.	Our work provided the assurance we sought and did not highlight any material issues.



2. AUDIT OF THE FINANCIAL STATEMENTS

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. We did not identify deficiencies in internal control as part of our audit in 2019/20.

We followed up the four internal control matters identified in our prior year 2018/19 audit, and no similar matters came to our attention during our 2019/20 audit.



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, 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 year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> • Constitution in place, available on the Corporation's website, and refreshed to reflect the changing nature of the Corporation. • Corporation has a 'Master Plan' which details the plan in place for the redevelopment and regeneration of the South Tees site. • 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 (with links to TVCA and STSC). • No data quality issues in respect of performance information we are aware of. • Audit and Risk Committee meets on a regular basis, which oversees internal and external audit, and has spent considerable time this year reviewing the strengthening of the Corporation's arrangements for risk management. • Internal audit function in place. • Budgets in place. • Periodic reporting to Board and Audit Committee of financial performance in the year. 	Yes
Sustainable resource deployment	<ul style="list-style-type: none"> • Master Plan and Financial Plan in place (within known funding timescales). • Master Plan identifies future large scale capital schemes/priorities. • Risk management of capital asset purchased in the year evident from reporting to Board and the Audit and Risk Committee. • HR/payroll functions in place through other bodies. • 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



3. VALUE FOR MONEY CONCLUSION

The Corporation continues to grow and develop and we have seen arrangements change since 2018/19 as it has done so. We also note that it has continued to change arrangements since March 2020 to respond to its changing structures. Management and the Board will need to continue to ensure that arrangements and policies and procedures for securing economy, efficiency and effectiveness in its use of resources remain under review and are adjusted appropriately as the organisation continues to grow and becomes ever more complex.

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 Value for Money 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 not identified any significant Value for Money risk(s). We kept this under review throughout our audit and were satisfied that there are no significant risks apparent.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of NAO group audit reporting requirements	Not applicable
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 on 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 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 statutory reporting powers.

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. We did not receive any such objections or questions.

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

The Corporation/Group are consolidated into Tees Valley Combined Authority Group, and as such, the Corporation/Group does not complete a WGA return. As such, we have not reviewed a return for the Corporation/Group for 2019/20 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 and Group's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Risk Committee in March 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice; plus	£13,860*	£13,860*
• Audit fees relating to work on group audit, which are not included in the scale fee	£6,038*	£6,038* **
• Audit fees relating to the increased regulatory burden and additional work/skill mix to respond to it, for property plant and equipment valuations and pensions		£1,813**
• Audit fees relating to additional time and level of skill mix required in 2019/20 to deal with level of matters arising in draft statements, additional liaison time due to delays in component audit, and additional time to respond to matters in relation to the COVID-19 pandemic, i.e. the impact on valuations and pensions.		£3,955**
Total audit fees	£19,898	£25,666
Other non-Code work	NIL	NIL

* As reported in our Audit Strategy Memorandum.

** Subject to agreement by PSAA Ltd.

Fees for other work

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



6. FORWARD LOOK

Financial outlook

The Corporation has set out its financial plan in its updated medium term financial plan. It will need to ensure delivery of the plan is closely monitored and updated as its progress on delivering its core aims continues.

The Corporation recognises the key issue of clear planning and management of its finances to ensure it remains financially resilient if it is to deliver its Master Plan. Changes to its group structure, including the introduction of partners in its delivery bring more complexity, meaning this task is more vital than ever.

Operational challenges

The Corporation's aims are clearly set out in its Master Plan. The recent acquisition of further areas of land as part of its Compulsory Purchase Order, and recent transfer of South Tees Site Company Limited to the Corporation's control, mean that its operational aims are now being kick started. The Corporation and Board face a very complex challenge ahead in delivering the development, which is very significant in both scale and size. The Corporation needs to ensure its risk management and other operational arrangements keep pace with its changing nature and complexity.

How we will work with the Corporation

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Corporation by:

- continued liaison with the Corporation's Internal Auditors to minimise duplication of work;
- attending Audit and Risk Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Corporation to identify any learning from the 2019/20 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

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.

The Corporation has taken a positive and constructive approach to our audit and we wish to thank the Board, Audit and Risk Committee members and officers for their support and co-operation during our audit.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

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

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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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.

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Audit Progress Report

South Tees Development Corporation
(and Group)

February 2021



1. Audit Progress
2. National Publications

01

Section 01: **Audit Progress**

Audit Progress

This report sets out progress on the external audit for 2020/21.

Overall audit progress is on track, with no significant issues arising that we are required to report to those charged with governance. Our timetable for preparing and issuing our Audit Strategy Memorandum (Annual audit plan) is later than the timeline in previous years due to the introduction of new responsibilities under the 2020 Code of Audit Practice which is effective from 2020/21 audits, and recent receipt of some of the guidance supporting the new approach. Further information is provided below.

Accounts audit

Since the Committee last met in December 2020, we have:

- Agreed our 2019/20 Annual Audit Letter with management, which is a separate agenda item at the Committee's February 2021 meeting; and
- held liaison meetings with management.

In the coming period we plan to:

- undertaken initial planning work for our 2020/21 audit, including undertaking our walkthrough testing, planning and implementing any early testing, as well as meeting with relevant officers; and
- develop and agree our 2020/21 Audit Strategy Memorandum (Annual audit plan) with management, which will be presented to the Committee at its next meeting, together with our 2020/21 External Audit / Internal Audit Protocol.

The timeline has been released by the government for the 2020/21 accounts process. The target date for publication of audited accounts (and final Annual Governance Statement (AGS)) by local government bodies is to be 30 September 2021. The date for publication of unaudited accounts (inc draft AGS) currently remains at 31 May 2021.

Audit Progress

Value for money arrangements

Members will recall that the approach to our responsibilities for Value for Money change with the introduction of the new Code of Audit Practice 2020, effective from 2020/21 audits.

We have received some initial guidance issued by the National Audit Office (NAO) in October 2020, and have set out some of the key points below. In the coming period, we will consider this guidance, how it impacts on our work, and the information we will need from the Corporation, and then plan any risk based work required to meet our responsibilities under the new guidance. Our planned approach will be set out in our 2020/21 Audit Strategy Memorandum (Annual audit plan).

We set out below the key changes from the initial guidance received.

Value for money arrangements; new guidance for auditors

The initial guidance for the new approach was issued in October 2020 by the NAO in the form of an updated Auditor Guidance Note (AGN); AGN03. The supporting information for the relevant sector for the Corporation, that underpins AGN03, and is usually updated each year, has not yet been issued.

The key matters set out in the updated AGN 03 are:

- The aim of the approach set out in AGN03 is to re-focus the work of local auditors to:
 - promote more timely reporting of significant issues to local bodies;
 - provide more meaningful and more accessible annual reporting on VFM arrangements issues in key areas;
 - provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
 - provide clearer recommendations to help local bodies improve their arrangements.

Audit Progress

- From 2020-21 audits onwards, the key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, published as part of the Auditor's Annual Report (formerly the Annual Audit Letter in Local Government). The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body's attention, along with their recommendations for improvement. The commentary will, however, also allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.

The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor's Annual Report; it is therefore not a VFM arrangements 'conclusion' or an 'opinion' in the same sense as the opinion on the financial statements themselves. There is a statutory duty to report where the auditor is not satisfied that adequate arrangements are in place, and this would be reported on an exception basis where 'significant weaknesses' are identified. This means that there may be matters referred to in the auditor's commentary, but which do not represent significant weaknesses in arrangements and therefore do not appear by exception in the auditor's opinion on the financial statements.

- There are 3 new specified reporting criteria:
 - **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services, including:
 - how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
 - how the body plans to bridge its funding gaps and identifies achievable savings;
 - how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
 - how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
 - how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Audit Progress

- **Governance:** how the body ensures that it makes informed decisions and properly manages its risks, including:
 - how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
 - how the body approaches and carries out its annual budget setting process;
 - how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
 - how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
 - how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).
- **Improving economy, efficiency and effectiveness:** how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:
 - how financial and performance information has been used to assess performance to identify areas for improvement;
 - how the body evaluates the services it provides to assess performance and identify areas for improvement;
 - how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
 - where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Audit Progress

- The auditor approach falls into 3 main categories:
 - Planning
 - additional risk-based procedures and evaluation; and
 - reporting.

Some of the areas map from the previous approach to value for money, and as such we have good knowledge of the Corporation's arrangements. However, some do not and to enable us to undertake our planning, and/or risk based procedures, we will require information from the Corporation.

A full copy of AGN03, which includes further details on identification of and some illustrative examples of significant weaknesses, is available on the NAOs website at: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

02

Section 02: **National Publications**

National Publications

	Publication/update	Date published	Key points	Page
National Audit Office				
1	Auditor Guidance Note 03	October 2020	Sets out the framework for auditors work on value for money arrangements effective; 2020./21 audits	11
2	Local auditor reporting application	December 2020	Data on local auditor reporting presented through an interactive map	11
CIPFA				
3	A Guide to Local Authority and Public Sector Asset Management	November 2020	Asset management guidance	11
MHCLG				
4	Local Authority Financial Reporting and external audit: independent review	September 2020	The Redmond report	12
5	Local Authority financial reporting and external audit: government response to the Redmond review	December 2020	MHCLG's response to Sir Tony Redmond's independent review	12
PSAA				
6	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	September 2020	PSAA Audit Quality report	13

NATIONAL PUBLICATIONS

National Audit Office

1. Auditor Guidance Note (AGN) 03, October 2020

The updated AGN03 sets out the approach to value for money for local auditors with effect from 2020/21 audits.

Details are set out in section 1 of this progress report.

2. Local auditor reporting application, December 2020

'*The local auditor reporting application*' presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

CIPFA

3. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

NATIONAL PUBLICATIONS

MHCLG

4. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

5. MHCLG's response to Sir Tony Redmond's independent review, December 2020

MHCLG has published its response to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they *"do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission"*. They added that they *"will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function."*

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Limited

6. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

<https://www.psaa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/>

The PSAA Press release regarding late 2019/20 opinions can be found at:

<https://www.psaa.co.uk/2020/12/news-release-2019-20-audited-accounts/>

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SOUTH TEES DEVELOPMENT CORPORATION

Internal Audit Progress Report

24 February 2021

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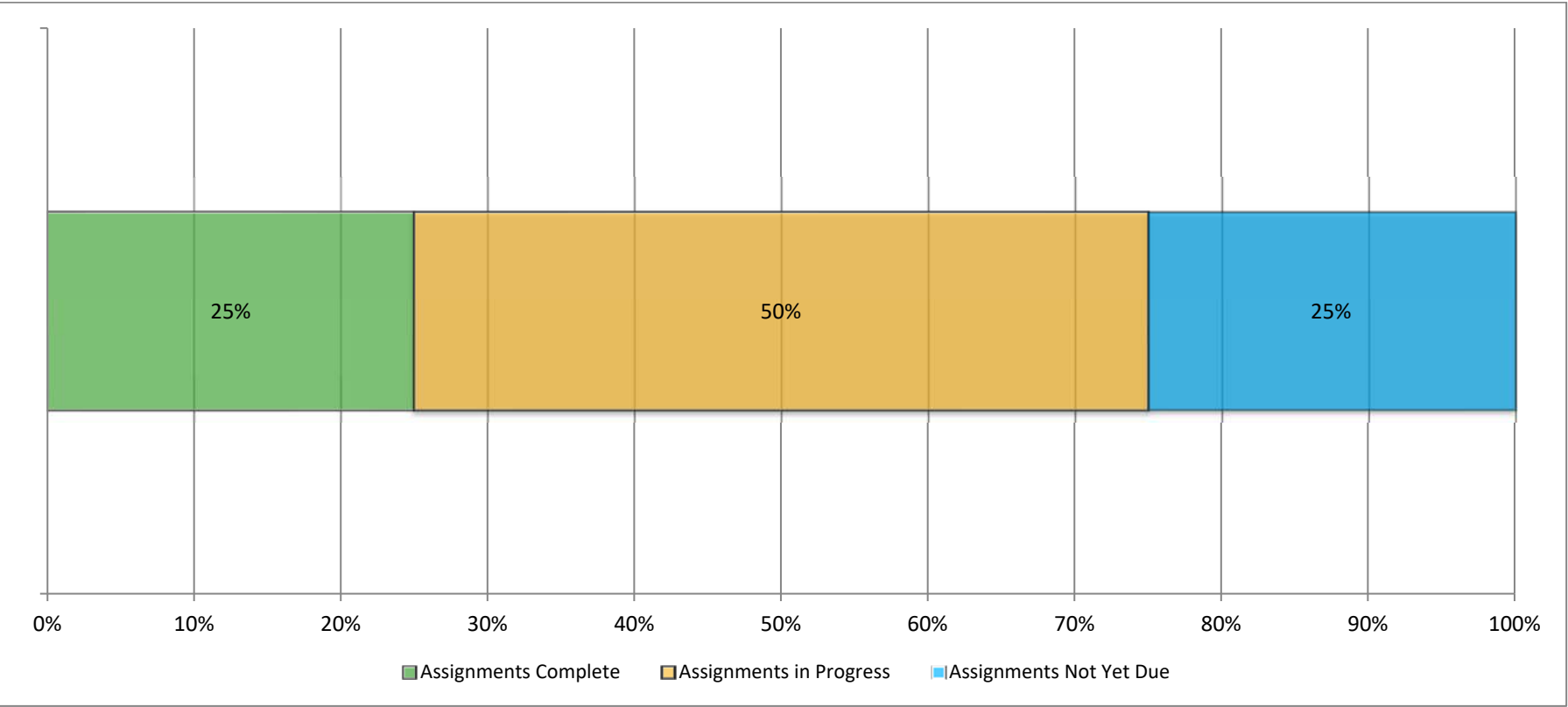
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1 Introduction

The internal audit plan for 2020/21 was approved by the Audit and Risk Committee on 29 July 2020.

The graphic below provides a summary update on progress against the 2020/21 plan.



2 Reports

2.1 Summary of final report being presented to this committee

We have finalised one report since the previous meeting and this is detailed below:

Assignment	Actions agreed		
	L	M	H
Follow Up of Previous Internal Audit Management Actions	1	0	0
<u>Objective of the review:</u>			
To ensure that management actions have been implemented in accordance with the agreed timetable and that any new controls are operating effectively.			
<u>Overall assurance rating and management actions:</u>			
An overall assurance rating of good progress has been given for this review. We have raised one low priority management action. We have summarised the low action below:			
<ul style="list-style-type: none">STDC will ensure that a completed risk management framework is approved by the Board and distributed towards all staff members.			
<u>Context:</u>			
We have undertaken a review to follow up on progress made to implement the previously agreed management actions in respect of the following internal audit reports:			
<ul style="list-style-type: none">Governance;Human Resources: Recruitment and Selection;Budget Setting and Control; andFollow Up of Previous Internal Audit Recommendations.			



Assignment

Actions agreed

L M H

Context:

The focus of this review was to provide assurance that management actions previously reported had been fully implemented. A total of 10 actions from the Budget Setting and Control and Follow Up of Previous Internal Audit Recommendations audits were reported as complete at the Audit and Risk Committee meeting on 16 December 2020. In addition, a further nine actions from the Governance and Human Resources audits have been reported by management as being complete but were omitted from the report submitted to the Audit and Risk Committee meeting on 16 December 2020. We have not followed up any of the actions from the preceding Project Management audit report on the grounds that a separate review of this area is planned to be performed shortly. Similarly, the previous Procurement audit has also been excluded from the scope of this audit as a recent review in this area, covering TVCA and STDC processes, has recently been performed. Therefore, we have followed up a total of 19 management actions, comprised of eight medium and 11 low priority actions.

Appendix A – Progress against the internal audit plan 2020/21

The current Covid-19 situation means that our clients and internal audit are working differently. We understand and recognise the organisation's strategic / primary objectives, and that the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile. We will work closely with management to deliver an internal audit programme which remains flexible and agile to ensure it meets your needs in the current circumstances.

Assignment	Status	Target Audit and Risk Committee
Contingency	Fieldwork scheduled for week commencing 1 March 2021 Area to be agreed with management	May 2021
Key Financial Controls	Planning document issued and approved Fieldwork scheduled for week commencing 8 March 2021 Previously scheduled to take place week commencing 9 November 2020. Review deferred at the request of management.	May 2021
Project Assurance	Planning document issued and approved Fieldwork scheduled for week commencing 15 March 2021	May 2021

Appendix B - Key performance indicators (KPIs)

Delivery			Quality		
	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	3 days (average)	Conformance with PSIAS and IIA Standards	Yes	Yes
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	As and when required
Final report issued within 3 days of management response	3 days	1 day (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working day	-



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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **South Tees Development Corporation**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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SOUTH TEES DEVELOPMENT COPRORATION

Follow Up of Previous Internal Audit Management Actions

Internal audit report 1.20/21

FINAL

10 February 2021

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit / assignment and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test the control framework.

Background

We have undertaken a review to follow up on progress made to implement the previously agreed management actions in respect of the following internal audit reports:

- Governance;
- Human Resources: Recruitment and Selection;
- Budget Setting and Control; and
- Follow Up of Previous Internal Audit Recommendations

The focus of this review is to provide assurance that management actions previously reported have been fully implemented. A total of 10 actions from the Budget Setting and Control and Follow Up of Previous Internal Audit Recommendations audits were reported as complete at the Audit and Risk Committee meeting on 16 December 2020. In addition, a further nine actions from the Governance and Human Resources audits have been reported by management as being complete but were omitted from the report submitted to the Audit and Risk Committee meeting on 16 December 2020. We have not followed up any of the actions from the preceding Project Management audit report on the grounds that a separate review of this area is planned to be performed shortly. Similarly, the previous Procurement audit has also been excluded from the scope of this audit as a recent review in this area, covering TVCA and STDC processes, has recently been performed. Therefore, we have followed up a total of 19 management actions, comprised of eight medium and 11 low priority actions.

In addition to these actions stated as being complete, we also reviewed, at the request of management, a sample of five actions currently stated as being in progress but not yet complete, in order to determine whether the assertions made as to progress were a fair representation of the current status of those actions. We have not included these five actions in the statistics or further actions in this report in order that the reported statistics in respect of actions stated by management as complete are not mis-stated.

Conclusion

Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion South Tees Development Corporation has demonstrated **good progress** in implementing agreed management actions. We were supplied with satisfactory evidence in respect of 16 of the 19 actions declared as complete to the Audit and Risk Committee meeting on 16 December 2020, or subsequently by management. Of the 19 actions we have marked two as superseded on the grounds the original action agreed has subsequently been found to be no longer appropriate, as follows:

- Governance: Committee Structure Management Action 3: Reporting and Committee Terms of Reference. The committees referred to in the original report have since been replaced.
- Budget Setting and Control Management Action 1: Budget Setting and Monitoring Timetable. A rigid budget-setting timetable is not considered appropriate as the nature of STDC's business requires more flexibility than a fixed timetable would allow, although a high level of monitoring is in place.

We also found that considerable progress had been made in respect of the remaining action, which required only submission to the Board and publication to staff in order to be completed, which is scheduled to occur in the next two or three weeks.

In respect of the additional five actions reviewed which were stated by management as being partially implemented, our work identified that this was a fair reflection of progress, and in two instances did not reflect the full achievement of those actions. In summary, these were:

- Budget Setting and Control Management Action 5: Full Management Accounts. Priority: Medium. Currently STDC do not produce full management accounts, however they are looking to have this completed by 31 March 2021 (end of financial year). The delay has partly been due to the large number of stakeholders and other issues attributable to Covid-19. Up-to-date data has been uploaded onto the online system (Agresso) and an external consultant has been brought in to produce the reports.
- Follow-Up Audit Management Action 1: Collation of all project risk registers into a corporate risk register. Priority: Medium. Upon discussion with the Group Risk Manager, we have been informed that the Corporate Risk Register has been reviewed by Senior Management with all risks to be reported to the Audit and Risk Committee. Presentations have been provided which have been shown to the Committee which outline these risks and the current risk management approach. The Group Risk Manager does not believe the risk register needs to be seen by the Board as all information is provided to the Audit and Risk Committee; however, the policy and framework which governs the risk register will go to Board and is scheduled for the February meeting.
- Follow-Up Audit Management Action 2: Staff training on how to deal with different types of information requests. Priority: Low. STDC have a Freedom of Information Policy in place. The Governance and Administration Manager stated that, as far as they were aware, no formal training for staff has been provided, however they were looking to schedule some for this year (although the dates have not been announced).
- Follow-Up Audit Management Action 8: Risk Register Updates. Priority: Medium. We found that this action had been implemented.
- Follow-Up Audit Management Action 9: Risk Register controls. Priority: Medium. We found that this action had been implemented.

We have not raised additional actions in respect of these actions in this report as the original actions are still in progress.

Progress on actions

The following table includes details of the status of each management action:

Implementation status by category of action	Number of actions agreed	Status of management actions			
		Implemented	Implementation ongoing	Not implemented	Superseded
Low	11	10	1	0	0
Medium	8	6	0	0	2
Total:	19 (100%)	16 (84%)	1 (5%)	0 (0%)	2 (11%)

Implementation status by review	Number of actions agreed	Status of management actions			
		Implemented	Implementation ongoing	Not implemented	Superseded
Governance: Committee Structure (Report date: 01.18.19)					
• ACTION 3: Reporting and Committee Terms of Reference	3	2	0	0	1
• ACTION 4: Accountability reporting and criteria					
• ACTION 5: Committee Terms of Reference					
Human Resources: Recruitment and Selection (Report date: 03.18.19)					
• ACTION 1: Recruitment Policy	6	6	0	0	0
• ACTION 2: Recruitment Policy approval step					
• ACTION 3: Candidate scoring					
• ACTION 4: References					

• ACTION 5: Signed contracts					
• ACTION 6: Right to Work					
Budget Setting and Control (Report date: 03.19.20)					
• ACTION 1: Budget Setting and Monitoring Timetable	3	2	0	0	1
• ACTION 3: Budget Re-Forecasting					
• ACTION 4: Action Log					
Follow Up of Previous Internal Audit Actions (Report date: 05.19.20)					
• ACTION 3: Performance Framework					
• ACTION 4: Treasury Management Policy					
• ACTION 5: Risk Management Framework	7	6	1	0	0
• ACTION 6: Risk Scoring Matrix					
• ACTION 7: Risk Register format					
• ACTION 10: Risk Register and opportunities					
• ACTION 12: Risk Appetitive Statement					
Total:	19 (100%)	16 (84%)	1 (5%)	0 (0%)	2 (11%)

2. FINDINGS AND MANAGEMENT ACTIONS

Status	Detail
1	The entire action has been fully implemented.
2	The action has been partly though not yet fully implemented.
3	The action has not been implemented.
4	The action has been superseded and is no longer applicable.
5	The action is not yet due.

Assignment: Follow Up of Previous Internal Audit Actions – Risk Management Framework

Original management action / priority	We will ensure that the risk management framework is up to date and reflects any action identified as a result of this audit, and then communicate the document to all staff within the business. We will then publish the framework in a shared location. Priority: Low			
Audit finding / status	<p>Upon discussion with the Group Risk Manager, we have been informed that the risk management framework has been reviewed and updated and is due to be approved by the Board. It has been sent to the Delivery Group and will then be sent for Board approval.</p> <p>This review has seen numerous revisions, particularly with regards to risk tolerance and appetite. It has also been changed to fit more with STDC as a business.</p> <p>The risk management framework is currently due to be presented at the Audit and Risk Committee for approval where it will then go to the Board for approval. It should be noted that during discussions with the Group Risk Manager and the Head of Finance and Resources it was stated that due to the requirement to harmonise the framework across the enlarged STDC group post transition (in October 2020) the framework could not have been completed and sent to the Audit and Risk Committee and the Board any sooner.</p> <p>As the framework has not been approved by the Board, an action will be raised to ensure that this is completed and that following this staff are sent the framework to follow. The framework has not been published in a shared location.</p> <p>Failure to implement a risk framework could seriously impact the business's ability to identify and combat the risks it faces.</p> <p>2: The action has been partly though not yet fully implemented.</p>			
Management Action 1	STDC will ensure that a completed risk management framework is approved by the Board and distributed towards all staff members. The framework should also be available to all staff in shared location.	Responsible Owner: Project Services Consultant	Date: 31 March 2021	Priority: Low

APPENDIX A: DEFINITIONS FOR PROGRESS MADE

The following opinions are given on the progress made in implementing actions. This opinion relates solely to the implementation of those actions followed up and does not reflect an opinion on the entire control environment.

Progress in implementing actions	Overall number of actions fully implemented	Consideration of high priority actions	Consideration of medium priority actions	Consideration of low priority actions
Good	75% +	None outstanding.	None outstanding.	All low actions outstanding are in the process of being implemented.
Reasonable	51 – 75%	None outstanding.	75% of medium actions made are in the process of being implemented.	75% of low actions made are in the process of being implemented.
Little	30 – 50%	All high actions outstanding are in the process of being implemented.	50% of medium actions made are in the process of being implemented.	50% of low actions made are in the process of being implemented.
Poor	< 30%	Unsatisfactory progress has been made to implement high priority actions.	Unsatisfactory progress has been made to implement medium actions.	Unsatisfactory progress has been made to implement low actions.

APPENDIX B: ACTIONS COMPLETED OR SUPERSEDED

From the testing conducted during this review we have found the following actions to have been fully implemented and superseded.

Assignment title	Management actions
Governance: Committee Structure - Reporting and Committee Terms of Reference	<p>Status: Superseded</p> <p>The Corporation will:</p> <ul style="list-style-type: none"> • add meeting details of the Energy and Utilities Task and Finish Group and the Design Guidelines Task and Finish Group to the existing committee schedule. • review the committee meeting schedule on a periodic basis to ensure that the details accurately reflect the meetings that have taken place. • designate a secondary secretariat if the nominated secretariat is not in attendance • ensure that action plans deriving from meetings have been drawn up after each meeting for the Energy and Utilities Task and Finish Group, and the Negotiating Advisory Group. • insert an action due date column within the actions plans. This date should be the dates of subsequent meetings. <p>Priority: Medium</p>
Governance: Committee Structure - Accountability reporting and criteria	<p>Status: Implemented</p> <p>The Corporation will define accountability reporting and criteria for committees within the committees' terms of reference. This will include details on the frequency of accountability reporting</p> <p>Priority: Low</p>
Governance: Committee Structure - Committee Terms of Reference	<p>Status: Implemented</p> <p>The Corporation, as part of their Annual Review, will update the terms of reference to specify:</p> <ul style="list-style-type: none"> • frequency of reporting from the committees to the Board; an • medium(s) to carry out the reporting e.g. written report, oral. <p>Priority: Low</p>

Human Resources – Recruitment Policy Board Approval	<p>Status: Implemented</p> <p>The current working note will be further developed and presented to the relevant senior management team or committee for approval as a formal Recruitment Policy.</p> <p>Priority: Medium</p>
Human Resources – Recruitment Policy Approval Step	<p>Status: Implemented</p> <p>The current working note incorporates an approval step and therefore this will be formalised with the Recruitment Policy. The policy will include an authorisation to recruit form and a method of capturing approval for bulk recruitment.</p> <p>Priority: Low</p>
Human Resources – Candidate Scoring	<p>Status: Implemented</p> <p>A method for scoring candidates at the interview stage is being developed as part of the process of documenting the recruitment procedure. The planned process includes for scoring of all candidates to be retained for a three-month period, after which they will be destroyed.</p> <p>Priority: Medium</p>
Human Resources – References	<p>Status: Implemented</p> <p>Since March 2018 references have been obtained directly and STDC will continue with this practice. The process will be detailed in the Recruitment Policy for clarity.</p> <p>Priority: Low</p>
Human Resources – Signed Contracts	<p>Status: Implemented</p> <p>All remaining employees will be requested to sign and return their contract of employment.</p> <p>Priority: Low</p>
Human Resources – Right to Work	<p>Status: Implemented</p> <p>The Procurement Manager will, on return to work, obtain a copy of the missing passport from the absent employee.</p> <p>Priority: Low</p>

Budget Setting and Control – Budget Setting and Monitoring Timetable	<p>Status: Superseded</p> <p>We will formalise and document a budget setting and monitoring timetable for 2020/21 onward.</p> <p>Priority: Medium</p>
Budget Setting and Control – Budget Re-Forecasting	<p>Status: Implemented</p> <p>We formalise the budget re-forecasting process so that forecasts are reviewed and adjusted, if required, three times a year (in line with every second meeting of the Audit and Risk Committee).</p> <p>Priority: Medium</p>
Budget Setting and Control – Action Log	<p>Status: Implemented</p> <p>We will maintain an action log for the monthly Finance Meetings to ensure the outcomes of these meetings, or any actions raised during them, are monitored.</p> <p>Priority: Medium</p>
Follow Up of Previous Internal Audit Actions – Performance Framework	<p>Status: Implemented</p> <p>The Corporation will ensure that a performance framework will be created, in conjunction with the development of the business plan. Realistic and sufficiently challenging measures and key performance indicators will be incorporated, and performance will be reported against the Corporation's stated objectives included in the constitution, Master Plan and the business plan (when this document is produced).</p> <p>All measures will clearly link into expected outcomes and the Master Plan.</p> <p>Priority: Medium</p>
Follow Up of Previous Internal Audit Actions – Treasury Management Policy	<p>Status: Implemented</p> <p>STDC will perform a review of the TVCA Treasury Management Policy, adding or removing any provisions that do not relate to STDC.</p> <p>The updated Treasury Management Policy will be presented to the Corporation for scrutiny and approval.</p> <p>Priority: Medium</p>
Follow Up of Previous Internal Audit Actions – Risk Scoring Matrix	<p>Status: Implemented</p> <p>We will review the risk scoring matrix to ensure it is in line with best practice and reflects the approved risk appetite of the organisation.</p> <p>Priority: Low</p>

Follow Up of Previous Internal Audit Actions – Risk Register and Strategic Delivery Priorities	<p>Status: Implemented</p> <p>We will review the format of the risk register to allow a reference to one or more of the strategic delivery priorities of the organisation.</p> <p>Priority: Low</p>
Follow Up of Previous Internal Audit Actions – Risk Register and opportunities	<p>Status: Implemented</p> <p>We will record the impact of the potential opportunities identified, should the opportunity be realised or missed / not taken.</p> <p>This new requirement will be included in the risk management framework and communicated to risk owners.</p> <p>Priority: Low</p>
Follow Up of Previous Internal Audit Actions – Risk Appetitive Statement	<p>Status: Implemented</p> <p>An exercise is already planned for October 2019 to formulate a risk appetite statement and a tolerance level for each of the risk types, which is in line with the Corporation's Delivery Strategy.</p> <p>We will ensure that the Risk Management Framework is updated to reflect the outputs of this exercise, and the risk appetite statement and tolerance levels are communicated to all staff.</p> <p>Priority: Low</p>

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal audit assignment has been scoped to provide assurance on how South Tees Development Corporation manages the following area:

Objective of the area under review

To ensure that management actions have been implemented in accordance with the agreed timetable and that any new controls are operating effectively.

Scope of the review

The following areas will be considered as part of the review:

- Governance (2018/19)
- Human Resources: Recruitment and Selection (2018/19)
- Budget Setting and Control (2019/20)
- Follow Up of Previous Internal Audit Management Actions (2019/20)

The following limitations apply to the scope of our work:

- We will not review the management actions raised as part of the procurement review. These have been considered as part of a separate review.
- The follow up will only cover management actions agreed in the identified reports and we will not consider low management actions previously raised.
- We will not review the whole control framework of the areas listed above. Therefore, we are not providing assurance on the entire risk and control framework of these areas.
- We will not follow up any actions raised during advisory reviews.
- Where sample testing will be undertaken, our samples will be selected over the period since actions were implemented or controls enhanced.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	25 January 2021
Draft report issued	28 January 2021
Revised draft report issued	9 February 2021
Responses received	8 February 2021
Final report issued	10 February 2021

Internal audit Contacts	Rob Barnett, Head of Internal Audit Philip Church, Client Manager Michael Gibson, Assistant Manager Oliver Gascoigne, Auditor
Client sponsor	Mike Russell, Head of Finance and Resources
Distribution	Mike Russell, Head of Finance and Resources

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **South Tees Development Corporation**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

AGENDA ITEM 10

REPORT TO THE AUDIT AND RISK COMMITTEE

24th FEBRUARY 2021

REPORT OF HEAD OF FINANCE AND RESOURCES

PROGRESS AGAINST INTERNAL AUDIT ACTIONS

SUMMARY

The purpose of this report is to provide an update on progress against internal audit actions.

RECOMMENDATIONS

It is recommended that the Audit and Risk Committee notes the content of this report.

DETAIL

1. In previous meetings of ARC progress has been reported against 35 carried in Internal Audit Actions from the following reports:
 - a. Budget Setting and Control;
 - b. Follow Up of 2018/19 Actions;
 - c. Procurement; and,
 - d. Project Management.
2. Since the last report to ARC RSM has undertaken a follow up exercise on previous audit recommendations carried in to 2020/21. In commissioning this work a further two outstanding audit reports were identified that had not been handed over to the Head of Finance and Resources following changes of responsibility in the Group.
3. These reports covered.
 - a. Governance; and,
 - b. Human Resources, Recruitment, and selection
4. Together these reports included a further nine actions that have now been included in the delivery statistics below for review by ARC.

PROGRESS IN DELIVERING ACTIONS

5. Including the additional actions captured from the Governance and Human Resources reports STDC had 44 outstanding actions of which 28 are marked as complete or superseded (20 are validated as completed or superseded via the recent follow up audit)
6. The 16 remaining are being progressed by management and have action plans in place.
7. Analysis of progress by report and priority level is provided below:

Outstanding actions	Report date	IA closed	Action status			Total
			Mgt completed	In progress	Superseded	
Budget setting and control	Feb-20	2	-	1	1	4
Follow up of 2018/19 actions	May-20	8	2	2	-	12
Procurement	Jan-20	-	5	-	-	5
Project Management	Apr-20	-	1	13	-	14
Governance	Jan-19	2	-	-	1	3
Human Resources Recruitment and Selection	Mar-19	6	-	-	-	6
Total		18	8	16	2	44
<i>High priority</i>		-	-	2	-	2
<i>Medium Priority</i>		8	4	9	2	23
<i>Low Priority</i>		10	4	5	-	19
Total		18	8	16	2	44

8. **Project Management** – The project management advisory report accounts for 13 of the 16 actions that remain in progress. A detailed project report has been produced in respect of PMO delivery, which is appended to this report. This includes tracking of delivery against the specific Internal Audit actions
9. **Follow up** – Two actions remain outstanding from the 2018/19 follow up audit as follows:
 - a. **Freedom of information** – The policy has been implemented, however training has yet to take place partially due to home working and Covid (this would be typically a TVCA group -wide all staff office session)
 - b. **Updating of risk management framework** – This is substantially complete subject to committee and Board approval and onward circulation. The updated framework is included as an agenda item for this meeting.
10. **Budget setting and control** – An action exists around the development of “full management accounts”. Significant progress has been made with management accounts outputs which are provided to STDC delivery Group via Performance Group. This action will not however be marked as complete until fully systemised reporting is enabled.
11. A detailed report on PMO progress is included as **Appendix 1**. An extract from the internal Audit recommendations log showing in progress actions is provided as **Appendix 2**
12. The Internal Audit follow up report referred to in this paper is included as a separate agenda item

FINANCIAL IMPLICATIONS

13. This report has no direct financial implications.

LEGAL IMPLICATIONS

14. This report has no direct legal implications

RISK ASSESSMENT

15. Monitoring of internal audit actions is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

16. The internal audit log has been circulated amongst relevant action holders and feedback captured.

17. Feedback from the recent 2019/20 Internal Audit follow up report is also reflected in this paper.

EQUALITY & DIVERSITY

18. No specific impacts on groups of people with protected characteristics have been identified

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Teesworks PMO Development

Audit Recommendations

Progress Report

22nd January 2021

V0.1



Members of the SNC-Lavalin Group

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Revision History

Revision	Summary of changes	Author	Checked by	Approved	Issue date
V0.0	Draft template created for discussion	C Morley			14 Jan 2021
V0.1	Populated for STDC review and approval	C Morley	K Whitfield	J McNicholas	22 Jan 2021

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0.0 Introduction

Discovery

The main target of Q4 of 2020 involved the ‘Discovery’ phase of the PMO Development process. Having been appointed by STDC on 16th October 2020, the F+G and Atkins PMO Development team worked quickly to mobilise subject matter experts from across the group global PMO and Programme Management Leadership Teams. This allowed best practice and lessons learned to be gathered from current PMOs and Programmes that have been set up and are being managed by the group.

Existing artefacts from STDC were gathered and reviewed, along with STDC templates and existing supplier templates that were being used on active projects across the site. Early engagement with projects and commissions on the Teesworks site that are being led by Atkins and Faithful+Gould bolstered the learning and experience that was able to be gathered from activities in progress across the site.

Due to the complex nature of the programme and variety of different commissions and projects required to transform the Teesworks site, an integrated organisation was needed to share specialist knowledge of the programme and site processes. Therefore, key STDC stakeholders were incorporated into the development team to act as advisors and help to shape the development of the PMO.

Design

The research led to a twin workstream approach with two objectives being agreed to satisfy short and long term aims. An agile ‘bottom up’ approach allowed governance to be increased on current activities, while also allowing the standards to be trialed so that the experiences could be recorded and incorporated into the project management approach, with the following two objectives:

Objective 1: Audit Compliance

As part of the PMO design process and to encourage improvements in governance and control over existing projects in progress on the programme, Objective 1 involved developing a suite of templates to be launched to key commissions. A Project Execution Plan template was developed which defines

the minimum standards that are to be applied on projects, while also being flexible enough to be adaptable to both professional services and construction or works contracts.

The template was developed by identifying and combining the appropriate standards and principles from STDC policies, Teesworks site policies and project management standards, including but not limited to the following documents:

- STDC Audit Recommended Actions Report
- STDC Assurance Framework
- STDC Risk Management Framework
- STDC Delegation Scheme
- STSC Safety Management Systems, Policies and Procedures
- Government Functional Standard - GovS 002: Project delivery (Portfolio, programme and project management)

A monthly progress report has also been developed that will provide an interim standard for monitoring progress and retaining learning from the current commissions working on the programme. The report is being rolled out in two phases, with phase 1 being a standard progress report format with the following sections:

- Project Data
- Executive Summary
- Environment, Health, Safety and Security
- Schedule
- Commercial
- Quality and Lessons Learned
- Risks and Opportunities
- Issues and Actions Required
- Social Benefits

The report includes standardised metrics that will be tracked and includes space for the commission to report the reason for any variances within the previous period.

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0.0 Introduction

Phase 2 is planned to include the roll out of more detailed templates which form the appendices of the monthly report. These include:

- Commercial Data Schedule – This will be in line with the requirements of the Programme Data Model to reduce the demand on STDC stakeholders in preparing the dashboards.
- Risk Register – This is being refined by STDC and will be compatible with the STDC Risk Management Framework.
- Schedule – To enable the monitoring of progress and key milestones.
- Change Log – A standard change log template will be provided to be used where one isn't automatically populated by a contract management platform, so that potential change can be tracked and monitored.

Objective 2 – PMO Development

The second objective will achieve the development of the structure of the PMO which will support the STDC Responsible Directors and Project Managers in the administration and reporting of projects across the programme.

The period to date has involved a variety of workshops to build upon the elements identified during the 'Discovery' phase, including developing the initial building blocks of the programme structure which will both encompass the current projects and be able to apply to future projects which are currently not defined. The building blocks include:

- Project Coding
- Programme Breakdown Structure
- Work Breakdown Structure
- Project Naming Convention
- Project Data Model

An outline roadmap has been developed to set out how the various standards and controls will be developed. This will be expanded upon during the next period.

Planned Progress

During the month of February the engagement with suppliers and roll out of the PEP and Reporting Templates will continue and reach completion by the end of the month, with all completed PEP documents due to be returned by suppliers. The feedback and learning will be gathered and incorporated into the Objective 2 outputs to help create a smooth transition.

The roadmap and schedule for the development of the PMO will be further developed and refined, identifying the blueprint of the PMO and how the standards and controls will all knit together and interact with each other. Each section of the PMP will then be progressed by the relevant workstream leads with the input of key STDC stakeholders. The finalisation and agreement of the building blocks of the programme structure and feedback will enable this.

The project-level Navigator dashboards will be available for use by STDC and the trial launch of the CEMAR contract management platform will progress, with the system going live before the end of the month and a period of 'life support' provided to help the stakeholders become accustomed to the system.

The long term information management and technology options for the programme will also be scoped, reviewed and an options appraisal provided the STDC for consideration.

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0.1 Executive Summary

Objective 1 – Audit Compliance

Audit Recommended Actions

- PEP Template, PMO Roadmap and PMO Development Schedule issued on 8th January as an interim update.
- Audit Recommendations Progress Report and Actions Tracker developed and issued on 22nd January.

Commission Templates

- Bespoke programme specific Project Execution Plan and Monthly Progress Report templates developed.
- Commenced the Supplier Engagement Sessions to review the commissions and commence the roll out of the templates.

Contract Administration Platform

- Developed a Contract Administration Platform Options Appraisal Report to allow STDC to make an informed decision on the most appropriate platform.
- Agreed and commenced the procurement method for the trial launch of CEMAR on a commission.

Objective 2 – PMO Development

Discovery

- Collected and reviewed of existing artefacts from across the STDC programme.
- Commission data collected to gain a better understanding of the activities in progress on the programme.
- Engagement with key stakeholders from STDC and the F+G / Atkins group technical leadership group to gather best practice and lessons learned.
- Held a series of workshops with STDC key stakeholders to review current processes and develop the detail of each workstream.

Governance

- Developed a template for the Programme Management Plan.
- Work in progress initial drafting of governance section of the PMP.
- Identified a proposed draft governance level structure for the Programme.

- Developed the initial PMO Development schedule and roadmap.

Project Structure and Controls

- Currently developing the breakdown structure of the programme to agree the definition of a project.
- Developing a lifecycle that can be adaptable to apply to the various types of commissions or projects.
- Developed a programme data model and gathering STDC Payment Applications data to be incorporated into the model to allow business intelligence dashboarding through the F+G Navigator platform.

Reporting

- Gathered the BEIS report template so that the metrics can be incorporated into the PMP Reporting Standard.
- Currently obtaining the wider STDC Reporting and Meeting schedule so that the structure can be developed to suit.

Commercial and Cost Management

- Held workshops with STDC Finance and Procurement to review existing policies and processes.
- Participated in a coding workshop to enable the development of the project coding structure.

Risk Management

- Initial workshop with STDC Risk Management to review existing policies and processes.
- Reviewed the STDC Risk Management Framework to be align the PMP development to.

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0.2 Key Milestones

Ref.	Milestone	Target Date
PMO01	Project Execution Plan Finalised	Complete
PMO02	Monthly Progress Report (Phase 1) Finalised	Complete
PMO03	First Supplier Engagement Session	Complete
PMO04	First Project Execution Plan to be returned	03/02/2021
PMO05	Final Supplier Engagement Session	12/02/2021
PMO06	Final Project Execution Plan to be returned	26/02/2021
PMO07	Monthly Progress Report (Phase 2) Finalised	05/02/2021
PMO08	First Reporting Period	March
PMO09	Project Level Navigator Dashboard Available	25/02/2021
PMO10	Task Order Level Navigator Dashboard Available	08/04/2021
PMO11	CEMAR Launch on Live Commission	22/02/2021
PMO12	Programme Management Plan Governance	26/02/2021
PMO13	Programme Management Plan Controls	08/04/2021
PMO14	Programme Management Plan Reporting	30/03/2021
PMO15	Programme Management Plan Commercial	18/03/2021
PMO16	Programme Management Plan Cost Management	31/03/2021
PMO17	Programme Management Plan Risk Management	05/03/2021
PMO18	Programme Management Plan Information Management	29/03/2021
PMO19	Programme Management Plan Technology Options	08/04/2021

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1.0 Project Management Approach

Priority:



Define and agree the requirements for a STDC project management approach. The approach should:

- Be based on a number of principles that can be applied to all STDC projects regardless of their size or complexity.*
- Align to your STDC's policies, standards and approached to governance and control.*
- Recognise the context in which STDC operates e.g. any relevant standards, regulatory frameworks or statutory requirements.*
- Interface with the lifecycle models in use by the projects e.g. RIBA stages.*
- Scale to allow for the appropriate levels of governance and control for projects of different complexities.*
- Include levels of delegated authority.*
- Flex to allow individual project managers the freedom to adapt to changing circumstances.*
- Not be so prescriptive and detailed that it becomes bureaucratic and unused by your project managers.*
- Define the minimum standards that STDC's project management partner(s) should apply when managing projects on your behalf.*

Objective 1

- The Teesworks Programme Management Plan (PMP) is under development as part of Objective 2, which will clearly define the approach and enable it to be communicated across the programme.
- The PEP has been developed by reviewing the nature of the commissions it was to be implemented on, which includes both works activities and professional services. The main principles that have been included in the PEP were developed to suit both scenarios, with sections for completion by the commission to make the document specific to the commission itself.
- The development of the PEP has been carried out to complement key STDC policies and governance standards, such as the STDC Assurance Framework; the STDC Risk Management Framework and STDC Delegation Scheme.
- An initial commission change control process has been developed and included in the PEP, so that the process and levels of delegated authority can be trialed.

- The PMP will be developed with the knowledge that the programme incorporates a variety of projects that will require flexible approaches. The implementation of the PEP on a range of commissions will provide learning that will help this development.
- The minimum standards have been identified within the PEP.

Objective 2

- An interim Project Execution Plan (PEP) has been developed during Objective 1 and is in the progress of being implemented on key commissions that are currently active on the programme.
- The PMP is being designed to be flexible so that it applies to the variety of projects involved in the programme. This will involve monitoring the implementation of the PEP, so that any learning can be incorporated in order to optimise the flexibility of the principles.
- The PMP will be developed in line with these existing policies and the integration of key STDC stakeholders into the design phase will further support the implementation of this recommendation.
- The PMP will list the relevant standards and frameworks that need to be adhered to and provide guidance on how these should be applied on projects.
- A bespoke lifecycle model or models (as required) will be developed to be applied to the various types of projects required during the programme.
- A project level PEP will be developed and a commission level plan is being finalised. A lighter version management plan may be considered for lower complex commissions (e.g. surveys).
- Learnings from the use of the change control process will then be used to further develop the processes and workflows developed for inclusion in the PMP.
- The PMO will aim to reduce the burden of the administration of project management rather than adding to it, allowing the project managers to deal with technical aspects of the projects.
- The standards will be further developed and refined during the development of the PMP.

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2.0 Governance and Control

Priority:



In the absence of a defined STDC approach, define a set of principles that STDC will apply for governance and controls and the standards they require of their project management service provider(s). These should later be incorporated into the STDC project management approach.

Objective 1

- The PEP has been developed to define these principles in the interim while the defined STDC programme level approach is developed.

Objective 2

- The adoption of the PEP and integration of governance and controls will then be used to inform the PMP and therefore the STDC Project Management Approach.

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3.0 Mandate and Business Case

Priority:



Within the STDC project management approach, formalise the handover of the mandate, business case, etc. to project managers, and consider also how project managers can contribute to the pre-handover activities.

Objective 2

- The PMP will incorporate business case accountability and decision-making levels of authority.

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4.0 Lessons Learned

Priority:



Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in particular when starting up and initialising projects.

Objective 1

- Within the monthly progress report template, a section is dedicated to Quality and Lessons Learned, requiring the commissions to track internal audits carried out and the subsequent outputs on a monthly basis.

Objective 2

- Formal lessons learned sessions will be included as requirements of the stage gate process at the end of each lifecycle stage in the PMP."

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5.0 Roles and Responsibilities

Priority:



Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.

Objective 1

- Within the PEP the project governance structure identifies the high-level roles and responsibilities of key stakeholders such as the STDC Delivery Group, STDC Responsible Director, STDC Project Manager, STDC PMO and Commission Lead.

Objective 2

- This will be developed further for the PMP including additional detail on the Programme Governance, Programme Organogram, Programme RACI, etc, which will all be presented to stakeholders in upskilling sessions to ensure that all roles and responsibilities are clearly defined and understood."

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6.0 Levels of Authority

Priority:



Allow the project managers control over project budgets within defined levels of authority once Agresso systems are rolled out.

Objective 1

- An initial commission change control process has been developed and included in the PEP, so that the process and levels of delegated authority can be trialed.

Objective 2

- Learnings from the use of the change control process will then be used to further develop the processes and workflows developed for inclusion in the PMP.

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7.0 Establish a PMO

Priority:



Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.

Objective 2

- The activities behind this item are detailed in the PMO Development schedule, which will lead to the launch of the PMO and be included as an appendix of the Audit Recommendations Progress Report.

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8.0 Assurance Model

Priority:



Formalise a project assurance model to sit alongside the enterprise risk management framework such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well managed way. Consider a "three-lines of defence" approach:

- The 1st line is the project management team.*
- The 2nd line is the project management office.*
- The 3rd line is the internal audit and/or specialist external assurance.*

Objective 1

The PEP identifies the STDC Project Manager as the first line of defence, with the PMO providing support as the second line and the third being the STDC Accountable Director.

Objective 2

- The PMP will develop this further with the final project level assurance model being developed in line with the STDC Assurance framework.

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9.0 Decision Making Workflows

Priority:



Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).

Objective 1

- The change control process detailed within the PEP and introduction of the CEMAR contract management platform will initially provide this functionality.

Objective 2

- Detailed workflows will be developed for inclusion in the PMP and programme level tech platforms will be researched for suitability of the requirements of the programme.

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10.0 Project Initiation Route Map

Priority:



Apply HM Treasury and Infrastructure and projects Authority (IPA)’s Project Initiation Routemap for larger projects. The Routemap (and its supporting modules) offers diagnostics and references for strategic decision-making during project initiation by addressing the most common capability gaps that sponsors and clients need to enhance for asset-rich infrastructure projects.

Objective 2

The HM Treasury and Infrastructure and projects Authority (IPA)'s Project Initiation Route map for larger projects will be reviewed, and the requirements aligned into the PMP.

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11.0 Key Performance Indicators

Priority:



Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.

<Add additional detail here...>

Objective 1

- KPIs that are in line with the requirements of the Assurance Framework BEIS report have been introduced as part of the Monthly Progress Report.

Objective 2

- More detailed Portfolio / Programme KPIs are to be developed in line with STDC requirements and incorporated into the PMP.

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12.0 Boards and Committees

Priority:



Re-align the terms of reference of the boards and committees to best practice portfolio management (see AXELOS Limited's Management of Portfolios (MoP) for further guidance. The current project groupings could provide the basis of a portfolio structure, and the Planning and Infrastructure Committee could provide oversight of the portfolios in terms of providing investment / prioritisation.

- This will be managed directly by STDC, with any requirements incorporated into the PMP where appropriate.

<Add additional detail here...>

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13.0 Awareness of Responsibilities

Priority:



Ensure that senior management and other executives in a decision-making role within STDC understand their responsibilities in a project-driven environment.

<Add additional detail here...>

Objective 1

- Within the PEP the project governance structure identifies the high-level roles and responsibilities of key stakeholders such as the STDC Delivery Group, STDC Responsible Director, STDC Project Manager, STDC PMO and Commission Lead

Objective 2

- This will be developed further for the PMP including additional detail on the Programme Governance, Programme Organogram, Programme RACI, etc, which will all be presented to stakeholders in upskilling sessions to ensure that all roles and responsibilities are clearly defined and understood.

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14.0 Resourcing Requirements

Priority:



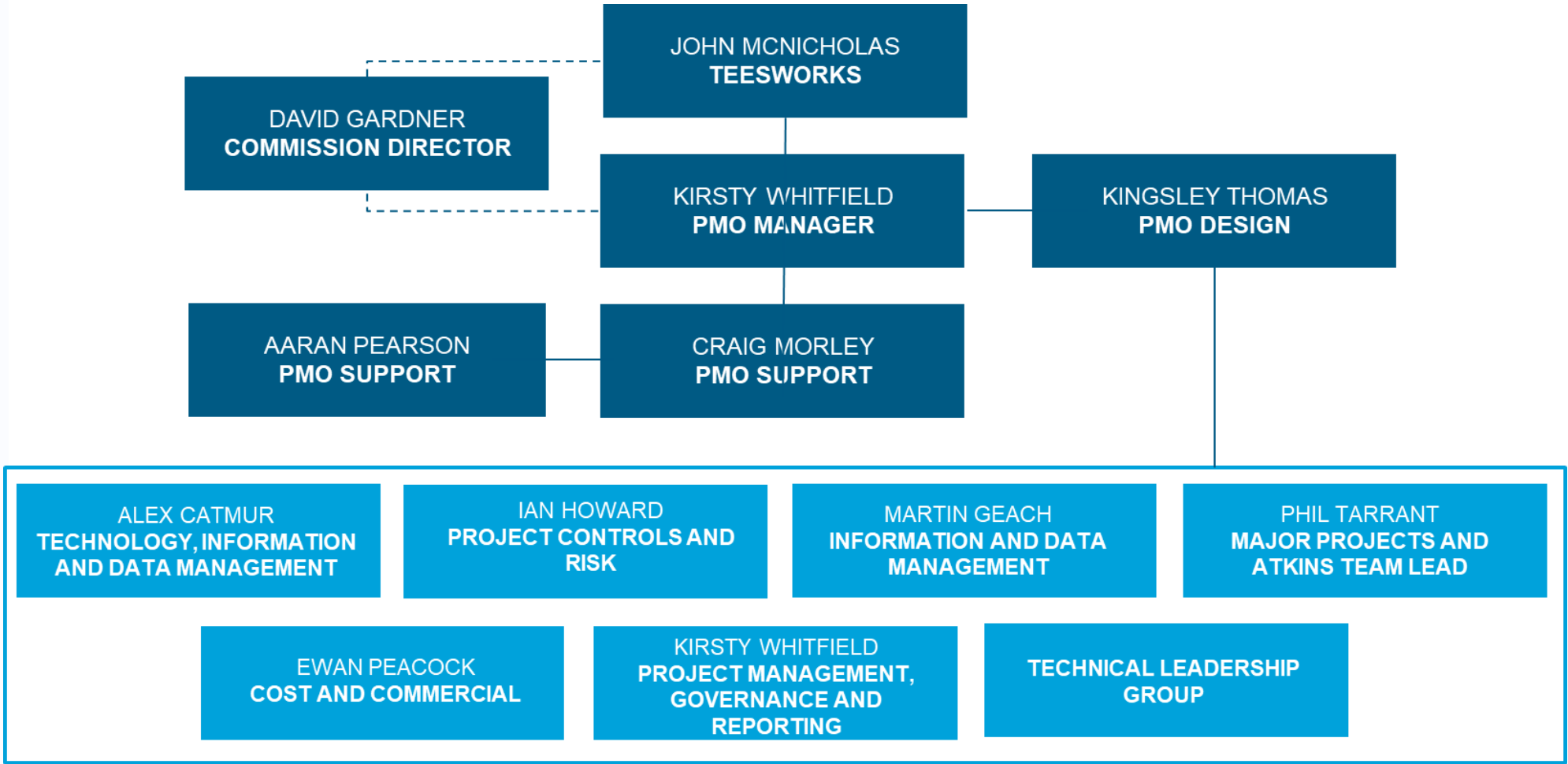
Assess resourcing requirements for client-side project management activities and resolve ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.

Objective 2

- A full programme level organogram will be developed to identify resource requirements, which will need to be flexible to allow for the fluctuations in demand dictated by developments coming online.

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Appendix A Organogram



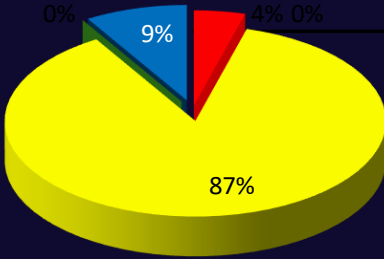
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Appendix B Schedule

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Appendix C Implementation Tracker

Teesworks PMO - Audit Recommendations Implementation Tracker



Job No: 519 2474
Date: 12/02/2021

Ref	Recommendation Title	Priority	Audit Report Implementation Date	Recommendation Wording	Action Summary	Objective 1 Output	Objective 2 Output	Relevant PMP Section	Owner	Target Date	Status
1	Project Management Approach	Medium	31/01/2021	Define and agree the requirements for a STDC project management approach. The approach should:	<p>Objective 1</p> <ul style="list-style-type: none"> The Teesworks Programme Management Plan (PMP) is under development as part of Objective 2, which will clearly define the approach and enable it to be communicated across the programme. <p>Objective 2</p> <ul style="list-style-type: none"> An interim Project Execution Plan (PEP) has been developed during Objective 1 and is in the progress of being implemented on key commissions that are currently active on the programme. 	Project Execution Plan	Programme Management Plan	All	Kirsty Whitfield F+G	08/04/2021	In Progress
1a	Project Management Approach (Adaptability)	Medium	31/01/2021	• Be based on a number of principles that can be applied to all STDC projects regardless of their size or complexity.	<p>Objective 1</p> <ul style="list-style-type: none"> The PEP has been developed by reviewing the nature of the commissions it was to be implemented on, which includes both works activities and professional services. The main principles that have been included in the PEP were developed to suit both scenarios, with sections for completion by the commission to make the document specific to the commission itself. <p>Objective 2</p> <ul style="list-style-type: none"> The PMP is being designed to be flexible so that it applies to the variety of projects involved in the programme. This will involve monitoring the implementation of the PEP, so that any learning can be incorporated in order to optimise the flexibility of the principles. 	Project Execution Plan	Programme Management Plan	All	Kirsty Whitfield F+G	08/04/2021	In Progress
1b	Project Management Approach (Aligned to STDC Policies)	Medium	31/01/2021	• Align to your STDC's policies, standards and approaches of governance and control.	<p>Objective 1</p> <ul style="list-style-type: none"> The development of the PEP has been carried out to complement key STDC policies and governance standards, such as the STDC Assurance Framework; the STDC Risk Management Framework and STDC Delegation Scheme. <p>Objective 2</p> <ul style="list-style-type: none"> The PMP will be developed in line with these existing policies and the integration of key STDC stakeholders into the design phase will further support the implementation of this recommendation. 	Project Execution Plan	Programme Management Plan	2.2 Governance	Kirsty Whitfield F+G	26/02/2021	Implementation Process
1c	Project Management Approach (Fit into Context)	Medium	31/01/2021	• Recognise the context in which STDC operates e.g. any relevant standards, regulatory frameworks or statutory requirements.	<p>Objective 2</p> <ul style="list-style-type: none"> The PMP will list the relevant standards and frameworks that need to be adhered to and provide guidance on how these should be applied on projects. 	N/A	Programme Management Plan	2.2 Governance	Kirsty Whitfield F+G	26/02/2021	In Progress
1d	Project Management Approach (Interface with Lifecycle Models)	Medium	31/01/2021	• Interface with the lifecycle models in use by the projects e.g. RIBA stages.	<p>Objective 2</p> <ul style="list-style-type: none"> A bespoke lifecycle model or models (as required) will be developed to be applied to the various types of projects required during the programme. 	N/A	Programme Management Plan	2.1 Lifecycle	Kingsley Thomas F+G	11/02/2021	In Progress
1e	Project Management Approach (Scalable)	Medium	31/01/2021	• Scale to allow for the appropriate levels of governance and control for projects of different complexities.	<p>Objective 2</p> <ul style="list-style-type: none"> A project level PEP will be developed and a commission level plan is being finalised. A lighter version management plan may be considered for lower complex commissions (e.g. surveys). 	N/A	Programme Management Plan	2.2 Governance	Kirsty Whitfield F+G	26/02/2021	In Progress
1f	Project Management Approach (Delegation of Authority)	Medium	31/01/2021	• Include levels of delegated authority.	<p>Objective 1</p> <ul style="list-style-type: none"> An initial commission change control process has been developed and included in the PEP, so that the process and levels of delegated authority can be trialled. <p>Objective 2</p> <ul style="list-style-type: none"> Learnings from the use of the change control process will then be used to further develop the processes and workflows developed for inclusion in the PMP. 	Project Execution Plan	Programme Management Plan	3.5 Change	Ewan Peacock F+G	05/03/2021	In Progress
1g	Project Management Approach (Flexibility)	Medium	31/01/2021	• Flex to allow individual project managers the freedom to adapt to changing circumstances.	<p>Objective 1</p> <ul style="list-style-type: none"> The PMP will be developed with the knowledge that the programme incorporates a variety of projects that will require flexible approaches. The implementation of the PEP on a range of commissions will provide learning that will help this development. 	N/A	Programme Management Plan	2.2 Governance	Kirsty Whitfield F+G	26/02/2021	In Progress
1h	Project Management Approach (Usability)	Medium	31/01/2021	• Not be so prescriptive and detailed that it becomes bureaucratic and unused by your project managers.	<p>Objective 2</p> <ul style="list-style-type: none"> The PMO will aim to reduce the burden of the administration of project management rather than adding to it, allowing the project managers to deal with technical aspects of the projects. 	N/A	Programme Management Office	All	Kirsty Whitfield F+G	08/04/2021	In Progress

Ref	Recommendation Title	Priority	Audit Report Implementation Date	Recommendation Wording	Action Summary	Objective 1 Output	Objective 2 Output	Relevant PMP Section	Owner	Target Date	Status
1i	Project Management Approach (Minimum Standards)	Medium	31/01/2021	• Define the minimum standards that STDC's project management partner(s) should apply when managing projects on your behalf.	<u>Objective 1</u> • The minimum standards have been identified within the PEP. <u>Objective 2</u> • The standards will be further developed and refined during the development of the PMP.	Project Execution Plan	Programme Management Plan	All	Kirsty Whitfield F+G	08/04/2021	In Progress
2	Governance and Control	High	31/10/2020	In the absence of a defined STDC approach, define a set of principles that STDC will apply for governance and controls and the standards they require of their project management service provider(s). These should later be incorporated into the STDC project management approach.	<u>Objective 1</u> • The PEP has been developed to define these principles in the interim while the defined STDC programme level approach is developed. <u>Objective 2</u> • The adoption of the PEP and integration of governance and controls will then be used to inform the PMP and therefore the STDC Project Management Approach.	Project Execution Plan	Programme Management Plan	All	Craig Morley F+G	19/02/2021	Implementation Process
3	Mandate and Business Case	Medium	31/10/2020	Within the STDC project management approach, formalise the handover of the mandate, business case, etc. to project managers, and consider also how project managers can contribute to the pre-handover activities.	<u>Objective 2</u> • The PMP will incorporate business case accountability and decision making levels of authority.	N/A	Programme Management Plan	2.3 Commercial	Ewan Peacock F+G	18/03/2021	In Progress
4	Lessons Learned	Medium	31/01/2021	Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in particular when starting up and initialising projects.	<u>Objective 1</u> • Within the monthly progress report template, a section is dedicated to Quality and Lessons Learned, requiring the commissions to track internal audits carried out and the subsequent outputs on a monthly basis. <u>Objective 2</u> • Formal lessons learned sessions will be included as requirements of the stage gate process at the end of each lifecycle stage in the PMP.	Monthly Progress Report	Project Lifecycle Stage Gates	2.9 Improvement 3.4 Quality Assurance 3.6 Reporting and Meetings	Kirsty Whitfield F+G	08/04/2021	In Progress
5	Roles and Responsibilities	Medium	31/07/2020	Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.	<u>Objective 1</u> • Within the PEP the project governance structure identifies the high level roles and responsibilities of key stakeholders such as the STDC Delivery Group, STDC Responsible Director, STDC Project Manager, STDC PMO and Commission Lead. <u>Objective 2</u> • This will be developed further for the PMP including additional detail on the Programme Governance, Programme Organogram, Programme RACI, etc, which will all be presented to stakeholders in upskilling sessions to ensure that all roles and responsibilities are clearly defined and understood.	Project Execution Plan	Programme Management Plan	App C Programme RACI	Kirsty Whitfield F+G	08/04/2021	In Progress
6	Levels of Authority	Low	31/10/2020	Allow the project managers control over project budgets within defined levels of authority once Agresso systems are rolled out.	<u>Objective 1</u> • An initial commission change control process has been developed and included in the PEP, so that the process and levels of delegated authority can be trialled. <u>Objective 2</u> • Learnings from the use of the change control process will then be used to further develop the processes and workflows developed for inclusion in the PMP.	Project Execution Plan	Programme Management Plan	3.5 Change	Ewan Peacock F+G	18/03/2021	In Progress
7	Establish a PMO	Medium	31/01/2021	Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.	<u>Objective 2</u> • The activities behind this item are detailed in the PMO Development schedule, which will be lead to the launch of the PMO and be included as an appendix of the Audit Recommendations Progress Report.	PMO Development Schedule	PMO Launch	N/A	Kirsty Whitfield F+G	08/04/2021	In Progress
8	Assurance Model	Medium	31/10/2020	Formalise a project assurance model to sit alongside the enterprise risk management framework such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well managed way. Consider a "three-lines of defence" approach: • The 1st line is the project management team. • The 2nd line is the project management office. • The 3rd line is the internal audit and/or specialist external assurance.	<u>Objective 1</u> • The PEP identifies the STDC Project Manager as the first line of defence, with the PMO providing support as the second line and the third being the STDC Accountable Director. <u>Objective 2</u> • The PMP will develop this further with the final project level assurance model being developed in line with the STDC Assurance framework.	Project Execution Plan	Programme Management Plan	All	Kirsty Whitfield F+G	08/04/2021	In Progress
9	Decision Making Workflows	High	31/10/2020	Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).	<u>Objective 1</u> • The change control process detailed within the PEP and introduction of the CEMAR contract management platform will initially provide this functionality. <u>Objective 2</u> • Detailed workflows will be developed for inclusion in the PMP and programme level tech platforms will be researched for suitability of the requirements of the programme.	Initial PPM Tools	Fully Integrated PPM Tools	3.5 Change	Alex Catmur F+G	18/03/2021	In Progress
10	Project Initiation Route Map	Low	31/01/2021	Apply HM Treasury and Infrastructure and projects Authority (IPA)'s Project Initiation Route map for larger projects. The Route map (and its supporting modules) offers diagnostics and references for strategic decision-making during project initiation by addressing the most common capability gaps that sponsors and clients need to enhance for asset-rich infrastructure projects.	<u>Objective 2</u> • The route map will be reviewed and the requirements aligned into the PMP.	N/A	Programme Management Plan	All	Kirsty Whitfield F+G	08/04/2021	In Progress

Ref	Recommendation Title	Priority	Audit Report Implementation Date	Recommendation Wording	Action Summary	Objective 1 Output	Objective 2 Output	Relevant PMP Section	Owner	Target Date	Status
11	KPIs	Low	31/01/2021	Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.	<u>Objective 1</u> • KPIs that are in line with the requirements of the Assurance Framework BEIS report have been introduced as part of the Monthly Progress Report. <u>Objective 2</u> • More detailed Portfolio / Programme KPIs are to be developed in line with STDC requirements and incorporated into the PMP.	Monthly Progress Report	Programme Management Plan	3.6 Reporting and Meetings	Kirsty Whitfield F+G	30/03/2021	In Progress
12	Boards and Committees	Low	31/10/2020	Re-align the terms of reference of the boards and committees to best practice portfolio management (see AXELOS Limited's Management of Portfolios (MoP) for further guidance). The current project groupings could provide the basis of a portfolio structure, and the Planning and Infrastructure Committee could provide oversight of the portfolios in terms of providing investment/prioritisation.	• This will be managed directly by STDC, with any requirements incorporated into the PMP where appropriate.	N/A	N/A	N/A	N/A	N/A	Not Applicable to PMO
13	Awareness of Responsibilities	Medium	31/10/2020	Ensure that senior management and other executives in a decision-making role within STDC understand their responsibilities in a project-driven environment.	<u>Objective 1</u> • Within the PEP the project governance structure identifies the high level roles and responsibilities of key stakeholders such as the STDC Delivery Group, STDC Responsible Director, STDC Project Manager, STDC PMO and Commission Lead. <u>Objective 2</u> • This will be developed further for the PMP including additional detail on the Programme Governance, Programme Organogram, Programme RACI, etc, which will all be presented to stakeholders in upskilling sessions to ensure that all roles and responsibilities are clearly defined and understood.	Project Execution Plan	Programme Management Plan	App C Programme RACI	Kirsty Whitfield F+G	08/04/2021	In Progress
14	Resourcing Requirements	Medium	31/07/2020	Assess resourcing requirements for client side project management activities and ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.	<u>Objective 2</u> • A full programme level organogram will be developed to identify resource requirements, which will need to be flexible to allow for the fluctuations in demand dictated by developments coming online.	N/A	Programme Management Plan	App D Programme Organogram	Kirsty Whitfield F+G	08/04/2021	In Progress

[illegible]

Date 12-Feb-21

Status **Description**
 1 The entire action has been fully implemented
 2 Partly implemented
 3 Not implemented
 4 Superseded
 5 Closed and agreed with internal audit

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Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Status	Status desc	Owner	Notes
Project Management	1	Medium	Define and agree the requirements for a STDC project management approach.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	2	High	In the absence of a defined STDC approach, define a set of principles that STDC will apply for governance and controls and the standards they require of their project management service provider(s). These should later be incorporated into the STDC project management approach.	31-Oct-20	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	3	Medium	Within the STDC project management approach, formalise the handover of the mandate, business case, etc. to project managers, and consider also how project managers can contribute to the pre-handover activities.	31-Oct-20	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper

Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Status	Status desc	Owner	Notes
Project Management	4	Medium	Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in particular when starting up and initialising projects.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	5	Medium	Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	6	Low	Allow the project managers control over project budgets within defined levels of authority once Agresso systems are rolled out.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	7	Medium	Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper

Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Status	Status desc	Owner	Notes
Project Management	8	Medium	Formalise a project assurance model to sit alongside the enterprise risk management framework such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well-managed way.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	9	High	Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	10	Low	Apply HM Treasury and Infrastructure and Projects Authority (IPA)'s Project Initiation Routemap for larger projects. The Routemap (and its supporting modules) offers diagnostics and references for strategic decision-making during project initiation by addressing the most common capability gaps that sponsors and clients need to enhance for asset-rich infrastructure projects. .	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	11	Low	Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.	31-Jan-21	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper
Project Management	13	Medium	Ensure that senior management and other executives in a decision-making role within STDC understand their responsibilities in a project-driven environment.	31-Oct-20	2	Partly implemented	Engineering & Programme Director	See PMO Implementation paper Also note that Reporting from the project management group into the delivery group will ensure that all executives in STDC are kept aware of key risks to delivery and associated responsibilities

Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Status	Status desc	Owner	Notes
Project Management	14	Medium	Assess resourcing requirements for client side project management activities and resolve ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.	31-Jul-20	2	Partly impemented	Engineering & Programme Director	See PMO Implementation paper
Budget Setting and Control	5	Medium	We will present full management accounts to the A and RC to allow for sufficient challenge.	29-Feb-20	2	Partly impemented	Interim Head of Finance	Up to date data has been uploaded to the Agresso systems and steps are currently being taken to move from data journaling from TVCA's accounting cost centres to direct coding at the point of purchase order by the procurement team. An external consultant has been engaged to develop the reports required to provide full management accounts which will be fed into the Governance reporting structure via the newly formed performance group
Follow up of 2018/19 actions	2	Low	The Corporation will ensure that the draft Freedom of Information Policy, including the publication scheme, is subject to appropriate scrutiny and will be implemented as a formal document. Once the policy is finalised, staff will require training on how to deal with different types of information requests.	30-May-20	2	Partly impemented	Governance and Administration Manager	HOF has requested that the governance team develops a video call to deliver this training. Initially the plan was to deliver a face to face session in house but this was delayed as a result of COVID-19 lockdowns
Follow up of 2018/19 actions	5	Low	We will ensure that the risk management framework is up to date and reflects any action identified as a result of this audit, and then communicate the document to all staff within the business. We will then publish the framework in a shared location.	30-Oct-20	2	Partly impemented	Project Services Consultant	Documentation to complete, Included for consideration at February ARC

TEESWORKS – DEMOLITION CONTRACTORS’ FRAMEWORK PROGRESS UPDATE

SUMMARY

This report provides a progress update on the ongoing procurement of the Demolition Contractors’ Framework, that is being established to provide the vehicle for delivery of the majority of the projects within the Teesworks Demolition Programme across the coming 3 to 4 years.

RECOMMENDATIONS

It is recommended that the Audit and Risk Committee notes the contents of the report.

DETAIL

1. Work on the procurement of the Demolition Contractors’ Framework commenced in July 2020. The Framework is being established to provide the platform for delivery of the Teesworks Demolition Programme. However, in an effort to make an early start on demolitions across the site, various advance demolition projects have already been completed, are underway, or are in procurement.
2. Given the value of the works to be delivered under the Framework (£100M+), it has been the subject of an OJEU-governed (under EU legislation), two-stage procurement process. The first stage involved a call for Expressions of Interest from the market, with such expressions being made through suppliers’ responses to a very comprehensive Selection Questionnaire (SQ), structured around PAS91 requirements (PAS - Publicly Available Specification, for use in prequalification questionnaires in construction-related procurement).
3. The Framework will comprise two lots:
 - Lot 1 – large-scale facilities with a high level of risk and complexity (4 or 5 demolition contractors, more likely 4)
 - Lot 2 – smaller-scale, lower complexity demolition projects (6 to 8 demolition contractors, more likely 6).

At this point, it is envisaged that the programme to be delivered via the Framework will be made up of around 20 projects, albeit we may elect to break down the programme into a larger number of projects where land parcel delivery timescales dictate. The Framework

will also be available for use by other TVCA Group entities, including Teesside International Airport.

4. The second stage in the procurement process involves shortlisted companies tendering for a place on the Framework, while at the same time bidding for the first demolition project to be delivered under their chosen lot (the Lot 1 and Lot 2 Reference Projects).
5. The Reference Projects are located on the proposed NZT site and are as follows:
 - Lot 1 – Stock House Drive, related conveyors, and Area Workshops
 - Lot 2 – Pellet Plant, TMO building and nearby ancillary structures.
6. STDC is being supported in the procurement of the Framework by legal firm Ward Hadaway, for contracts and procurement advice, and multidisciplinary engineering consultant Atkins, for technical services.
7. The SQ stage resulted in 43 companies expressing their interest, with 61 submissions being received and evaluated (as some companies declared interest in being considered for either of the two lots).
8. The SQ evaluation exercise was both rigorous and extensive, with very close scrutiny being applied to all evaluation scores and outcomes (i.e., meeting/not meeting threshold scores and pass/fail determinations). This was completed in January and resulted in 15 successful bidders being shortlisted to tender – 6 for Lot 1 and 9 for Lot 2. Careful attention has been paid to all scoring and pass/fail decisions, to mitigate the risk of procurement challenge. Where there has been the need for more in-depth scrutiny before finalising a decision (particularly for 'fails'), Ward Hadaway has been consulted for advice.
9. The Invitation to Tender documents were issued to the 15 shortlisted companies on 26 January 2021, with the following return dates being applicable:
 - Lot 1 Framework Tender – 12 February 2021
 - Lot 1 Reference Project Tender – 19 February 2021
 - Lot 2 Framework Tender – 26 February 2021
 - Lot 2 Reference Project Tender – 05 March 2021.
10. The staggered nature of the return dates is driven by the need to realise an early award of the Lot 1 Reference Project (by 01 March 2021), which first requires the qualifying bidders for Lot 1 of the Framework to have been determined. The Framework will be fully established (Lot 1 and Lot 2) during March.
11. Ward Hadaway has prepared the Framework Agreement and Call-Off Contracts that will apply to each project awarded under the Framework; Atkins has prepared the technical information packs and specification requirements for the Framework and Reference Projects. Atkins also undertook the scored Technical evaluations.
12. Framework Tenders are being evaluated on a 100% Quality basis; Reference Project Tenders are being evaluated on the basis of 40% Price/40% Technical/20% Social Value (SV), with differing SV requirements and thresholds being set for each lot.
13. The Framework will afford the mechanism for driving best value through the use of a mini-competition process per demolition project, with the option to make direct awards where circumstances necessitate, all in line with the Framework Agreement provisions.
14. Atkins is in the process of preparing detailed technical packs for all of the demolition projects to be delivered under the Framework, in order that, by the middle of 2021, we will

be in a position to move forward on multiple work fronts and with maximum flexibility, to meet the needs of the wider Teesworks programme, including the timescales that will be dictated by a positive Freeport decision.

15. The delivery timescales for the various projects within the Framework programme are presently being reviewed and refined.

FINANCIAL IMPLICATIONS

16. Funding will be allocated on a per project basis, with a budgetary allocation made per annum, based on the forward programme, which may be subject to change.

LEGAL IMPLICATIONS

17. Nothing of significance to report. Ward Hadaway acted in a compliance advisory capacity for this procurement. They drafted the contractual documents and acted as reviewer of the various tender documentation.

RISK ASSESSMENT

18. The primary risks in the procurement of the Framework are:
 - Procurement challenge: this has been mitigated through having well-drafted, peer-reviewed comprehensive tender documents, a robust evaluation and reporting process, including consensus scoring, the development of detailed technical information packs, and the use of procurement-oriented legal advisory services.
 - Procurement timescales impacting early project start dates under tightening delivery timelines: this has been addressed via a truncating of the second stage in the procurement process, and the implementation of staggered tender return dates, enabling evaluations and awards to be expedited, and necessary public sector procurement 10-day standstill periods, upon award, to be accommodated.

CONSULTATION & COMMUNICATION

19. The proposal to establish a framework of demolition contractors was the subject of a paper to the July 2020 meeting of the STDC Board. The proposal was endorsed by the Board.

EQUALITY & DIVERSITY

20. The subject of this report is not expected to have any impacts on groups of people with protected characteristics.

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AGENDA ITEM 12

REPORT TO THE STDC AUDIT & RISK COMMITTEE

24TH FEBRUARY 2021

REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

GROUP RISK MANAGEMENT POLICY AND FRAMEWORK

SUMMARY

This report presents the Teesworks position on risk, using a combination of Strategic, programme and project risk as of February 2021. The risk register is reviewed on a regular basis by senior management and sets out the key risks that have been identified.

Approval is also requested for the communication of the revised Group Risk Management Policy and Framework documents, which have been updated in line with the revised Risk Appetite Statement and approach to managing risk.

RECOMMENDATIONS

It is recommended that the STDC Audit & Risk Committee:

Consider the risk analysis set out in the risk registers.

DETAIL

1. This report (shown in appendices) presents Teesworks key risks as of February 2021.
2. The risk register is prepared in accordance with the Group Risk Management Framework and Group Risk Management approach which is reviewed on a regular basis by senior management. The risk register sets out the:
 - key corporate risks that have been identified;
 - type of risk e.g. legal, reputational, financial;
 - consequences if the risk is realised;
 - risk owner;
 - controls or actions in place to manage the risk;
 - risk score determined by probability and impact;
 - additional controls to be put in place and tracking implementation.

FINANCIAL IMPLICATIONS

3. There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

4. There are no direct legal implications arising from this report.

RISK ASSESSMENT

5. The content of this report is categorised as low to medium risk.
Risks assessments with individual risk scorings and actions are set out in the appendix.

CONSULTATION & COMMUNICATION

6. None required.

EQUALITY & DIVERSITY

7. No impacts.

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Document control – needs transferring to new template

South Tees Development Corporation

Risk Management Framework

Ref: STDC-RMF-001

South Tees Development Corporation
Risk Management Framework Ref: STDC-RMF-001

Version Control				
Issue No	Version	Date	Responsible	Approved for issue
01	Draft	16-Jul-18		
02	Draft	8-Feb-19		
03	Draft	15-Feb-19		
03.2	Draft	25-Feb-19		
03.3	RMF approved subject to Board approval of Policy	6-Mar-19		
03.4	Draft	12-Mar-19		
03.5	Approved	29-Mar-19		
3.6	Updated to reflect TVCA group applicability	27/10/20	Group RM	
3.7	Further updates to formatting and templates	08/01/2021	Group RM	

Risk Management Policy

Purpose

The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of our objectives. The purpose of this risk policy is to ensure that risk management is an integral, visible and consistent part of routine management activity across the corporation.

Commitment

Managing risk and opportunity is critical to the successful delivery of the South Tees regeneration programme. Teesworks is accountable to transform the area into an international scale, world class industrial business park; but it must do so with incomplete knowledge of future events, in a complex environment and within known funding and timing constraints.

The TVCA group is committed to implementing an enterprise-wide risk management culture, adopting ISO 31000 best practice in the identification, evaluation and effective management of threats and opportunities. Risk management is an essential part of good operational and project management and is a central responsibility of all those working within the Corporation.

We are an enterprise that:

- Makes risk management a part of strategic and tactical decision making ensuring identified risks that could significantly affect enterprise operations, projects and programmes, resources are deployed proportional to these risks.
- Maintains an attitude for risk appetite and tolerance, communicates this risk framework across the enterprise, and makes decisions about operations and projects consistent with this policy.
- Provides clearly defined and documented accountabilities for risk management, with risks managed at the lowest level at which the manager has the authority, responsibility, and resources to take effective action.
- Establishes and maintains Group-wide procedures, practices, and processes to ensure compliance with applicable standards and contractual provisions.
- Includes measurement and reporting of risks within the organisation's performance indicators so that decision-making at all levels is informed by an assessment of risk.
- Regularly reviews and updates risks facing the business and how they are escalated.
- Ensures risks are managed in an integrated way across all levels of the organisation.
- Requires the involvement of all managers to ensure that all staff understand their responsibilities in relation to risk management.
- Ensures effective assurance arrangements are in place to monitor the effectiveness of the risk management framework on a routine basis.
- Reviews and updates our risk management processes to recognised good practices, guidelines and standards and incorporates lessons learnt from inside and outside of the business.

Applicability

This policy applies to all aspects of the TVCA Group and its programmes. Implementation within the organisation through the Assurance Framework while implementation by suppliers and industry partners is achieved through contracts and agreements developed by the TVCA Group in accordance with the Management Policies.

The Chief Executive Officer has the ultimate responsibility and accountability for ensuring that risk is managed across the TVCA Group supported by the team of Directors.

The Chief Executive Officer and the Audit and Risk Committee provide governance leadership, agree the strategic direction, risk appetite, and promote the culture 'tone from the top', all to ensure the best outcome.

This policy is to be reviewed at least annually to ensure its continuing relevance to our appetite and tolerance of risk and meeting our objectives.

The Framework will be agreed every year by the Audit and Risk Committee and noted by the STDC Board.

Approved by STDC Board XX/XX/XX

1. Introduction

It is incumbent on The TVCA Group to understand the internal and external risks that may impact the delivery of its organisational goals and have processes in place to identify, mitigate, manage and monitor those risks to ensure the best outcome for The Group, staff and the community.

The ISO standard on Risk Management describes **risk** as “*the effect of uncertainty on objectives*”. Risk is the probability of an internal or external situation (an incident) with the potential to impact upon South Tees regeneration programme; preventing The Group from successfully achieving its objectives, delivering its services or capitalising on its opportunities. Risks are an everyday occurrence that could potentially positively or negatively impact on The Group’s ability to meet its obligations to stakeholders and the community. The Group recognises that while some risks cannot be fully eliminated, they can be identified, controlled and managed to an acceptable level.

Risk management is defined as “*the coordinated activities to direct and control an organisation with regard to risk*”.

The Group’s Risk Management (‘Framework’) is aligned to the ISO Standard and shall be applied to all activities. The framework will be agreed every year by the Audit & Risk Committee (A&RC) and noted by STDC Board. This framework document should be read in conjunction with The Group’s Risk Management Policy. The following are not included in the scope of this Framework: the projects initiated by investors and developers, and Teamwork’s Risk Management Plan.

Risk needs to be considered and addressed by everyone, including the Governing Board, Executive Staff, Senior Management, Employees, Partners and related stakeholders. The Group is committed to promoting an organisational culture where risk management is embedded in all activities and business processes.

The Group undertakes proactive risk management because:

- It provides a rigorous decision-making and planning process to understand the strategic, project and operational risks facing The Group in order to make informed decisions and meet organisational and strategic goals.
- It equips the organisation to take advantage of opportunities as they arise.
- The Group and its subsidiaries will have service agreements and contractual obligations with government and nongovernment agencies and organisations.
- It equips managers with tools to anticipate changes and threats that face The Group and to allocate appropriate resources.
- It provides assurance to STDC Board, management and stakeholders that critical risks are managed appropriately.

The scope of this Risk Management framework is enterprise-wide to provide the architecture for a common platform for all risk management activities undertaken by The Group; from individual function, process or project based assessments to whole-of-organisation assessments, with the aim of enabling comparative analysis and prioritisation of those assessments either individually or cumulatively. The framework is directly linked to the achievement of objectives of The Group and delivery of the programme of investment projects.

2. Risk Management Objectives

The primary objective of the framework is to support the achievement of The Group's strategic objectives contained in the STDC Master Plan and to safeguard the resources, people, finance, property, knowledge and reputation through:

- Provision of a structured and consistent approach to Risk Management.
- Assist decision makers to make good management decisions within an environment of tolerable strategic and enterprise risk limits, including identifying and leveraging opportunities.
- A Risk Appetite statement which is used to challenge and inform strategic decisions.
- A culture where staff understand and assume responsibility for managing the risks for which they are responsible and the controls to mitigate those risks.
- Provision of relevant, timely information across clear reporting structures.
- Independent assurance and audit activities to provide feedback to management that quality processes and controls are in place and are effective.

For the framework to be effective it must be integrated into The Group's strategic and business planning cycles.

3. Roles and Responsibilities

The responsible, accountable, consulted, informed (RACI) table illustrates accountabilities across the varied risk roles throughout the organisation.

Risk management within the Group is an integral element of good business practice. The strategic and operations risk assessment processes are integrated with the strategic planning and business planning processes.

It is therefore the responsibility of everyone within the Organisation to manage risk - the accountability for managing any specific risk sits with the person most appropriate to manage that risk. This is reflected in position descriptions (with varying degrees of responsibility at the various levels) and the performance management process.

Notwithstanding our "whole of organisation" approach to risk management responsibility, our Risk Management Framework has specific elements which require defined alignment of roles and responsibilities. The responsibilities for each of the roles identified are as follows:

3.1. STDC Board

- Overall responsibility for determining what types of risk are acceptable/not acceptable.
- Approve the organisation's Risk Appetite Statement and Risk Tolerance measures.
- Responsible for setting the moral standards, the tone and influence of the culture of risk management across the business.
- Approve the Risk Management Policy and note the Risk Management Framework.
- Be satisfied that strategic risks are identified, managed and controlled appropriately.

- Appoint the Audit and Risk Committee.

3.2.Chief Executive Officer

- The CEO, supported by the Executive Team (i.e. the Engineering & Programme Director, the Commercial Director and the Finance Director), is accountable to ensure appropriate risk management within STDC.
- Endorse the risk management policy for approval by The Group, approve the risk management framework and monitor implementation.
- Provide executive leadership in the management of strategic, operational and project risk and generally champion risk management within The Group.
- Report expeditiously to A&RC on any fraud and corruption incidents or material risk mitigation failures and actions taken.

3.3.Audit and Risk Committee

The A&RC assists the Executive board in fulfilling its responsibilities by providing oversight and input in the identification and evaluation of major strategic, reputational, financial, operational, regulatory, human capital, information, health and safety and other significant risks inherent in the business and mitigation planning with respect to such risks.

- Approve and oversee the Risk Management Policy and review the mechanisms in place to comply with the framework.
- Monitor the systems and process via The Group's risk profile and consider the risk profile when developing and implementing the Internal Audit and Compliance Programme.
- Consider the adequacy of actions taken to ensure that the risks have been dealt with in a timely manner to mitigate exposures to The Group.
- Identify and refer specific projects or investigations deemed necessary to assess risk management through the Chief Executive Officer, The Internal Auditor and The Group.
- Oversee any subsequent investigation, including the investigation of any suspected cases of fraud.
- Review programme portfolio and associated risks.
- Ensure the integrity of financial reporting and is responsible for making recommendations on the appointment of the external auditor and their scope.

3.4.Internal Audit

- Act as the 3rd line of defence (c.f. Section 5.1) and provide independent assurance.
- Consider strategic and operational risks in the development and implementation of the Internal Audit and Compliance Plan recommending improvements.
- Periodically audit The Group's Risk Management practices and provide recommendations on improvement to Management and the Audit and Risk Committee.

3.5.Engineering & Programme Director

- Provide assurance in the development, implementation and review of the Risk Management Policy, Risk Management Framework, and general risk management practice within STDC.
- Quality assure Project & Programme risk management reporting to the A&RC and STDC and in co-ordination with the Risk Manager.
- Ensure the Engineering & Programme function has the appropriate culture, capability, processes and systems to deliver on this policy and the Risk Management Framework.

3.6.Commercial Director

- Provide assurance in the development, implementation and review of the Risk Management Policy, Risk Management Framework, and general risk management practice within their function.
- Quality assure Commercial risk management reporting to the A&RC and STDC and in co-ordination with the Risk Manager.
- Ensure the Commercial function has the appropriate culture, capability, processes and systems to deliver on this policy and the Risk Management Framework.

3.7.Finance Director

- Provide assurance in the development, implementation and review of the Risk Management Policy, Risk Management Framework, and general risk management practice within their function.
- Quality assure financial risk management reporting to the A&RC and STDC and in co-ordination with the Risk Manager.
- Ensure the Financial function has the appropriate culture, capability, processes and systems to deliver on this policy and the Risk Management Framework.

3.8.Group Risk Manager

- Assurance checks if the programme complies with the established processes, performance standards and ensures right capability is in place
- Develop, maintain and quality assure enterprise risk registers and monitor implementation of controls and agreed treatment actions.
- Prepare various risk management reports to the STDC, A&RC, Programme & Enterprise Function leadership teams in accordance with this framework and the risk management policy.
- Provide risk management training, advice and support and conduct risk assessments as agreed with the STDC BOARD or Senior Management.
- Liaise with the Internal Auditor and provide Risk support to the Audit and Risk Committee.
- Lead the refinement, implementation and review of the risk management policy, risk management framework, and supporting processes and systems.
- Measure enterprise risk management maturity and report on the implementation of actions to achieve target maturity.

3.9. Project Managers

- Ensure that this framework is applied to the projects under their overview.
- Where the project is considered to materially influence the achievement of The Group's Corporate Objectives, ensure that the project risk register is facilitated by The Group Risk Manager.
- Ensure coordination of activities such as risk register, assessments and reporting are completed.
- Liaise with The Group Risk Manager.
- Identify gaps in areas such as training awareness.
- Assist with communications and training.

3.10. Business Function Managers

- Ownership of risk management within their Function or as delegated by the CEO in accordance with this policy and the Risk Management Framework.
- Championing risk management within their Function and appropriate risk management practice by staff, volunteers, contractors, and service providers.
- Ensures coordination of activities such as risk register, assessments and reporting are completed.
- Liaises with Group Risk Manager
- Identifies gaps in areas such as training awareness
- Assists with communications and training.

3.11. Risk Owners

- Responsibility that risk remains within defined tolerances.
- Triggers out-of-cycle review of the risks if material change occurs (e.g., restructuring, new IT systems or process change).
- Ensure personal compliance with risk management policies and procedures in performance of duties/activities.
- Ensure controls mitigating risks are designed and operating effectively to reduce the risk exposure to a level which is acceptable to The Group.
- Responsible for annual attestation of risks with Control Owner

3.12. Control Owner

- In charge of ensuring that controls (which may be outside responsibility of risk owners e.g., IT controls) are identified, documented and effective.
- Understands the importance of the effective operation of the control and potential impact of failure on all areas that rely upon the control activity and,
- Provide appropriate communication when their controls fail or do not operate as expected.

3.13. Staff, Contractors and Service Providers

- Applying risk management practices in their area of work and ensuring that management are aware of risks associated with The Group's operations.
- Recommending or providing suitable plans to manage risks; obtaining appropriate approval prior to action (where required) reporting on risk management practices.
- Awareness of The Group's culture and ethos to report any perceived risks or failures in existing measures to senior management.

4. Organisational Risk Culture

The Group will actively consider risks during strategic and tactical decision-making processes as will all levels of management and will determine the level of residual risk/appetite they are willing to accept. This will be done on at least an annual basis. The Group will take a risk-based approach to managing internal and external projects, operational and strategic risks: i.e. risks will be managed and monitored according to severity.

Management will conduct at least an annual review of their function or project risks (facilitated by the Risk Manager) with monthly monitoring of priority and high risks. Management will also conduct out-of-cycle reviews of operational, project or strategic risks if material changes occur, if there is a breakdown of controls or if new risks emerge.

The Group will invest the appropriate time and resources into training and awareness for all staff in line with responsibility and involvement this includes but is not exclusive to; managers, and nominated risk and control owners and staff with specified risk and emergency management roles.

4.1. Guidelines for a Culture of Risk Management

The Group has finite resources, time and budget to manage all aspects of its activities. It is therefore vital that The Group apportion resources into the areas of most need, or that will have the greatest impact. STDC will therefore take a risk based approach to managing operational risks as follows:

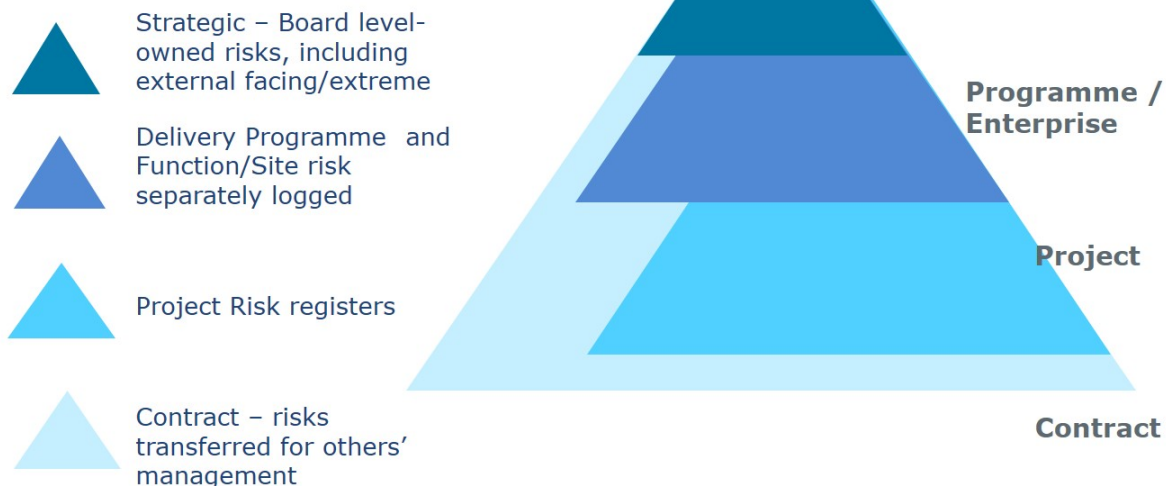
- Risks are initially identified and assessed on an inherent basis - the risk that an activity would pose if **no controls** or other mitigating factors were in place. Determining the likelihood and impact of the risk occurring allows STDC to understand which risks are of greater concern and must therefore be mitigated accordingly.
- The Residual Risk - the risk that remains after the implementation of controls can then be determined by assessing the effectiveness of controls in place to mitigate the likelihood and impact of the risk occurring.
- All risks will be captured in an organisational Risk Register and reported regularly through the various Management and Committee structures

4.2.Risk Management Structure

To understand the risks faced by The Group and the resulting implications, risks will be identified and assessed at a hierarchy of three levels:

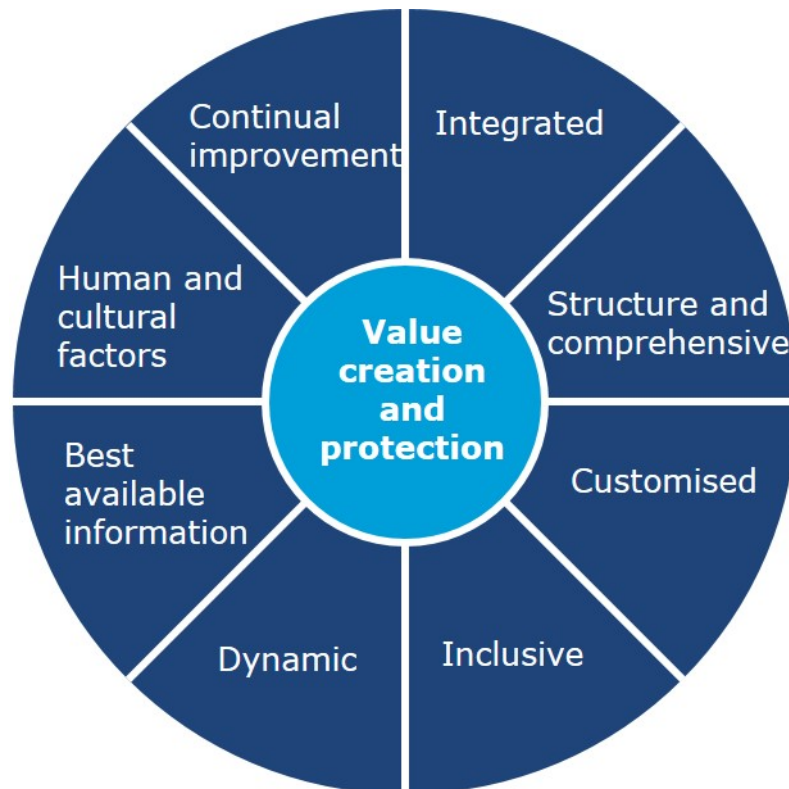
- **Strategic:** Those Corporate risks that, if realised, could have a significant detrimental/beneficial effect on the South Tees Development Corporation key business processes and activities.
- **Programme & Enterprise:** Those business risks that, if realised, could have a significant detrimental/beneficial effect on the key objectives and activities of The Group's programme.
- **Project:** Those business risks that, if realised, could have a significant detrimental/beneficial effect on the outcome of a project.

Illustration of hierarchy of risk groups indicating levels outlined below with discrete registers and ownership. Escalation, parent/child connectivity, quantification and tracking protocols



Risk Management Principles

All levels of the STDC shall commit to incorporating the following principles from the ISO Standard.



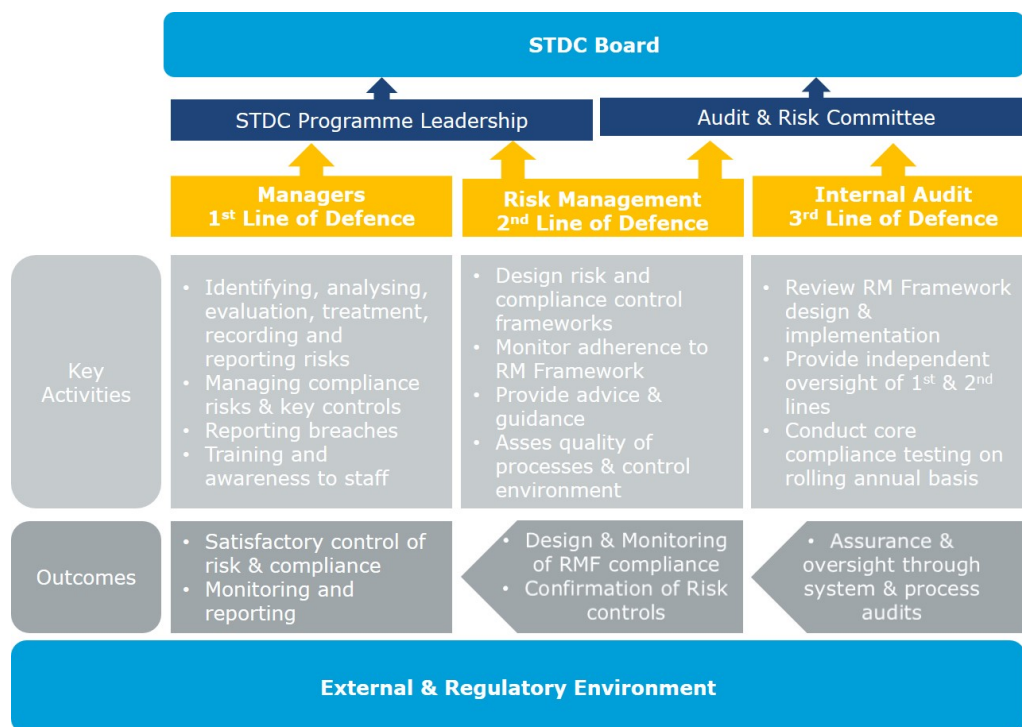
ISO 31000 Risk Management Principles

Principle	
Integrated	Risk management is an integral part of all organizational activities.
Structured and comprehensive	A structured and comprehensive approach to risk management contributes to consistent and comparable results.
Customized	The risk management framework and process are customized and proportionate to the organization's external and internal context related to its objectives.
Inclusive	Appropriate and timely involvement of stakeholders enables their knowledge, views and perceptions to be considered. This results in improved awareness and informed risk management.
Dynamic	Risks can emerge, change or disappear as an organization's external and internal context changes. Risk management anticipates, detects, acknowledges and responds to those changes and events in an appropriate and timely manner.
Best available information	The inputs to risk management are based on historical and current information, as well as on future expectations. Risk management explicitly takes into account any limitations and uncertainties associated with such

	information and expectations. Information should be timely, clear and available to relevant stakeholders.
Human and cultural factors	Human behaviour and culture significantly influence all aspects of risk management at each level and stage.
Continual improvement	Risk management is continually improved through learning and experience.

4.3.Three Lines of Defence Model

The Three Lines of Defence model provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties.



4.3.1. 1st Line of Defence – Project and Function Managers

Each function or project has primary responsibility for the ownership and day-to-day management of its own risks and is also responsible for implementing corrective actions to address process deficiencies. Each function & project naturally serves as the 1st line of defence as controls are designed into systems and processes under their guidance, as they bear the consequences of loss through economic risk capital allocation. There should be adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequate processes and unexpected events.

4.3.2. 2nd Line of Defence: Programme and Group Risk Manager

The Group Risk Manager provides oversight to ensure that the framework is embedded, operational and to monitor the 1st line controls so that risks are effectively managed. It is a risk management function that facilitates and monitors the implementation of effective risk management practices by management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organisation. The Risk Manager has a degree of independence from the first line of defence.

4.3.3. 3rd Line of Defence: Internal Audit

Internal audit (IA) is outsourced and provides reporting to the Audit & Risk Committee to provide independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the 1st and 2nd lines achieve risk management and control objectives. IA provides The Group and Senior Management with comprehensive assurance based on the highest level of independence and objectivity.

4.4. Risk Escalation

Risk should be managed by the party best placed to manage the risk and at the most appropriate level in the organisation. Risks may need to be escalated up the management chain – either within or between the levels of hierarchy (i.e., Strategic, Programme and Enterprise, Project or Contractor).

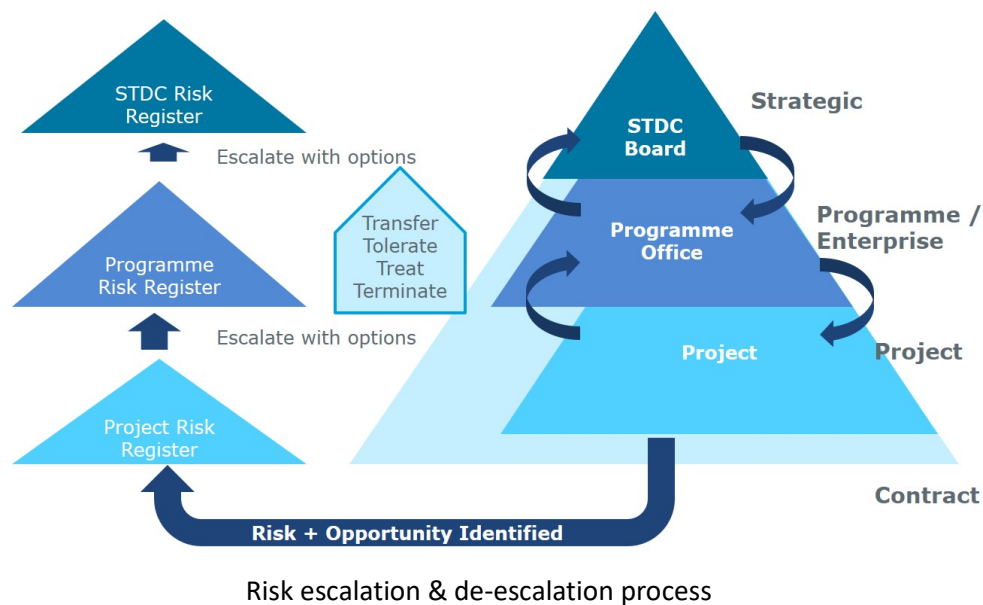
The accountable Managers, with the assistance of the Risk Manager, are to identify any risks which are to be considered for escalation in their regular reporting cycle. These will then be reviewed with line management at risk review meetings, as specified within the programme controls governance structure, in order to review and approve the escalation of the risk. This cycle of review is repeated up the organisation structure.

When selecting risks to escalate, these factors should be considered:

- Is any single risk so significant that it should be escalated to the next level?
- Are there any common causes of risk that should be escalated?
- Do any of the identified risks have consequential effects to the wider programme which are significant enough for that risk to be escalated to the next level?
- Do any risks require responses which can only be implemented by the next level of management?

Note that escalating risk does not transfer the ownership of risk, but allows the manager at the higher level to understand the risks within their responsibility.

The figure below describes the STDC governance and risk escalation/de-escalation process. This approach is framed around the 3 Lines of Defence model.



5. Risk Appetite

Risk appetite is the amount of risk exposure, or potential adverse impact from an event, that the STDC Board is willing to accept in pursuit of its objectives.

5.1. Risk Appetite Statement

The Group will maintain a current risk appetite statement.

This statement communicates with sufficient precision that the organisation has a proactive approach on its appetite for risk across all of its objectives.

Once the risk appetite threshold has been breached, risk management controls and actions are required to bring the exposure level back within the accepted range by considering:

- Emerging risks
- Risks that might be outside The Group's control (i.e. political change)
- Where best to allocate scarce resources
- Where The Group might want to take on additional risk to pursue a strategic objective or expectation of above average returns

Risk appetite should be set for each individual strategic risk and tolerance levels agreed, using relevant performance indicators which are monitored through the monthly enterprise reports.

For operational risks, STDC's risk appetite will inform the annual risk process, controls and assurance activities and is generally defined as follows:

Risk Rating	Minimum treatment required	Description
Severe risk	Reject and avoid or mitigate	Immediate action required in consultation with STDC BOARD to either avoid the risk entirely or to reduce the risk to a low, medium or high rating.
High risk	Accept and mitigate	These risks need to be mitigated with actions as required and managers need to be assigned these risks.
Medium risk	Accept	Manage by specific monitoring or response procedures.
Low risk	Accept	Manage by routine procedures.

Risk treatment within Risk Appetite

5.2.Risk Tolerance

Whilst risk appetite is about the pursuit of risk, tolerance is about what the organisation is allowed to deal with. Risk tolerance differs from risk appetite in that it is:

- Derived from risk appetite.
- Looks at risk at a granular level (e.g. on specific risk, at a transactional level);
- Measured in the form of limits (financial risks) and thresholds (non-financial risks)
- Assists in day to day/operational decision making.

Risk tolerance therefore relates to risk appetite but differs in one fundamental way in that it represents the application of risk appetite to specific objectives. Whilst risk appetite is broad, risk tolerance is tactical and operational and must be expressed in such a way that it can be:

- Mapped into the same metrics as the organisation uses to measure success.
- Implemented by staff throughout the Organisation.

As risk tolerance is defined within the context of objectives and risk appetite, it should be communicated using the metrics in place to measure performance. Risk tolerances guide project and functional areas as they implement the risk appetite within their sphere of activity.

Risk tolerances communicate a degree of flexibility whilst risk appetite sets a limit beyond which additional risk should not be taken. Some tolerances are easy to express in qualitative terms, e.g. an organisation may have a low risk appetite for non-compliance with laws and regulations and may communicate a similarly low tolerance for violations. Tolerance may also be stated in quantitative terms, e.g. by setting % targets.

Objectives	Impact				
Cost (Budget)	Insignificant increase	< 10% increase	10 – 20% increase	20 – 40% increase	> 40% increase
Time (End date)	Insignificant increase	< 5 % increase	5 – 10% increase	10 – 20% increase	> 20% increase
Impact Rating	Insignificant	Minor	Moderate	Major	Extreme

Example Risk impact on project cost or time

6. Risk Management Process

The risk management process is the “how to” element of the Framework and is defined in the ISO Standard as “the systematic application of management policies, procedures and practices to the task of communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.”⁴



STDC Risk Management Framework 2019¹

¹ BS ISO 31000:2018 Chapter 6

6.1.Risk Management Scope

The level of detail that will be entered into during the risk management process must be considered prior to commencement and should be commensurate with the extent and nature of the inherent level of risk. The extent and scope of the risk management process will depend on the goals and objectives of The Group's activity that is to be addressed, as well as the budget that has been allocated to that activity.

Consideration must also be given to the roles and responsibilities for driving and undertaking the risk management process.

6.2.Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. The Group will conduct risk assessment systematically, iteratively and collaboratively, drawing on the knowledge and views of involved stakeholders.

6.2.1. Risk identification

The purpose is to identify all risks; what, when, why and how incidents might impact on the achievement of objectives. A Risk can be raised by anyone associated with the enterprise, programme or project. Comprehensive identification using a well-structured systematic process is critical, as a risk not identified will be excluded from further analysis, so identification should include all risks, whether or not they are under the control of The Group. A comprehensive risk identification process is delivered through consideration of the potential influence of each of the elements on the internal and external operating environment on The Group's objectives.

A systematic process includes working through each goal, objective or planned implementation action, identifying the things that may inhibit, detract from or prevent the achievement of the goal or enhance the opportunity to meet the objective. The Group will use a range of tools and approaches to determine potential risks, including:

- Team based brainstorming with experienced and knowledgeable staff.
- Structured techniques (such as SWOT analysis, process mapping, flow charting, systems analysis or operational modelling)
- Annual strategic, STDC planning, budget and risk identification workshops.
- Examination and analysis of past reports and incidents.
- Regular compliance reviews (internally and externally).
- Internal review by the Audit and Risk Committee.
- Reviews by external service providers.

A risk event relates to the failure of people, processes and systems or from external factors (e.g. fire, flood, assault or damage). In other words, something has gone or may go wrong: a control failed to operate as expected, was not performed, was circumvented or perhaps there was no control in place. Incidents can have multiple and varied impacts:

- Financial (e.g. Losses, Costs, Fines, Penalties)
- Non-Financial (e.g. Customer, damage to reputation/assets, regulatory, business interruption)

Depending on the circumstances, potential incidents will typically be captured or categorised as:

- Reputational
- Political
- Legal & Litigation
- Operational
 - HR related incidents / concerns such as termination issues or staff complaints
 - Customer complaints
 - BCP related incidents/breaches/concerns
 - Vendor / Third Party failure
 - IT outages/incidents
- Compliance
- Governance
- Safety, Health & Environmental
 - OH&S incidents/breaches/concerns
- Financial
 - Fraud (internal or external)
 - Fines/Penalties
 - Insurance claims
- Information (General)
 - Information (Sensitive/Personal)
- Standard Development Projects
- All other Projects

Capturing incidents, investigating them and understanding their root causes are critical as these provide us with important and timely information on the operation and effectiveness of our controls, threats to our business operation and the extent and nature of The Group risks.

The organisational strategic risks are developed annually by the Audit and Risk Committee in conjunction with the Programme Delivery Function and STDC Board, using STDC's The Group's strategic objectives and plan as a starting point. The Enterprise operating risks are identified in conjunction with Function Managers on an annual basis as a minimum, at meetings with the Risk Manager which run parallel with The Group's annual business planning cycle. Output from both the strategic and function risk assessments are to then be used as input to the STDC planning process.

Recording identified risks occurs through the development of a description of the risk and entry into the appropriate risk register. The risk description should contain a statement of the risk and include those factors which could cause or contribute to the occurrence of the risk event. A risk, by definition, is a potential for something to happen and not the actual occurrence of an event, consequently the language used to describe risks should express this element of possibility.

6.2.2. Making the Risk Description Statement

All risks will use the following standard language format where possible:

	Cause	Risk, Opportunity Event	Effect
Threat	As a result of...	there is a threat that...	which may result in...
Opportunity	In the event that...	there is an opportunity to...	which may result in...

The *cause* of a risk should reference any issues which need to be changed in order to reduce the likelihood of threats, and increase the likelihood of opportunities.



Risk:

“As a result of previous experience removing building cladding, there is a threat that unforeseen trapped asbestos may be found, which may result in the mobilisation of a specialist contractor that would mean the cost would increase and there would be delays to the critical path of the project.”

Opportunity:

“In the event that an alternative disposal route can be provided for waste, there is an opportunity to reduce disposal costs, which may result in reduced overhead and maintenance costs.”

6.3. Risk analysis

Analysis involves developing an understanding of the risk, the likelihood of the risk occurring and the full range of potential impact/consequences. Identification of likelihood and impact is not scientific: it is a qualitative exercise based on perception and history.

The initial analysis provides the inherent likelihood, the inherent impact and the inherent risk rating. At this stage, the analysis assumes that all controls have failed or there were no effective controls in place. Whilst this is unlikely, this allows The Group to understand which risks have the greatest potential for disrupting the business operation and therefore require strong and effective controls with appropriate and ongoing oversight.

6.3.1. Risk registers

Risk registers provide a mechanism for documenting, managing, monitoring, reviewing, updating and reporting risk information. Risk register design, use and related processes are developed and maintained by the Risk Manager. The Group has adopted a master risk register template, each project and function are to use the template.

6.3.2. Inherent likelihood

The inherent likelihood of a risk occurring is defined as the probability and frequency of its occurrence. It may be easier to ask: 'How likely is it that the risk event will occur?'

The table below is a commonly used format with five levels of Likelihood from Rare (an event that occurs only in exceptional circumstances) to Almost Certain (occurring frequently within a year).

Each criterion is assigned a number from 1 to 5.

Risk Likelihood Glossary		
Probability	Almost Certain	Event expected to occur regularly per annum. This risk if part of daily business operations. If controls removed the risk would certainly eventuate on a daily to weekly basis.
	Likely	Event expected to occur at least annually. Risk is possibly part of routine business process & can occur a number of times per annum.
	Possible	Event expected to possibly occur in a 3 year period. Risk is unlikely to be part of business process. For risk to eventuate likely to need multiple factors to occur.
	Unlikely	Event unlikely to occur (1 in 5 year period). For risk to eventuate nee single of a couple of unlikely factors. Risks may have occurred before.
	Rare	Event may occur in exceptional circumstances, risk unlikely to have occurred before.

6.3.3. Inherent impact

This is defined as the potential impact or consequence of a risk occurring and is generally expressed as a financial loss, non-financial loss (e.g. damage to reputation, client impact, regulatory impact) or occasionally a gain. Asking 'what would be the impact/consequence of risk XYZ occurring?' may elicit a better response.

Accurately determining the possible multiple impacts is to be achieved by utilising the Impact table, which is divided into nine categories and five levels of impact:

		Insignificant	Minor	Moderate	Major	Extreme
Impact	Cost (budget)	Insignificant	<10% increase	10-20% increase	20-40% increase	>40% increase
	Time	Insignificant	<5% increase	5-10% increase	10-20% increase	>20% increase
	Reputation	Unsubstantiated rumours	Minor local media interest	Headline media coverage.	Loss of regional reputation, local radio and newspaper reports. Short Term media campaign.	National media coverage. Sustained media campaign/lobbying
	Environment	Insignificant	Spill of liquid <200L in unbunded area, spillage of liquid in banded area, minor impact from spillage to river, beck pond.	Spillage of liquid >200L in unbanded area, significant but localised effect on water quality, deposit of liquid/hazardous waste on impermeable surface or unauthorised area, incorrect waste segregation of hazardous waste.	Significant fish kill (<10 salmon) or damage to fish spawning ground, long term (>6months) but reversible environmental damage, illegal fly tipping of non-hazardous waste.	Major fish kill (>10 salmon) or damage to a fish spawning ground, persistent (>7 days) & extensive (several KM) effect on surface water quality, persistent %& extensive land contamination, requiring major decontamination, illegal fly tipping or hazardous waste.
	Asset	Insignificant	Relatively low financial loss or asset cost impact (<£1000)	Tolerable financial loss or asset cost impact (<£1000 - <£1000000)	Moderate financial loss or asset loss impact (>£100000 - <£1000000)	Major financial loss or asset cost impact (>£1000000)
	Injury	Insignificant	Cuts, bruises, minor burn, scratch, abrasions (first aid)	Optimal break, fracture, major burns (internal recordable - OSHA, injury greater than first aid - hospital, stitches Medical treatment case - MTC Restricted Work Day Case - RDC Lost work day case - LWC)	Loss of limb, crush, loss of sight, loss of consciousness (RIDDOR Reportable Anything which results in a greater than 7days LWC)	One or more instances of loss of life

A risk may fit into a single category or fall across multiple types and similarly the level of impact may fit into more than one row. It is up to management (with assistance from the Risk Manager) to determine the type with the highest consequence for inclusion into the risk register.

The impact table should be reviewed at least every year with business subject matter experts as part of the framework review to ensure that categories and descriptions are relevant and reflective of STDC's internal and external environments.

6.4.Risk Evaluation

The purpose of risk evaluation is to support decisions. Risk evaluation involves comparing the results of the risk analysis with the established risk criteria to determine where additional action is required.

This can lead to a decision to:

- Escalate as you lack the authority to take the necessary actions.
- Maintain existing controls and do nothing further – Tolerate, (ignore opportunity).
- Consider risk treatment control and action options – Treat.
- Undertake further analysis to better understand the risk.
- Reconsider objectives – *potentially* terminate.
- Change owner of the risk – Transfer.
- Try to realize the opportunity – Enhance.
- Ensure that the opportunity is realised – Exploit.
- Involve others in order to realise the opportunity – Share.

Decisions should take account of the wider context and the actual and perceived consequences to external and internal stakeholders.

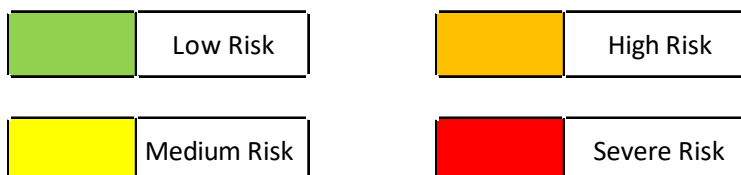
6.4.1. Inherent risk rating

For each of the risks listed from the risk identification process, the likelihood of the risk occurring and its impacts are to be plotted using the criteria matrices (see below) by multiplying the numbers associated to each criteria of likelihood and impact. For example the risk of a fraud occurring in the payroll process, *in the absence of effective controls*, could be assessed as follows:

The likelihood is considered as 'Likely' (= 4) with the Impact assessed as 'Major' (= 4).

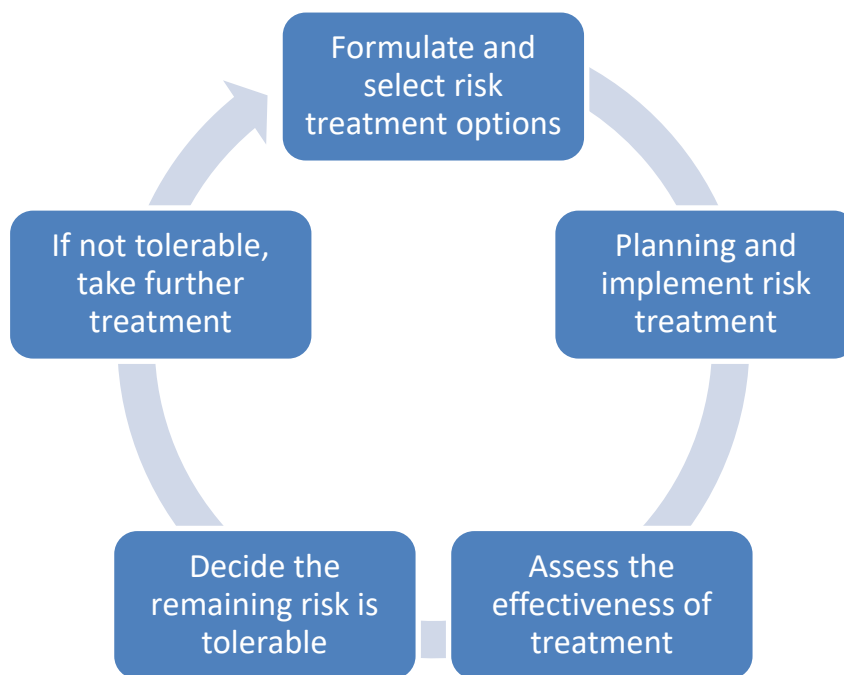
The resulting level of risk will be shown as the intersection of the two dimensions on the Risk likelihood Matrix. This provides the Inherent Risk Rating of 16 = High.

The risk matrix is broken into four shaded areas reflecting the increasing level of risk.



6.5.Risk Treatment

Risk mitigation/treatment involves identifying the most appropriate responses to reducing the inherent risk level to a status acceptable within the STDC's risk tolerance. Both controls and treatments are designed to mitigate the risk by reducing the likelihood of negative risks occurring and/or reducing the impact of risks should they occur.



Risk treatment cycle

Treat the risk. There are a number of treatment options available and more than one can be applied to any risk. Typical treatment options include the establishment and operation of controls designed to mitigate, discourage, identify and/or limit the impact and likelihood of a risk from occurring. Most risks will have multiple different controls in place, some intended to prevent a risk occurrence and some will detect an occurrence whilst others are designed to respond to an occurrence. Controls are not always performed by the risk owner. For example, project or functions will have a key reliance on technology to manage controls to ensure systems are available and operating as required.

Directive Controls are those designed to establish desired outcomes.

- Setting STDC policies, project or functional policy/procedures
- Setting spending limits
- Setting IT configuration standards
- Laws and regulations
- Training seminars
- Job descriptions
- Meetings

Preventive Controls are designed to discourage errors or irregularities from occurring. They are proactive controls that help to ensure project or functional objectives are met.

- Training on applicable policies, project or function policy/procedures
- Review and approval for purchase requisitions to ensure they are appropriate before purchase

- IT access authorisations to ensure access is appropriate
- The use of passwords to stop unauthorised access to systems/applications
- Segregation of duties (authorisation, record keeping & custody of the related assets should not be performed by the one same individual)
- Physical control over assets
- Locking office door to discourage theft
- Shredding documents with confidential information

Detective Controls are designed to find errors or irregularities after they have occurred.

- Cash counts; bank reconciliation
- Review of payroll reports
- Compare transactions on reports to source documents
- Monitor actual expenditures against budget
- Review logs for evidence of mischief
- Exception reports which list incorrect or invalid entries or transactions
- Reviews and comparisons
- Physical counts of inventories

Corrective Controls are intended to limit the extent of any damage caused by an incident e.g. by recovering the organisation to normal working status as efficiently as possible.

- Submit corrective journal entries after discovering an error
- Complete changes to IT access lists if individual's role changes
- Anti-virus
- System upgrades
- Additional training
- Changes to procedures

Transfer the risk. Risk transfer may be achieved by taking out insurance to facilitate financial recovery against the realisation of a risk

- Compensating a third party to own the risk because the other party is more able to effectively manage the risk.
- Risk may be wholly transferred, or partly transferred (that is, shared) .
- It is important to remember that it is almost impossible to transfer risk completely. In almost all risk sharing arrangement, a degree of the original risk remains and there is inevitably financial or other consideration for the sharing of the risk. In addition, a new risk is inherited; one dependent on a third party to manage the original risk.

Terminate the risk. Some risks may only return to acceptable levels if the activity is terminated. Seek to eliminate the event leading to the risk while staying within the current programme baseline.

Tolerate the risk. Seeks to reduce (or eliminate) the impact, probability, or both, of the risk to some acceptable level. A risk may be accepted because:

- The probability or consequences of the risk is low or minor.
- The cost of treating the risk outweighs any potential benefit.
- The risk falls within the agency's established risk appetite and/or tolerance levels.
- STDC has limited/no control over the risk. E.g. natural disasters, international financial market impacts, terrorism and pandemic illnesses. To manage such risks, STDC should have a business continuity plan in place to provide effective prevention and recovery.

Exploit the opportunity. Take actions to make the opportunity certain or to maximise the effect to improve the programme's ability to meet its objectives.

- Multiple activities are created and tracked in the programme as funded exploitation steps with start/finish dates.

Share the opportunity. Seeks to develop teaming or partnerships that will increase the opportunity's probability.

- Allocate ownership to another stakeholder to maximise the benefit for the stakeholder or to improve the performance of the programme or function.
- Collaborate with suppliers, teammates or customers on the opportunity to increase the probability and/or benefit.

Enhance the opportunity. Seek to enhance the event or modify the exposure leading to the opportunity while staying within the current programme baseline to increase the probability of an outcome to the benefit of the programme's objectives.

- Early life cycle decision change requirements, to adjust design, acquisition method.
- A possible enhancement identified in the function or during the project that does not require additional task funding.

Ignore the opportunity. The effort (funding, schedule, labour) required for the investment outweighs the return or benefit effect of the opportunity.

- Place on a watch list to monitor.
- The benefit is not greater than the cost at this time given programme funding and resources.

When determining the most appropriate treatment, The Group should consider:

- How will the treatment modify the level of risk or opportunity?
- How do costs balance out against benefits?
- How compatible is the treatment with the overall business objectives?

- Does it comply with legislation?
- Does it introduce new or secondary risks or opportunities?

Often more than one response may be necessary to address an identified risk. In those cases a combination of responses (controls / mitigations) should be taken into consideration.

6.5.1. Current control environment

To understand the extent to which the likelihood and/or impact of a risk occurring is mitigated, the full suite of controls in place must be documented and assessed for effectiveness of design and operation. The assessment should only assess controls that are currently in operation, not those that are planned.

Where controls are operated by a third party (e.g. Supplier, Technology), discussions with the control owner should take place to ensure there is an appropriate assessment of the control that takes into consideration the views of the control owner and the risk owner.

Control Rating

The table below should be provided to assist in the assessment of the controls in use. The control rating is the subjective view of the risk owner and the control owner(s) and is reflective of the effectiveness of all the controls i.e. controls are not rated individually.

Control Rating	Description
Excellent	Controls are well designed, documented and address the root cause Controls are effective and reliable at all times Nothing more to be done except review and monitor the existing controls Likely to be automated and regularly performed
Good	Most controls are designed correctly and in place, documented and effective Some work needs to be done to improve operating effectiveness Management has some doubts about operational effectiveness or reliability
Fair	Design of the controls may be largely correct in that they treat most of the causes of the risk, they are currently not effective, or Some controls are not correctly designed - they do not operate effectively May be manually performed and/or infrequent
Poor	Significant control gaps exist Controls do not treat root causes, do not operate effectively or are not documented Manual and infrequently performed
Unknown	Controls and status are unknown

6.5.2. Residual risk

When the controls have been assessed and rated, the residual risk (the amount of risk left over after inherent risks have been reduced by controls) rating is determined.

For each of the risks listed from the risk identification process, the residual likelihood of occurrence and potential impacts is plotted by multiplying the numbers associated to each criteria of likelihood and impact. For example the risk of a fraud occurring in the payroll process, *taking into consideration the effectiveness of controls in place (considered 'Good')*, could now be reassessed as follows:

The likelihood is rare (= 1) with the impact assessed as now moderate (= 3).

The resulting residual risk ($1 \times 3 = 3$) will be shown as the intersection of the two dimensions on the matrix (see below). This provides the residual risk level of 3 = Low. It is likely that no further actions would be required to further mitigate this risk.

	Insignificant 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost Certain 5	5	10	15	20	25
Likely 4	4	8	12	16	20
Possible 3	3	6	9	12	15
Unlikely 2	2	4	6	8	10
Rare 1	1	2	3	4	5

Consequence →

↑ Likelihood

The matrix is broken into four shaded areas reflecting the increasing level of risk.

	Low Risk		High Risk
	Medium Risk		Severe Risk

Alternatively, if controls in place to mitigate a fraud occurring in the payroll process are determined to be 'Poor', the inherent risk could be reassessed as follows:

The likelihood is possible (= 3) with the impact assessed as still major (= 4).

The resulting residual risk ($3 \times 4 = 12$) would be High. In these circumstances, the residual risk would be outside of appetite and would require actions to address the controls gaps or weaknesses to further mitigate the likelihood or impact of the risk occurring.

6.5.3. Target Risk

Each risk will be allocated a target risk score which every endeavour must be made to attain. This gives confidence that the threat/opportunity is being managed at the optimal level.

6.5.4. Action plans

Where control weaknesses are identified and the decision is taken that further mitigation is required (i.e. the residual exposure is not accepted), an action plan must be established.

For project based risk assessments, the risk treatment action plan provides the project manager with a tool to continuously monitor project improvement through the implementation of the plan. Issues and delivered risks identified through the course of the project must be assessed and included in the project risk register, having gone through the full risk assessment process outlined above. This will ensure the continuing relevance of the risk assessment.

All actions must be:

- **Owned:** who is responsible for ensuring the action is addressed
- **Specific:** the exact activities that will be undertaken
- **Timely:** must be completed within appropriate time frames, commensurate with the significance of the gap/weakness
- **Achievable:** the action/activities must be realistic to ensure appropriate mitigation
- **Measurable:** it must be possible to quantify the action or have a means of assessing progress
- **Justified:** can demonstrate a further reduction in the residual likelihood and/or impact
- **Governed:** tracked, managed and reported

6.6. Monitor and review

The risk assessment process provides a snap shot of the STDC's risks, controls and action plans at a given point of time as shown in the risk register. An individual risk lifecycle is shown below.



Aggregated programme risk reporting is to be conducted at a 2-monthly interval with project and business functions reporting through the Risk Manager. Monthly reviews of risk occur at the function and project-to-programme level.

The residual risk impact and likelihoods and control effectiveness ratings are to be reflected on a one-page impact matrix with supporting opinion and insight on risks, controls and actions – the risk profile.

The context in which STDC operates is fluid, therefore the threats on our objectives continually change. So assumptions must be reviewed and the response strategies which have been made are to be assessed to ensure they remain adequate. As a result, the risk management process is iterative and should be the subject of a structured monitoring and review process.

6.6.1. Risk Closure, Issue realisation

Risk could be closed in three cases:

- When the period in which a risk event can occur has passed;
- When the scope of a project is amended and a risk becomes irrelevant (avoided);
- When a risk is addressed well and reduced to acceptable level.

Closed risks become part of a project's legacy information. Otherwise a risk should stay active.

When a risk is realised it is an **Issue**. Issues require a response with an action plan using the organisation's project management tools. The contingency plan for an issue may be included within the risk register. The contingency plan outlines what to do if the risk is in close proximity and likelihood is increasing or the current controls are not working. Issues are to be owned, actioned and reported as per the STDC Programme Management procedures.

6.6.2. Continuous review of risks

Risk and the effectiveness of control measures to manage risk need to be monitored on an ongoing basis to ensure changing circumstances, such as the political environment and the STDC's strategic objectives and risk appetite do not alter the risk evaluation profiles and adequacy assessments. New risks or deficiencies in existing mitigation strategies may be identified via a number of sources:

- Changes in the strategic objectives
- Regular review of the identified risks and mitigation strategies
- The annual internal audit programme
- Ongoing monitoring by various Committees, including STDC BOARD and A&RC;
- New legislation
- New accounting standards, guidelines or information from any regulator
- IT outages
- Complaints
- Regulatory / Compliance breaches
- Incidents
- External Audit
- Projects or Change Initiatives

Internal audit will provide particular attention to those controls, mitigation activities or other responses identified through the risk assessment as having significant priority. In addition, the risk assessment process, including the framework, will be monitored, evaluated and reviewed by the Internal Auditor.

Risks are to be monitored and reviewed by the responsible manager/officer on an ongoing basis and reported to committees on at least a two-monthly interval. The effectiveness of risk responses will be continuously monitored by the responsible manager/officer and reviewed six monthly.

Any material change to the master plan will trigger a review of the risk management framework, most particularly the risk appetite and the risk management process.

6.7. Communication and consultation

Communication and consultation with internal and external stakeholders are important elements at each step of the risk management process. Effective communication is essential to ensure that those responsible for implementing risk management and those with a vested interest understand the basis on which risk management decisions are made and why particular actions are required.

Key direction over a four year period is set through the adoption of the STDC Master Plan, which is reviewed annually to ensure it continually reflects community priorities. STDC is dependent on the Framework to be used at the strategic and Project or Functional business level to improve performance by the organisation in the achievement of STDC's strategies and actions as detailed in the Plan.

Output from the strategic risk assessment and business unit risk assessments are to be used as input to the business planning process. That input will include risk response plans. Internal audit will use the information

from the business planning risk assessments, in particular the risk response plans, to assist with development of the internal audit plan.

7. Risk Reporting

Reporting associated with the risk management framework is structured to satisfy two criteria:

- a) Information relating to the STDC Board's existing risk profile
- b) Information relating to the STDC Board's implementation, performance and status of the framework.

The table below indicates the reporting responsibilities and frequency

**In the process of aligning to all Group activity

Report Name	Author	Recipient	Frequency

8. Risk Framework Performance Monitoring

Risk management performance indicators include:

- Report to STDC Board/ Audit & Risk Committee on status High & Severe rated risks, overall distribution and direction of identified risks, % Audit Actions completed on time
- Reports to STDC Board on status high & severe rated risks, overall distribution and direction of identified risks, % of high & severe risk control actions on track, risk management maturity improvement targets met

9. Risk Training

To ensure the successful implementation of risk management throughout the organisation, it is planned that appropriate training in risk management will be provided to staff and managers. Training should encompass the risk management process, application of risk management tools, assistance with identification and analysis of STDC's risk exposures, risk profiling and reporting.

In addition, the organisation's Risk Management Team will coordinate with People and HR Function/Business Function Managers and all projects to work towards ensuring:

- Induction training will include Risk Management, Fraud awareness and Employee Code of Conduct.
- Employees receive regular Risk Management awareness update training.
- Any updates and changes to the Risk Management Policy, framework related policies, procedures.
- Codes of Conduct, ethics etc. are circulated to all employees via the Intranet or email where deemed necessary.

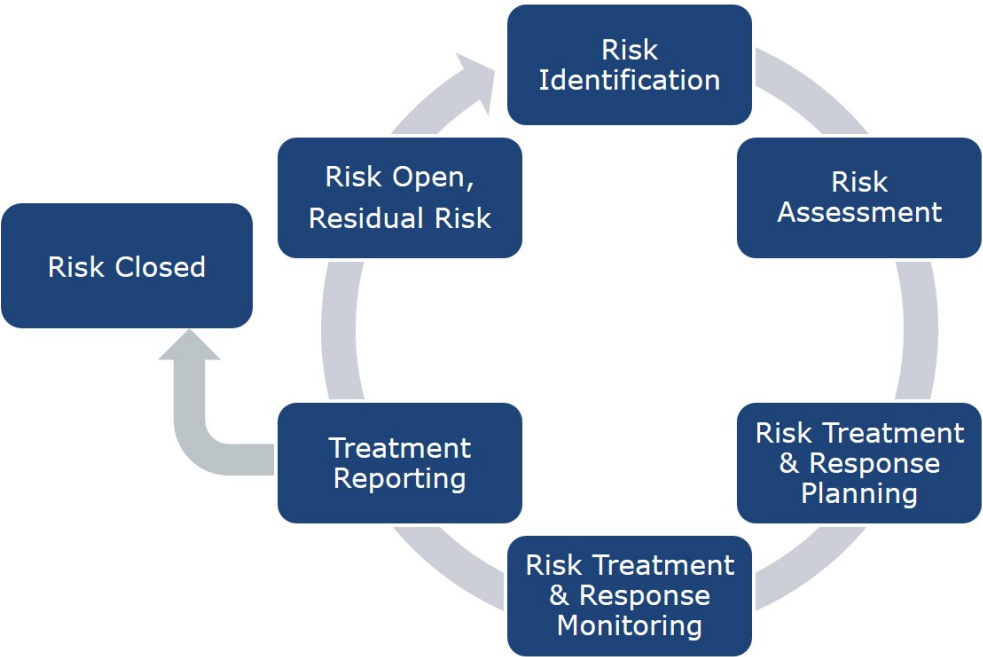
Appendix 1. Risk Glossary

STDC has adopted the following Risk Management definitions from the ISO 31000:2018

Terminology	Explanation
Risk	The effect of uncertainty on objective described as the combination of likelihood and impact, including perceived importance.
Risk Appetite	The level of risk that the STDC Board is prepared to accept, tolerate, or be exposed to at any point in time.
Risk Assessment	The overall process of risk analysis and risk evaluation.
Risk Analysis	A systematic use of available information to determine what events may occur, the likelihood of occurrence and the magnitude of their consequences.
Likelihood	The possibility of an event happening (probability).
Impact	The outcome of an event expressed either in financial terms or qualitatively, being a loss, injury, disadvantage or gain (impact).
Inherent Risk	The risk that an activity would pose if no controls or other mitigating factors were in place (the gross risk or risk before controls)
Control	Controls or mitigating actions in place to prevent, detect, minimise the impact of an identified risk.
Residual Risk	The risk level remaining after taking account the effectiveness of current controls or mitigating actions in place.
Target risk	The risk level which is required to ensure the best possible outcome of the organisation is attained.
Risk Treatment / Action Plan	The additional controls / mitigation action required to ensure that the risk appetite level is achieved.
Risk Profile	The residual risk impact and likelihoods and control effectiveness ratings can be reflected on a one page Heat Map with supporting opinion and insight on risks, controls and actions – the Risk Profile.

ALARP	As low as is reasonably practicable. That the degree of risk in a particular activity or environment can be balanced against the time, trouble, cost and physical difficulty of taking measures to avoid the risk.
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Appendix 2. Risk Lifecycle



Appendix 3. Opportunity Lifecycle



Appendix 4. RACI Matrix

Responsible (R) Who does the work							Accountable (A) approval or final approving authority				
Consulted (C) Opinions sort SME							Informed (I) Those who are kept up to date on progress				
Responsible (R), Accountable (A), Consulted (C), Informed (I)											
Activity	Staff, Contractors & Services	Function Director	Project Manager	Risk Manager	Risk Owner	Control Owner	Programme & Engr Director	CEO	A&RC	STDC Board	Internal Audit
Risk Culture	I	C	C	C	R	R	R	A	I	A	
Risk Appetite Statement	I	C	C	C	R	R	R	A	A	A	
Risk Policy & Risk Framework	I	I	C	R	C	C	A	A	I	A	
Risk tools / matrices	I	I	C	R	C	C	I	I	A	I	
Communication	I	R	R	R	R	R	C	A	I	I	
Training / Awareness	I	I	C	R	C	C	A	A	I	I	
Hazard identification	R	R	R	R	R	R	R	R	R	R	
Risk Assessment / Evaluation	I	C	R	R	C	C	A	A	I	I	
Out of cycle risk assessment	C	R	R	C	R	C	A	A	I	I	
Risk treatment strategies & action plans	I	C	R	C	C	A	A	A	I	I	
Monitoring	I	A	C	C	A	A	A	A	A	I	I
Reporting	I	R	R	R			A	I	I	I	I
Assurance	I	C	R	R	C	C	A	A	C	I	R
Attestation	I	C	R	C	A	A	I	I	I	I	
BCP / Emergency Management	I	R	R	R	R	R	R	A	C	I	
Post incident reviews	C	C	R	R	C	C	A	I	I	I	

Appendix 5. Reporting Drumbeat

In the process of aligning to Group Requirements.

Appendix 6. Risk Appetite Statement

The HM Orange Book and ISO principles have been considered to ensure these align with standard risk management processes and frameworks. These risk types have also been allocated an approach in how we classify and prioritise responses to manage and mitigate risk; Minimalist, Cautious, Open.

Risk Type	Description	Approach
Strategy	Pursuing a strategy which is poorly defined and/or not aligned to objectives.	Minimalist
Financial	Poor management of finances, assets and liabilities.	Cautious
Security	Failing to prevent unauthorised/inappropriate access (including cyber).	Minimalist
Governance	Unclear authorities, accountabilities and oversight.	Cautious
Commercial	Weak management of commercial partnerships, supply chains and contracts.	Cautious
Project/Programme	Project/Programmes are not aligned with priorities, or fail to deliver on cost, quality, time.	Cautious
Operations	Inadequate internal processes.	Minimalist
People	Poor leadership & engagement, culture, behaviours.	Cautious
Reputation	Ethical violations, poor sustainability, repeated failures or poor quality.	Cautious
Legal	Defective transactions, claims, failure to meet legal/regulatory requirements.	Minimalist
Technology	technology not delivering the expected services.	Minimalist
SHE	Deficiencies/poor management leading to non-compliance or harm.	Minimalist
Information	Failing to produce and exploit data/information to its full potential.	Cautious

Appendix 7. Risk Approach

Risk Approach	Description	Tolerance
Open	Flexible to reasonable risk taking, fully willing to accept uncertain outcomes. Where options exist, will choose the option with highest benefit and accept possibility of failure. Willing to trade-off this objective against the achievement of other objectives.	Thirteen - Eighteen
Cautious	Accept uncertainty when it can be actively monitored and measured. Limited willingness to accept uncertain outcomes. Where options exist, will accept limited if favourable risk-reward outcome. Prefer to avoid trading off this objective for the achievement of others.	Six - Twelve
Minimalist	Close to zero tolerance for risk, unwilling to accept uncertain outcomes. Where options exist, will select the lowest risk option. Unwilling to trade-off this objective for others.	One to Five

Working document to be requested from The Group Risk Manager.

[illegible]

Appendix 9. Risk register – Project/Programme Template

Working document to be requested from The Group Risk Manager.

[illegible]

Actions from STDC Audit & Risk Committee meeting 29th July 2020

Number	Action	Person responsible	Due Date	Status
1.	Tata retention – Ongoing and dependent on response from Tata. Updates to be provided as and when available. Ultimate deadline for this is 21 st February 2021	MR	21-02-21	Ongoing
4.	Internal Audit Plan - Evidence assurance on the outsourcing of financial systems required.	GM	Next Meeting	Ongoing

Actions from STDC Audit & Risk Committee meeting 21st October 2020

Number	Action	Person responsible	Due Date	Status
4.	Forward Plan of Projects to be shared with Committee	GM	ASAP	

Actions from STDC Audit & Risk Committee meeting 16th December 2020

Number	Action	Person responsible	Due Date	Status
1.	Add additional page to CEO Report to link to the Risk Register	MR/NR	February Meeting	Complete
2.	Coordinate meetings for Member induction into diaries	PJ/LM	January	Complete
3.	Project risk reporting to align into risk reporting	NR	February meeting	
4.	Add ageing detail and planned resolution date into the Internal Audit Actions update report	MR	February meeting	
5.	A Resource plan to be produced & delivered twice yearly to Committee to cover people risk perspective and how this is monitored.	GM	ASAP	
6.	Site Macro plan to be provided as an example at the next meeting	JM	February meeting	

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7.	Decontamination Project risk register to be shared	NR	Before February meeting	
8.	Discuss at management meeting how to dovetail the SC Board and activity to both ARC and DC Board	GM	Before February meeting	