

Date: Tuesday 3rd March 2020, at pm

Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:

Chris White – (Chair - Independent member)
John Baker – (Vice Chair - STDC Board)
Paul Booth - (STDC Board)
Jane Turner (STDC Board)
Anand Srinivasan (STDC Board)
Cllr Sandra Smith (TVCA A&R Representative)

Agenda

1. **Welcome & Introductions**
2. **Apologies for Absence**
3. **Declarations of Interest**
4. **Minutes of previous meeting**
Attached
5. **External Audit Plan – STDC and STDL**
Attached - Mazars
Verbal Update - Tait Walker
6. **Internal Audit Update**
Attached - RSM

7. Review of Budget planning process

Verbal Update

8. Review further year of RSM contract for 2020/21

Attached

9. SSI settlement Agreement and related Sales Agreement

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Verbal Update

10. CPO Update

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Verbal Update

11. Transition/STSC DD

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Verbal Update

12. Risk Register

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Verbal Update

13. Forward Programme & Action Register

This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

14. AOB

15. Date and Time of Next Meeting:

TBC - May 2020

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 (STDC) AUDIT & RISK COMMITTEE

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

Date: Wednesday 18th December 2019

Time: 8.00am

Venue: Tees Valley Combined Authority (TVCA), Cavendish House

Attendees:		Apologies:
Chris White (Chair, CW)	Darlington Building Society	Professor Jane Turner (Teesside University)
David Allison (DA)	STDC	Anand Srinivasan (STDC)
Neil Burgess (NB)	STDC	CLlr Peter Berry (RCBC)
John McNicholas (JM)	STDC	
Richard Lakey (RL)	STDC	
Gary MacDonald (GM)	TVCA	
Paul Booth (PB)	STDC Board Member	
John Baker (JB)	STDC Board Member	
Nolan Gray	STDC	
Gareth Roberts (GR)	Mazars	
Rob Barnett (RB)	RSM	
Andrew Nixon	STDC	
Sharon Jones (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	Welcome and introductions	The Chair opened the meeting and introductions were given. Apologies were noted as detailed above.		
3.	Quorum	The meeting was noted as being quorate.		
4.	Declarations of Conflict of Interest	None		
5.	Minutes of previous meetings and Action register	21 st August 2019 - Agreed 22 nd November 2019 (Extraordinary meeting) – Agreed The minutes from October’s meeting have not been circulated and agreed. These need to be brought to the next meeting. Forward Plan for the Committee to be circulated for the next meeting	October minutes to be circulated Forward plan to be circulated	SJ SJ
6.	Key Developments Update	A resolution was passed to move this item to the end of the agenda as there is confidential information contained within the update.		

7.	Audit Progress Report	<p>A Paper was circulated detailing the External Audit Progress report. GR advised there is nothing to report outside of the detail of the report, everything is on track. He advised that the Audit Plan is expected to be presented at the February or April meeting and will depend upon appointment of the auditor for STDL. The Committee expressed that they would prefer to have the Audit Plan available for the February meeting if this is possible.</p>		
8.	Internal Audit Update	<p>A Paper was circulated updating the Committee on the Internal Audit progress. RB advised there is not much to report since the last meeting. Auditors are on site currently. RB asked if the Committee were content with the information detailed on Page 5. The Committee agreed that this captures everything needed from an assurance point of view. CW asked if some additional narrative could be added to the report around the following areas: Page 2 – Narrative around the 20% complete and 20% in progress to detail what these projects are and the findings. Page 6 – The Info on risk management feels a little light. Could we include a paragraph as an exec summary for clarity?</p>	Report to be amended to detail the additional requirements	RB
9.	Finance Update	<p>A Paper was circulated updating the Committee on the financial performance for the first seven months. RL explained that variances in the summary table are due to delays with the roundabout build and land acquisition issues. Also, the on-site accident delayed progress. GM advised he has submitted a reprofiled position on Prairie to confirm funding. GM also informed the Committee he is looking at the format of reports and the cycle going forward. It is the intention to change the cycle so financial reports go to ARC before Board. It was suggested that financial scrutiny is something that should be in place. The Chair advised that the Terms Of reference for the Committee will</p>		

		need to be amended if the purpose of the Committee is to provide financial scrutiny in advance of Board. GM advised he will to speak to the relevant parties and the Board to see if they are happy with this suggestion.	GM to speak to Board regarding a financial scrutiny process	GM
10.	Risk Appetite	<p>NB delivered a presentation regarding Risk Appetite. He advised the presentation has been derived from information gathered at the 16th Oct workshop which was attended by ARC and B&I committee members. It is proposed to deliver the presentation to Board for agreement.</p> <p>The Committee were in agreement with the information presented but agreed that there will also be a need to look at things on a project by project basis as one size doesn't necessarily fit all.</p> <p>The Committee agreed that they need to look at risk management moving forward. It was felt that the Executive team should bring projects to this committee to gain a risk appetite as to whether to proceed and if so how to then conduct the project. Risk needs to be an integral part of what we're doing and should drive the project not just sit in the background.</p> <p>The Chair concluded that the presentation was useful and gave good articulation of each area. It was agreed to take this forward to Board but that this may need to be done separately to a standard Board meeting to allow for detailed information and questions.</p>		
	Key Developments Update	<p>A resolution was passed to exclude the press and public from the rest of the meeting as items from this point are confidential by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972</p> <p>DA gave an update to the Committee on key Developments</p>		

11.	STDC Governance	AN as Monitoring Officer for STDC gave an update to the Committee regarding Governance issues. The Local Governance Act obliges us to hold STDC meetings in public. Moving forward agenda's and minutes of meetings need to be made public and reports also need to be written to reflect this.		
12.	AOB	JB questioned if the risk appetite presentation needs to go to the next Board meeting. It was advised it does as it needs to be endorsed by the Board.		
13.	Date and time of next meeting	19 th February 2020		



Audit progress report

South Tees Development Corporation
(and Group)

March 2020





CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to South Tees Development Corporation. It has been prepared for the sole use of the Audit and Risk Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Risk Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Since the Committee last met we have:

- held internal planning meetings as part of our planning process for the 2019/20 audit;
- liaised with relevant staff at the Corporation in respect of planning work, and for the 2019/20 interim audit work;
- undertaken initial planning work to refresh our documentation in respect of the Corporation's systems;
- refreshed our understanding of the processes in place at the Corporation that inform the preparation of the financial statements;
- undertaken our risk assessment as part of planning for our 2019/20 VFM conclusion;
- developed our joint liaison protocol with Internal Audit and issued in draft to Internal Audit for their comments;
- had confirmation that a component auditor has been selected by management for South Tees Developments Limited, and as such we have begun the initial planning work for our STDC Group audit; and
- prepared our Audit Strategy Memorandum based on the latest available information, which is being presented to the Audit and Risk Committee as a separate item at the March 2020 meeting in line with their requested reporting timescales. Members should be aware that if there are changes to the structure of the Corporation or the Group between now and 31 March 2020 then we will need to revise our planning, review planned delivery timescales for the completion of our audit work, and possibly issue an updated Audit Strategy Memorandum. This would also likely have fee implications.

Our planning work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

Final accounts workshop

As in previous years, we are running an annual final accounts workshop for local authorities (which is the framework that the Corporation reports under), designed to help ensure the final accounts process goes as smoothly as possible. The most local workshop for the Corporation was held on 4 February 2020 and finance officers from TVCA attended the event, which was free of charge.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1.	Local Government Financial Resilience index	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
2.	Financial Management Code	Guidance for good and sustainable financial management in local authorities.
3.	Prudential Property Investment	Guidance on prudent investments in commercial properties.
Mazars LLP		
4.	Annual Transparency Report, Mazars	Sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.
5.	Mazars' response to the Brydon Review	Mazars' response to the latest review into the auditing profession which was published in December 2019.

1. Audit progress

2. National publications

2. NATIONAL PUBLICATIONS

1. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

2. Financial Management Code, CIPFA

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/ff/financial-management-code>

2. NATIONAL PUBLICATIONS

3. Prudential Property Investment, CIPFA

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the creditability of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

4. Annual Transparency Report, Mazars, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

2. NATIONAL PUBLICATIONS

5. Mazars' response to the Brydon Review, *Mazars*, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published, and we await its outcome with interest.

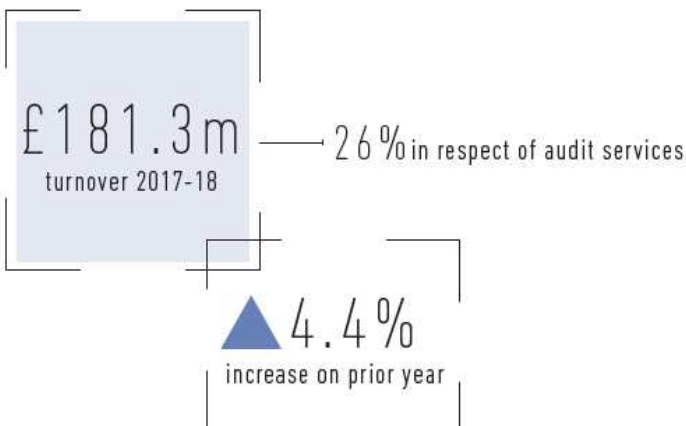
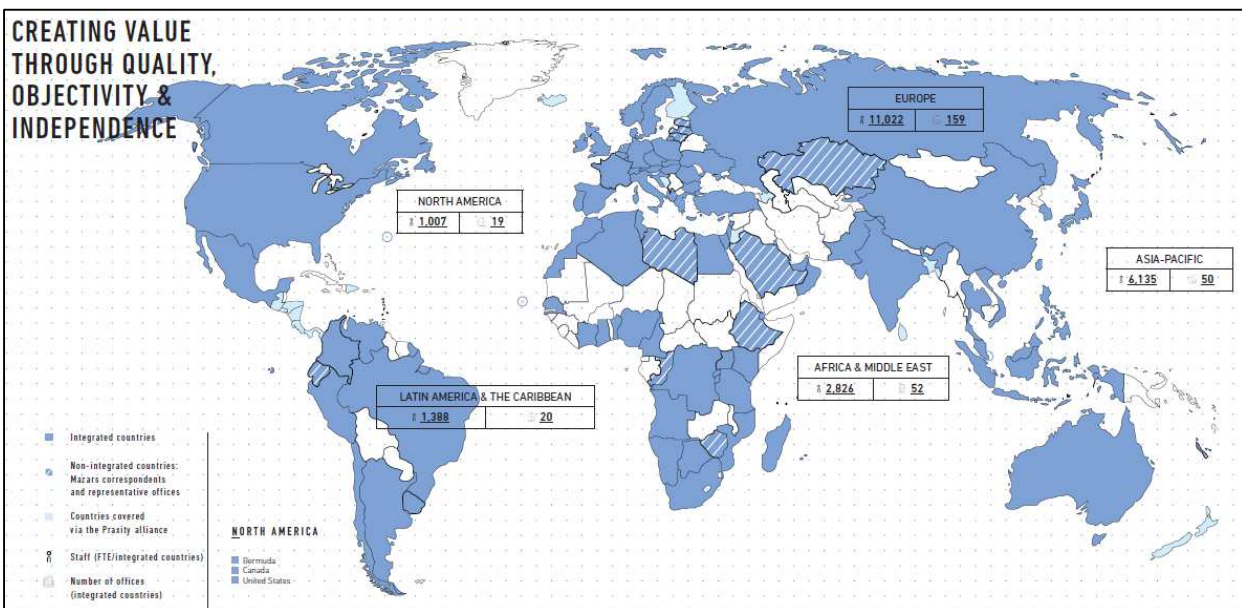
<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



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Audit Strategy Memorandum

South Tees Development Corporation

(and Group)

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to South Tees Development Corporation. It has been prepared for the sole use of the Audit and Risk Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Risk Committee
South Tees Development Corporation
Teesside Management Offices
Redcar
TS10 5QW

10 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for South Tees Development Corporation (the Corporation) and South Tees Development Corporation Group (the Group) for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Corporation and the Group which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully



Cameron Waddell
For and on behalf of Mazars LLP

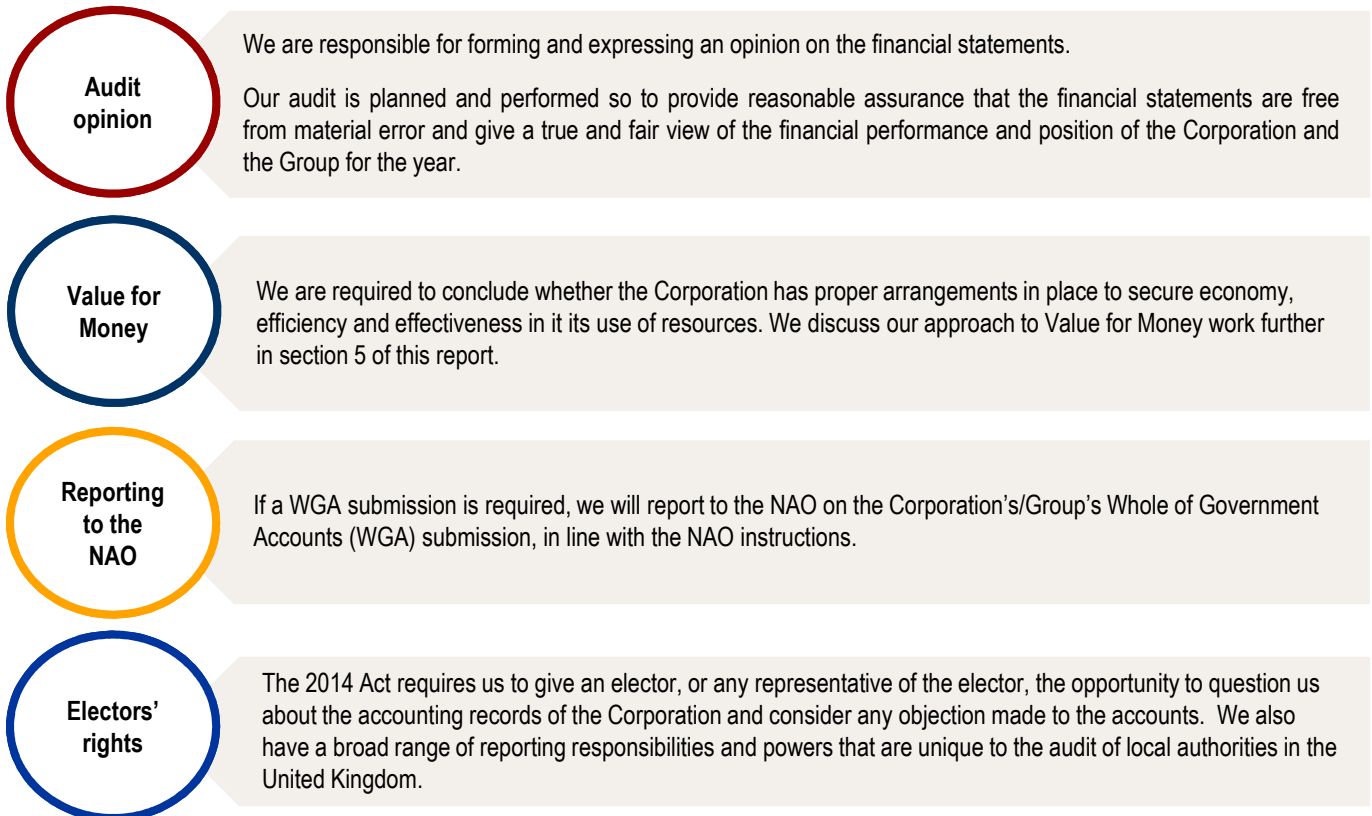
1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of South Tees Development Corporation (the Corporation) and South Tees Development Corporation Group (the Group) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:



Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Corporation and Group are required to prepare their financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit and Risk Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM

**Engagement
Lead /
Partner**

- Cameron Waddell
- cameron.waddell@mazars.co.uk
- 0191 383 6300

**Senior
Manager**

- Gareth Roberts, Senior Manager
- gareth.roberts@mazars.co.uk
- 0191 383 6323

**Assistant
Manager**

- David Hurworth, Assistant Manager
- david.hurworth@mazars.co.uk
- 0191 383 6328

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Significant risks and key judgements

5. Value for Money

6. Fees

7. Independence

8. Materiality and misstatements

Appendices

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

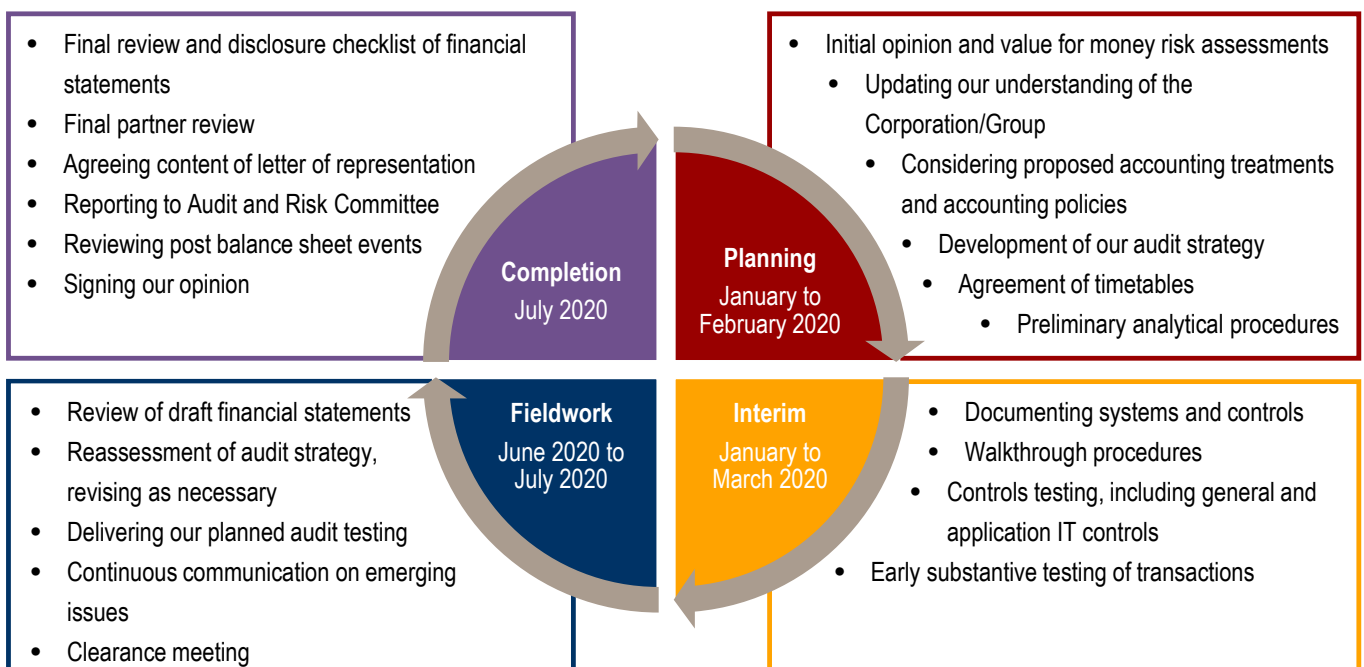
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Corporation's and Group's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Property, plant and equipment valuation (Group)	The requirement as to whether to appoint an expert at Group level will be considered by management, and as such this is to be confirmed.	If required, NAO's consulting valuer (Gerald Eve)

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Corporation and Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Corporation and Group and our planned audit approach.

Items of account	Service organisation	Audit approach
General Ledger	Tees Valley Combined Authority (and in-turn Stockton-on-Tees Borough Council)	Review of and access to records and information held at the Corporation, and at the service organisation where required.
Payroll	Stockton-on-Tees Borough Council	Review of and access to records and information held at the Corporation, and at the service organisation where required.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

We are responsible for the audit of the South Tees Development Corporation Group consolidation.

The South Tees Development Corporation consolidated group is made up of the following components:

- South Tees Development Corporation; and
- South Tees Developments Limited.

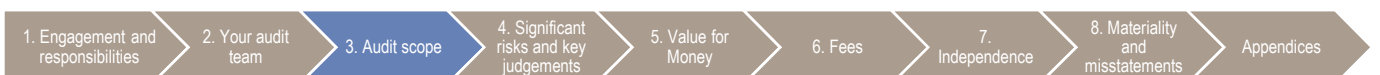
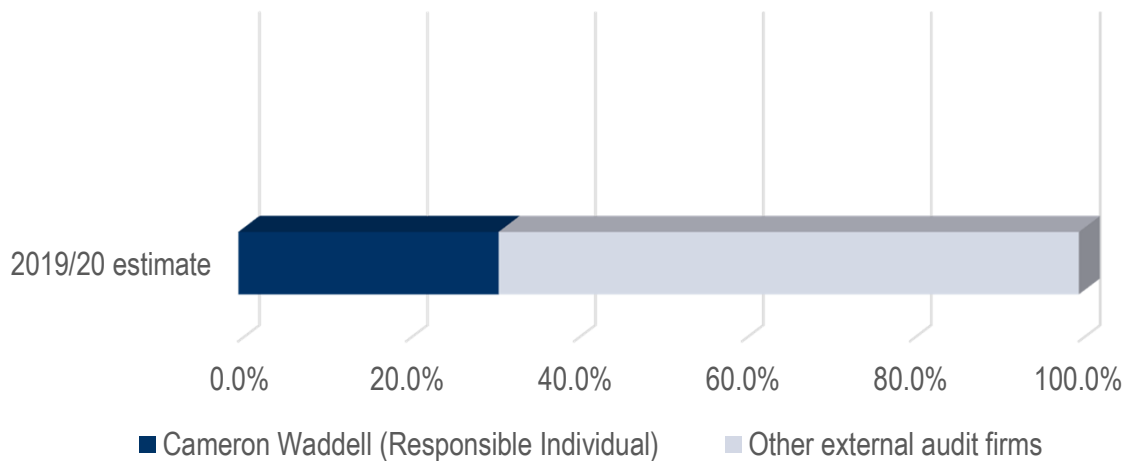
An analysis of the group is shown below, setting out:

- an overview of the type of work to be performed on the financial information of the components; followed by
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group and the Corporation), and the percentage audited by other audit firms (South Tees Developments Limited).

Planned approach by percentage of group (using total assets)

Year	Full scope audit	Limited or specific review	Other audit procedures
2019/20 estimate	100%	0%	0%

Percentage of group (using total assets) audited by responsible individual

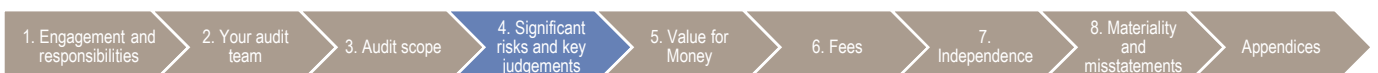
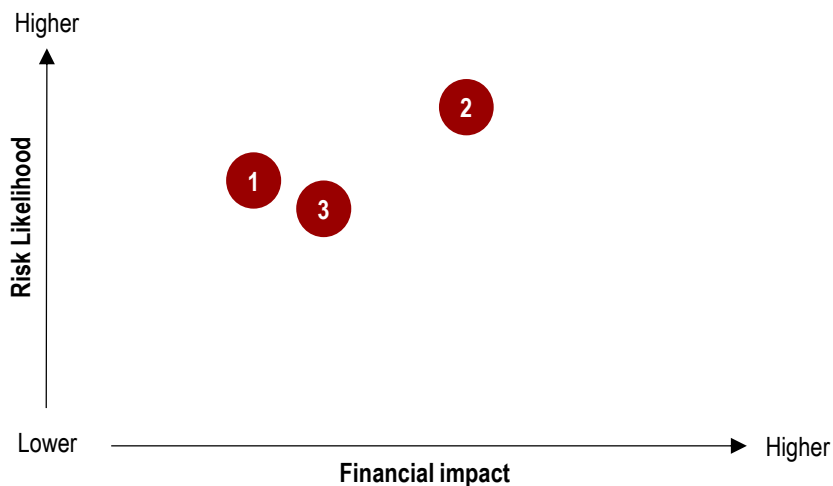


4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Risk Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls (Corporation and Group)</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Property, plant and equipment valuation (Group)</p> <p>The 2019/20 Group financial statements will contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE.</p> <p>Management will need to consider whether a valuation expert is required to provide information on valuations in line with the Code for STDC Group. Where required, 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 have therefore identified the revaluation of Group PPE to be an area of significant risk.</p>	<p>We will address this risk by placing reliance on the work of the component auditor for STDC Group's subsidiary; South Tees Developments Limited. If a valuer has been appointed by the subsidiary, we will consider the level of expert input and challenge by the component auditor.</p> <p>We will consider the reasonableness of the chosen classification category of the PPE under the Cipfa Code for the STDC Group statements, and undertake testing of any adjustment required to reclassify the PPE appropriately under the Code. If considered necessary we may then engage our own expert to enable us to assess the reasonableness of the valuations provided by the subsidiary's or Corporation's valuer.</p>
3	<p>Defined benefit liability valuation (Corporation and Group)</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</p>



5. VALUE FOR MONEY

Our approach to Value for Money

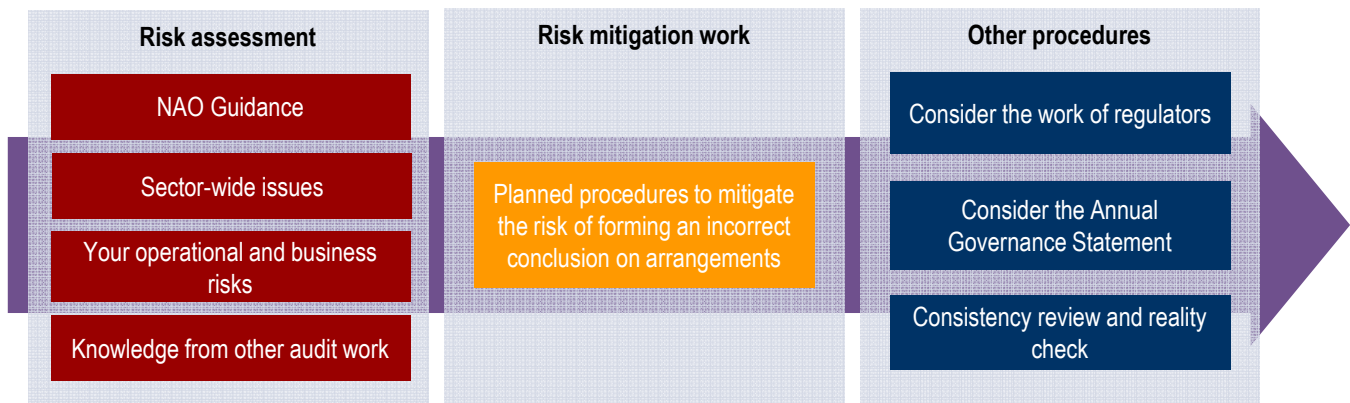
We are required to form a conclusion as to whether the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and 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.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Corporation and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, at the time of issuing this Audit Strategy Memorandum we have not identified any significant risks to our VFM Conclusion. We will keep this under review as our audit progresses.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Corporation's appointed auditor

We communicated our proposed fee of £13,860 in our fee letter dated 17 April 2019, which was in line with the scale fee set by PSAA. As the letter set out, this did not include proposed fees to cover the audit of the group consolidation, as referenced in section 3 of this Memorandum, and as such we are proposing to vary the 2019/20 audit fee, subject to agreement from PSAA.

Service	2018/19 fee	2019/20 fee
Code audit work	£13,860	£13,860
Plus; additional fees in respect of group consolidation	£3,220	£6,038*
Plus; additional fees arising from use of Group auditors expert	£1,484	£TBC if required
Plus; additional fees arising for dealing with matters arising in 2018/19 audit.	£2,700	N/A
Total fees for Code audit work	£21,264	£19,898*

*subject to confirmation of 2019/20 rates by PSAA for fee variations, and approval by PSAA.

Fees for non-PSAA work

We have not, and at the time of writing this report do not expect to undertake any non audit work. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.



7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)	Initial threshold (£'000s)
	Corporation	Group
Overall materiality	£93.8	£355.8
Performance materiality	£75.0	£284.6
Trivial threshold for errors to be reported to the Audit and Risk Committee	£2.8	£10.6

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure at the surplus or deficit on provision of services level for the Corporation and Total assets for the Group. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Risk Committee.

We consider that gross revenue expenditure at the surplus or deficit on provision of services level for the Corporation and Total assets for the Group are the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% gross revenue expenditure at the surplus or deficit on provision of services level for the Corporation and 2% of Total assets for the Group.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on budgeted 2019/20 expenditure for the Corporation and the 2018/19 financial statements for the Group we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £93.8k for the Corporation and £355.8k for the Group (£54.6k for the Corporation and £74.8k for the Group in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
None identified that warrant a separate materiality.	~

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Risk Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £2.8k for the Corporation and £10.6k for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit and Risk Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit and Risk Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓



APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee’s Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>





SOUTH TEES DEVELOPMENT CORPORATION

Internal Audit Progress Report

3 March 2020

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.





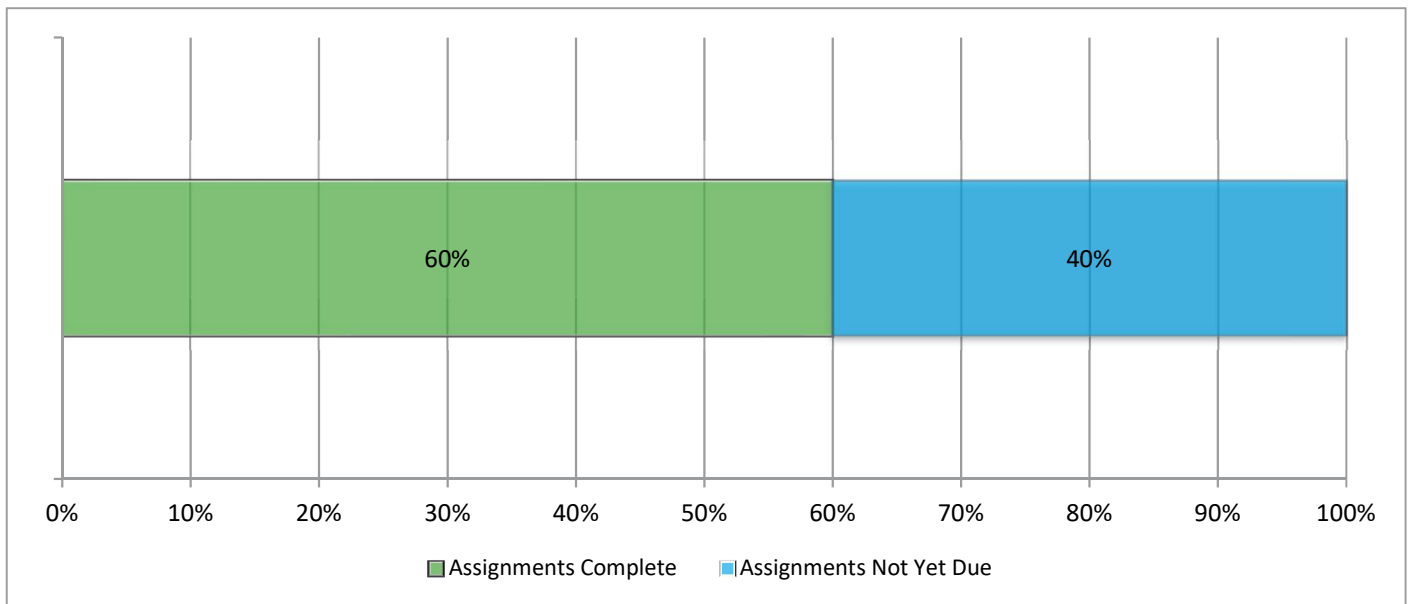
CONTENTS

1	Introduction.....	2
2	Reports considered at this Audit and Risk Committee.....	3
3	Looking ahead.....	4
4	Other matters	5
	Appendix A: Internal audit assignments completed to date	6
	For further information contact	7

1 INTRODUCTION

The internal audit plan for 2019 / 2020 was approved by the Audit and Risk Committee on 21 August 2019.

The graphic below provides a summary update on progress against the 2019 / 2020 plan.



2 REPORTS CONSIDERED AT THIS AUDIT AND RISK COMMITTEE

This table informs of the audit assignments that have been completed since the last Audit and Risk Committee held.

We have issued two final reports since the previous meeting and these are detailed in the table below:

Assignments	Status	Opinion issued	Agreed actions		
			L	M	H
Procurement	Final		2	3	0
Budgetary and Financial Controls	Final		2	3	0

3 LOOKING AHEAD

Assignment area	Status	Target Audit and Risk Committee
Follow Up of Previous Internal Audit Management Actions	Fieldwork scheduled to take place week commencing 6 April 2020 Planning document issued and approved	April 2020
Project and Contract Management	Fieldwork scheduled to take place week commencing 9 March 2020 Planning document issued and approved	April 2020

4 OTHER MATTERS

4.1 Key performance indicators (KPIs)

Delivery			Quality		
	Target	Actual		Target	Actual
Draft reports issued within 10 working days of debrief meeting	10 working days	7 working 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 working days of management response	3 working days	1 working day (average)	% of staff with CCAB/CMIIA qualifications	>50%	67% ytd
High and Medium recommendations followed up	Yes	Scheduled for February 2020	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working days	N/A

APPENDIX B: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Reports previously seen by the Audit and Risk Committee and included for information purposes only:

Assignment	Opinion issued	Actions agreed		
		L	M	H
Risk Management		7	5	0

FOR FURTHER INFORMATION CONTACT

**Rob Barnett, Head of Internal
Audit**

RSM
1 St. James' Gate
Newcastle upon Tyne
NE1 4AD

M: 07809 560103
Robert.Barnett@rsmuk.com

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.



SOUTH TEES DEVELOPMENT CORPORATION

Budget Setting and Control

FINAL

Internal audit report 3.19/20

24 February 2020





CONTENTS

1 Executive summary	2
2 Detailed findings	5
Appendix A: Scope	15
Appendix B: Further information.....	17
For further information contact	18

Debrief held 20 December 2019
Draft report issued 17 January 2020
Responses received 24 February 2020

Final report issued 24 February 2020

Internal audit team Robert Barnett, Head of Internal Audit
Philip Church, Client Manager
Robert Knowles, Senior Auditor

Client sponsor Director of Finance and Resources

Distribution Director of Finance and Resources
Engineering and Programme Director
Interim Head of Finance

1 EXECUTIVE SUMMARY

1.1 Background

South Tees Development Corporation (STDC), under the control of Tees Valley Combined Authority (TVCA), was established on 1 August 2017 and was the first Mayoral Development Corporation (MDC), a statutory body created to bring forward the regeneration of a defined area, outside of London. An MDC has powers to acquire, develop, hold, and dispose of land and property as well as to facilitate the provision of infrastructure. It was set up to promote the economic growth and commercial development of Tees Valley by converting assets in the South Tees area into opportunities for business investment and economic growth. In order to manage the acquisition (acquired 22 February 2019) and subsequent development of the Tata Steel site, and to mitigate the risk to STDC, a Special Purpose Vehicle (SPV) was set up: South Tees Development Limited (STDL). Together with STDC, these form the STDC Group. South Tees Site Company Limited (STSC), an interim government body, was established in December 2016 by the Government with the responsibility for the safe, secure and cost-effective management of the former SSI steelworks site. The site included in the 'order land' which is the subject of a Compulsory Purchase Order (CPO) made by the STDC on 10 April 2019. Acquisition of the order land will enable the Corporation to deliver on the aspirations of the South Tees Regeneration Master Plan, launched on 18 October 2017, in which are outlined the vision and strategy for regeneration along with the redevelopment strategy and phasing plan, a programme of works which are projected to run until 2042.

Our audit looked at the process for setting, scrutinising and approving the current financial year's, 2019/20, budget, as well as the in-year review and management scrutiny of performance against budget, re-forecasting and re-profiling, and setting of the next financial year's budget, 2020/21. The forecast outturn for 2019/20 as of P7 is £7.01m, which represents a £7.89m underspend against the approved budget, the majority of which (£7.28m) is due to the lack of progress on the Prairie site.

1.2 Conclusion

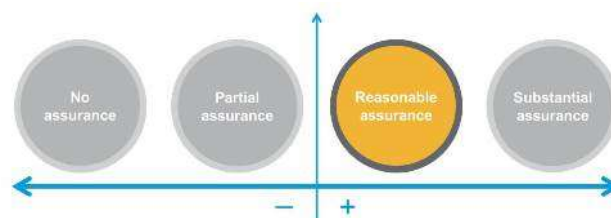
Our review highlighted examples of strong practice, namely the scheduling of management meetings and the monitoring of performance against the budget and forecasts through the STDC governance structure to allow for routine challenge, as well as timely endorsement of the 2019/20 budget by the Board. We could also evidence alignment of the budget and allocated resources with the Corporation's aims and strategic objectives of its Master Plan and that assumptions had been drawn up after consultation between key persons (notably the Engineering and Programme Director, who compiles the programme of commissions).

We noted that there has been limited construction works due to unforeseeable circumstances outside of the control of STDC but that spend had been re-profiled accordingly. This lack of progress has meant that the Corporation has not needed to routinely re-forecast in-year, though it has re-profiled its expenditure when a need has been identified, for example the Tata Steel land. Due to the current size of the Corporation (nine employees and three temps), formal budget holder reports are not being produced as the Engineering and Programme Director is the acting budget holder for the Corporation; however, it is intended that budget holder reports would be produced as the Corporation grows and progress on its programme of commissions is made in earnest.

Our review identified a number of areas where the Corporation could improve its control framework around budgeting and monitoring, namely: formalising and documenting an annual budget setting and monitoring timetable; providing management accounts (and more granular detail) on performance against budget and forecasts to the Audit and Risk Committee (A and RC); and devising a set agenda and action tracker for the monthly finance meetings.

Internal audit opinion:

Taking account of the issues identified, the Board can take **reasonable assurance** that the controls in place to manage this area are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



1.3 Key findings

The key findings from this review are as follows:

- In the 'Annual Budget Details' paper which was presented at the 15 May 2019 meeting of the A and RC, however, it was noted that '[t]he aims of STDC within this 2019/20 financial year are reflected in the budgeted expenditure, namely progressing the CPO, the SSI / Thai banks negotiations, ensuring the development of the site is correctly planned (strategic consultancy fees), working with a strategic partner to engage with the private sector in terms of funding and marketing the site to attract investors / developers, and also progressing the comprehensive spending review business case'.
- In discussion with the Engineering and Programme Director, when setting the 2019/20 budget he sat down with the Finance Manager and the former Director of Finances and Resources (now Chief Executive) and went through a programme of priorities (commissions) for the year, looking at areas of expenditure such as any residual spend of existing commissions, deferred expenditure (ie projects which can be pushed back to the following year) alongside resourcing needs (ie potential to capitalise staff costs to provide additional headroom). Also considered during budget setting was the spend over previous years as well as any known new spend (ie arising from the purchase of the Tata site). A Summary Sheet was compiled which broke down, item-by-item, suggested expenditure, both capital and operating, by project category, project, details, supplier etc, a copy of which was sighted on the Finance Manager's computer.
- The budget and related assumptions are presented to the A and RC for challenge. Our review of minutes from these meetings confirmed that this had happened in practice.
- Due to the size of the Corporation currently, notification of the approved budget to budget holders is taken as the Board's approval of the annual budget. It was noted in the minutes of the 15 May meeting of the A&RC that the STDC Group Annual Budget for 2019/20 was 'signed off at the last Board meeting'. Attendees at meetings of the AR&C include the Engineering and Programme Manager.
- A review of the 'Finance Report – 2019/20 Annual Budget STDC and SPV' from the 27 March 2019 meeting of the STDC Board confirmed that a consolidated budget was presented to the Board for endorsement, with narrative supporting the figures. It was agreed to the minutes from the meeting that, while the budget was endorsed by the Board, it was noted the figures were at a very high level and more detail was requested for the A and RC meeting in April. A review of the minutes of the 24 April 2019 meeting of the A and RC confirmed a presentation was given by the Interim Head of Finance of the 2019/20 budget at a more granular level.
- A review of the management accounts prepared by the Finance Manager for July, August, September, and October respectively confirmed that the following figures are provided: 2019/20 budget, forecast and variance; YTD budget, forecast, actual and variance. Where there was significant variance, we confirmed that narrative was provided.
- It was noted in the 'Financial Performance' paper which was presented at the 23 October 2019 meeting of the STDC A and RC that annual expenditure budgets for key schemes / projects against forecasted spend were provided for transparency and challenge and that 'key exceptions to the budget / plan' were highlighted. Each variance was supported with narrative.

- An update on the first four months of 2019/20 was provided to the A and RC at its meeting of 23 October 2019 on the financial performance of STDC and STDL, in which there had been ‘re-profiling of the original budget to reflect plans for the 2019/20 financial year. This [was] a one off amendment to allow for transition to integrated financial plans in 2020/21.’
- This ‘Finance Update’ paper had previously been to the 25 September 2019 meeting of the STDC Board. It was agreed to minutes of the meeting that the Board ‘endorsed the re-profiled budget’.

We have raised **three medium** and **two low** management actions. The medium management actions relate to the following:

- There is currently no documented budget timetable in place. Although through discussions with management we could determine that there are defined deadlines in the budgeting and financial planning process, there is a risk if a timetable is not documented that that sufficient time is not allowed for to facilitate sufficient challenge of the budget by the A and RC for recommendation to the Board for endorsement.
- Outcomes from the monthly finance meetings are not currently documented. There is a risk should actions raised at these meetings not be tracked that there is an increased likelihood of actions not being implemented, or owners are not held accountable for any delays in implementing assigned actions.
- Full management accounts are not currently presented to the A and RC. There is a risk that the numbers presented to the A and RC are not granular enough to allow for appropriate and sufficient challenge of the budget and forecasts.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
	Low	Medium	High	Low	Medium	High	
Budget Setting and Control	3	(11)	2	(11)	2	3	0
Total	2	3	0				

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
Area: Budget Setting and Control								
1	<p>Partially missing control</p> <p>There is a formally documented budget setting and monitoring timetable in place. With regard to setting the annual budget, planning begins around the new year to allow for challenge by the Audit and Risk Committee, for endorsement of the budget by the Board by year-end (31 March).</p>	No	-	It was noted in discussion with the Interim Head of Finance that commencement of 2020/21 budget setting is dependent on completion of the CEO's strategy review (rescheduled for 24 January), but that he is to start initial planning by the new year. It is intended that the initial budget is to go to the February meeting of the STDC Audit and Risk Committee for scrutiny; however, the budget setting timetable is not formalised. From discussions with the Interim Head of Finance, it was	Medium	We will formalise and document a budget setting and monitoring timetable for 2020/21 onward.	31 January 2020	Interim Head of Finance

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	There is a structured timetable for monitoring of the budget and forecasts which allows for performance against the budget to be regularly scrutinised and re-forecast in-year; this facilitates with next year's budget and forecasting.			<p>determined that budget monitoring is timetabled as follows:</p> <p>The Finance Manager receives the STDC monthly figures from the Assistant Finance Manager at Tess Valley Combined Authority (TVCA) within the first week of the following month. The Finance Manager then pulls together the monthly management accounts and meets with the budget holder(s) to confirm the figures in advance of a monthly Finance Meeting where the budget and forecasts are scrutinised. The Audit and Risk Committee (A and RC) is timetabled to take place once every two months, with the Board scheduled to take place every alternate month (bi-monthly). The AR and C is responsible for reviewing and scrutinising the budget and recommending the budget to the Board for endorsement. From our testing, we can see that the budget monitoring timetable is being followed in practice.</p> <p>In addition, we obtained minutes and papers from the following meetings, which confirmed that the aforementioned meetings had taken place, in line with the expected timetable:</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<ul style="list-style-type: none"> 20 February 2019 A and RC; 27 March 2019 STDC Board; 24 April 2019 A and RC; 15 May 2019 A and RC; 19 June 2019 A and RC; 15 July 2019 Extraordinary meeting of the STDC Board; 24 July 2019 STDC Board 21 August 2019 A and RC; 25 September 2019 Board 23 October 2019 STDC A and RC; and 18 December 2019 STDC A and RC ('Finance Update' and agenda received). <p>Nb the Interim Head of Finance noted that the May Board was cancelled as it was on the day, or within a day or so, of the British Steel collapse (22 May 2019) which affected plants within the STDC site, while the minutes of the 27 November STDC Board were not available at the time of our review.</p> <p>There is currently no documented timetable covering the budgeting and monitoring process. In particular with the work required on the CPO and re-profiling of the 'Prairie' site redevelopment expenditure, there is a risk that sufficient time is not</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				allowed for to facilitate sufficient challenge of the budget by the A and RC for recommendation to the Board for endorsement. This will become more imperative when progress (and expenditure) on capital projects begins in earnest.				
2	<p>Partially Missing control</p> <p>There are monthly meetings between the Engineering and Programme Director and the Finance Manager at which the management accounts, specifically performance against budget and forecasts, are scrutinised and finalised for discussion at the Finance Meetings.</p> <p>Budget holder reports are, however, not currently produced.</p>	No	-	<p>Production of the STDC management accounts is currently a manual process as STDC does not have its own finance system in place while its Chart of Accounts are in the process of being devised. The Corporation currently has to 'get its numbers' from the TVCA system (Agresso) and is using spreadsheets to produce its accounts. It was confirmed in discussion with the Finance Manager that key staff (Directors, Finance, project managers) are booked on Agresso training, scheduled for 15 January 2020 (agreed to an email from the TVCA Director of Finance and Resources sent on 20 December 2019) and that it was intended for the finance system to be introduced at STDC by 1 April 2020, the start of the next financial year (2020/21).</p> <p>A monthly download of the STDC cost centre from Agresso is provided by the Assistant Finance Manager at TVCA to the STDC in the first week of the following month; these</p>	Low	For the financial year 2020/21 we will produce monthly budget holder reports.	30 June 2020	Finance Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>numbers form the basis of the STDC management accounts. The Finance Manager compares the numbers provided by TVCA to the previous months to highlight the movements, and also performs a reconciliation of the data to ensure it is complete. The Finance Manager maintains a list of all PO Requests, 'STDC PO Requests to TVCA Tracker', which lists all POs against supplier, order number, and value, and notes who the request was from, who the approval was from, and whether GRN was confirmed. Additionally, a separate 'STDC Payment Applications' spreadsheet is maintained, in which is listed budget against contract/PO value, with the outstanding PO balance. It was noted in discussion with the Engineering and Programme Director that currently budget holder reports are not being produced due to the current size and structure of the team, whereby the Engineering and Programme Director, who meets with his project managers on a fortnightly basis, has overall control of the budget. This is not deemed an issue; however, the intention going forward, once the Corporation has structured its Chart of Accounts and makes greater progress in its capital expenditure projects, is for monthly budget holder reports to be produced. Likewise, the Engineering</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>and Programme Director intends to introduce forecast and budget proforma for the project managers. This will allow project managers to identify whether they can release budget back into the overall pot to be used for other projects, where possible.</p> <p>There is a risk if budget holder reports are not produced in a timely manner that spend against budget is not being sufficiently monitored at a granular level, and potential intervention not provided in good time to avoid significant overspend (or underspend which could have allowed for funds to be reallocated, where possible.</p>				
3	<p>Missing control</p> <p>There is currently a formal process in place for re-forecasting at key points in the year.</p>	No	-	<p>It was noted in discussion with the Interim Head of Finance that while there have been ad-hoc re-forecasting of the budget there is no formal timetable or process for in-year forecasting. This was confirmed in our discussions with the Finance Manager as being due to unforeseeable circumstances (namely the deaths at the SSI site on 19 September 2019) which has resulted in there being only one in-year re-forecast of the 2019/20 budget as little progress on capital projects has been made.</p>	Low	<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 A and RC).</p>	30 June 2020	Interim Head of Finance

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>There is a risk if there is not regular re-forecasting that at year-end expenditure comes in either significantly over or underbudget, which would indicate insufficient scrutiny and review against the budget in-year.</p> <p>Our review did reveal, however, that there is continual consideration of spend against budget and the need to re-forecast, and that any re-forecasting is being presented to the Audit and Risk Committee and the Board for their oversight. Prior to the aforementioned unforeseeable circumstances, it was noted in the 'Finance Paper' presented at the 24 July meeting of the Board that 'prior to the August Finance Meeting there will be a quarterly re-forecasting exercise to more accurately profile income and expenditure, which will be presented at the next Board'. Accordingly, it was noted in the 'Finance Update' presented at the 25 September 2019 meeting of the Board that there had been re-profiling of the original budget. This was a 'one off amendment to allow for transition to integrated financial plans in 2020/21.' The Update went on to note that 'the 2020/21 budget will reflect any necessary re-profiling requirements to reflect the current position across STDL budgets'. A review of the 'Finance Update'</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				presented at the 18 December 2019 meeting of the A and RC noted that forecast expenditure for 2019/20 had been reviewed and adjusted accordingly.				
4	Monthly meetings are held between the Engineering and Programme Director (budget holder) and the Finance Manager, the outcomes from which, and related changes to forecasts, inform the monthly management accounts which are presented to and discussed at monthly Finance Meetings.	Yes	No	<p>It was noted in discussion with the Finance Manager that there are monthly meetings between him and the Engineering and Programme Director to discuss performance (actuals) against the budget and forecasts. These meetings happen prior to monthly internal Finance Meetings which are held between the TVCA Director of Finance and Resources, STDC CEO, Engineering and Programme Director, Interim Head of Finance and Finance Manager; however, these meetings do not have a set agenda and are not minuted, nor are any actions recorded on a log/tracker.</p> <p>There is a risk should actions raised at these meetings not be tracked that there is an increased likelihood of actions not being implemented, or owners are not held accountable for any delays in implementing assigned actions.</p> <p>We confirmed that monthly management accounts had been prepared by the Finance Manager</p>	Medium	We will maintain an action log for the monthly Finance Meetings to ensure the outcomes of these meetings, or any actions raised during, are monitored.	31 January 2020	Interim Head of Finance

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>for July, August, September, and October in which expenditure against forecast was presented and narrative was provided against each line. For example, in the October 'Monthly Finance Review' presentation, it was noted the 'overall, the key variances are the delays on 'Prairie' spend and the strategy studies' which had been 'delayed by the incident on site', while the minor overspend in the month relating to overheads was not expected to continue as it was caused primarily by exceptional items. It was noted in the 'Finance Paper' presented at the 24 July meeting of the Board that due to the liquidation of British Steel a provision for bad debt had been set at a prudent c£1.335m and was provided for in full, to be funded out of the £12m 10 year operational maintenance fund which is part of the TVCA 10 year investment plan. Excluding the British Steel bad debt provision, overall Q1 STDC and Group (i.e. STDL) expenditure was within budget according to the paper. In the October 'Monthly Finance Review' presentation a separate slide was provided listing out invoices raised by STDL along with narrative explaining against which there was bad debt provision.</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
5	The budget and forecasts are monitored at monthly Finance Meetings, and are presented at bi-monthly A and RC meetings, with updates (usually verbal) at alternating Board meeting if required.	Yes	No	<p>We obtained minutes and papers from the below-listed meetings, which confirmed that the aforementioned meetings had taken place in line with expected timetable. A review of the minutes confirmed that the budget and forecasts are being monitored through the Corporation's governance structure.</p> <p>Our review noted, however, that only high-level views of spend against budget and forecasts were being presented to the A and RC and the Board. This had been noted by the Board, specifically at their 27 March meeting. While it is deemed appropriate that a high-level view of financial performance is presented to the Board, there is a risk that the numbers presented to the A and RC are not granular enough to allow for appropriate and sufficient challenge of the budget and forecasts. It was also noted in discussions with management that only July and October monthly management accounts had been presented to the Board.</p>	Medium	We will present full management accounts to the A and RC to allow for sufficient challenge.	29 February 2020	Interim Head of Finance

APPENDIX A: SCOPE

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

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objectives of the area under review

The objective of this audit is to assess the adequacy and effectiveness of controls to support the objective to develop a sustainable operating model.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

- A budget timetable is in place that documents key timeframes leading to the approval process and that this is adhered to.
- Alignment between the strategic objectives and the funding and resources required which is reflected in the budget allocated.
- The annual budget is underpinned by appropriate financial assumptions and there is a formal process in place to challenge the assumptions and related resource allocations within the budget. We will review the budget assumptions in place for the Corporation.
- Budget holder involvement in the annual budget setting arrangements and that they receive notification of the approved budget.
- Approval of the 2019/20 budget through the Corporation's governance structure.
- Production and distribution of budget holders reports and management accounts in a timely manner on a monthly basis, which contains the detail required to allow for sufficient monitoring.
- Significant variances in income and expenditure are detailed within the commentary to the management accounts.
- Spend is appropriately profiled and adjusted where necessary.
- Review and monitoring of budget versus actual by budget holders and actions / forecasts are undertaken to reflect changes identified during the year.
- Process in place to carry out forecasts at key points in the year to allow for effective planning.
- Monitoring of the budgets / forecasts through the Corporation's governance structure.

Limitations to the scope of the audit assignment:

- We will not perform an arithmetical check on the Corporation's budget or financial forecasts, or verify that the checks undertaken by management to ensure the accuracy of information are correct or complete.
- We will not consider the Corporation's strategic planning process as part of this review.
- We will not perform testing to confirm whether or not the approved budget has been correctly and accurately loaded to the finance system.

- The suitability of the Corporation's strategic objectives and budgetary assumptions will not be considered within the scope of the review.
- We will not confirm the budget for the Corporation will be achieved.
- Our review does not provide an opinion as to whether or not the Corporation will achieve its forecast or whether that forecast is robust; consideration has been given to the key controls in place at the Corporation to determine whether these are appropriately designed and being complied with.
- Our work does not provide assurance that error, loss or fraud does not exist

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Engineering and Programme Director
- Interim Head of Finance
- Finance Manager

Documentation reviewed during the audit:

- Masterplan
- Annual Governance Statement, 2018 / 2019
- Constitution Appendix IV: Financial-Regulations
- Monthly Finance Review, October 2019
- A and RC Paper 10.7, Annual Budget Details

FOR FURTHER INFORMATION CONTACT

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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.

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.

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SOUTH TEES DEVELOPMENT CORPORATION

Procurement

FINAL

Internal audit report 2.19/20

24 February 2020



CONTENTS

1 Executive summary	2
2 Detailed findings	4
Appendix A: Scope	11
Appendix B: Further information.....	13
For further information contact	14

Debriefs held 29 November 2019
9 December 2019

Draft report issued 29 November 2019
17 December 2019

Revised draft report issued 6 January 2020

Responses received 24 February 2020

Final report issued 24 February 2020

Internal audit team Robert Barnett, Head of Internal Audit
Philip Church, Client Manager
John Marshall, Lead Auditor

Client sponsor Interim Head of Finance

Distribution Interim Head of Finance
Procurement Manager

1 EXECUTIVE SUMMARY

1.1 Background

An audit of procurement was undertaken at South Tees Development Corporation ('Corporation') as part of the approved internal audit plan for 2019 / 2020.

The Corporation procures a number of different services and works in order to complete the regeneration of the site. These vary from works, land and buildings through to consultancy and recruitment requirements. The Corporation has two full time employees to manage procurement, these being a Procurement Manager and Procurement Officer.

The Corporation do not currently contract directly with the supply chain, Tees Valley Combined Authority (TVCA) acts as the contracting authority as they are the parent organisation. The Corporation is in the process of setting up a limited subsidiary company and will, once all of the required governance is in place, contract via this entity. The Corporation is aiming to do this by the beginning of the next financial year, which will require the implementation of a procurement strategy and process.

The Corporation work in line with the TVCA procurement processes detailed within their Constitution. Once approval has been confirmed from the Corporation, the Corporation complete the TVCA paperwork and the procurement is approved by TVCA before proceeding. Until the new limited subsidiary company has been set up, the Corporation will continue to follow TVCA's guidelines.

1.2 Conclusion

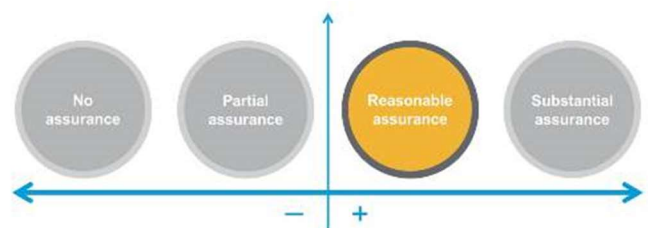
As the Corporation is in its infancy it is following TVCA's policies and procedures. Once the Corporation is in a position to contract directly with the supply chain, an exercise will be undertaken to implement controls which suit their specific requirements. The Procurement Manager is already in the process of developing draft procedures.

During the audit, management had raised concerns about the time taken to complete procurement activities. This audit did not identify any bottlenecks within the process.

Internal audit opinion:

Taking account of the issues identified, the Board can take **reasonable assurance** that the controls in place to manage this risk are suitably designed and consistently applied.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area.



1.3 Key findings

The key findings from this review are as follows:

- The Corporation has adequately qualified members of staff to conduct procurement on behalf of the Corporation. The Procurement Manager is qualified by experience and is completing the Management Entry Route (MER) qualification through the Chartered Institute of Procurement and Supply (MCIPS) and the Procurement Officer is MCIPS qualified.
- Our testing of a sample of 20 contracts confirmed that in each case, the Corporation had either completed a tender process or completed a direct award in line with the framework the supplier had been selected from. In the cases where a direct award was granted there was sufficient explanation within the documentation to evidence how the Corporation complied with the framework requirements.
- The Corporation Board receive the Contract Management Report on a bi-monthly basis. Any variations to contracts are also reported along with the report. The report details an overview of each of the contracts.

The following findings have led to medium management actions being identified:

- The Corporation does not have an approved procurement strategy in place. Currently, the Corporation conduct their procurement exercises and then contract through TVCA, and so use TVCA's procurement procedures detailed within their Constitution. The Procurement Manager is in the process of drafting the new procurement strategy and will be consulting with key senior members of staff to finalise in the near future.
- Testing a sample of 20 awarded contracts, confirmed that in three cases the Contract Justification Form had not been correctly approved; with either a missing signature from the Corporation, TVCA or both. In addition, in one case there was no evidence to confirm that for a service over £250,000, the right to go out to tender had been approved by the Board.
- Furthermore, our testing of a sample of 20 awarded contracts confirmed that in three cases the Contract Award Form had not been correctly approved, as there was either a missing signature or date from the Corporation, TVCA or both. In another case there was no evidence to confirm the award of the contract had been approved by the Board.

Details of the one low action are included within section two of this report.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
	Low	Medium	High	Low	Medium	High	
Procurement	1	(10)	4	(10)	2	3	0
Total					2	3	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 DETAILED FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
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Area: Procurement

1	<p>The Corporation does not have in place a detailed and tailored procurement strategy for its specific requirements.</p> <p>Instead, the Corporation follows the TVCA policies and procedures. The procedures are covered within page 161 to page 180 Appendix VIII of TVCA's Constitution.</p>	Yes	No	<p>The Corporation does not have their own strategy in place, as they do not contract directly with the supply chain. The contracting authority for the Corporation is TVCA. STDC completes the necessary procurement processes utilising the TVCA Contract Procedure Rules.</p> <p>The Corporation is in the process of setting up a new limited company, when this is in place, they will begin to contract directly with the supply chain via this entity. The target date to have this company operational is</p>	Medium	<p>The Corporation will implement a procurement strategy.</p> <p>Until the Corporation has implemented their own procurement strategy, they will issue a holding statement confirming continued compliance with TVCA's Contract Procedure Rules.</p>	31 March 2020	Procurement Manager
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	<p>The Corporation approval limits are detailed within the Corporation's Constitution and are as below:</p> <ul style="list-style-type: none"> • Tendering for goods or services (including professional services) > £250,000; • Awarding contracts for goods or services (including professional services) > £500,000; • Tendering for works > £1,000,000; and • Awarding contracts for works > £3,000,000. <p>The three delegated individual officers that can act under these limits are:</p> <ul style="list-style-type: none"> • Chief Executive Officer (CEO); • Finance Director; and 			<p>by the next financial year, April 2020.</p> <p>Ahead of finalising the provisions of the company, the Procurement Manager is in the process of developing a new procurement strategy. The strategy is in draft form and thus has yet to be formally reviewed by the Board.</p> <p>Through discussions with the Engineering and Programme Director and the Procurement Manager, it was confirmed that until the new procurement strategy, and indeed all other governance requirements are in place, the Corporation will continue to use the TVCA Contract Procedure Rules.</p> <p>Without an approved procurement strategy, there is a risk that procurement activity is not conducted in line with the core principles and aims of the Corporation.</p>				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	<ul style="list-style-type: none"> Engineering and Programme Director. 							
2	<p><u>Missing control</u></p> <p>The Corporation does not currently have a formal procurement pipeline in place.</p> <p>Due to the nature of their activities to date and the capacity of the Corporation a forward plan has, at this stage, not been a priority.</p> <p>A number of the works and services contracts procured are undertaken on a reactive basis once a need has been identified or following the results of a survey / review.</p>	No	-	<p>Through discussions with the Procurement Manager, it was confirmed that there is no formal forward plan of procurement. The Corporation did have a forward plan in place, but due to the reactive nature of procurement, and the change in priorities, the forward plan was not regularly updated and so is out of date.</p> <p>The Procurement Manager and Engineering and Programme Director have a number of informal meetings in which they continuously review procurement activity and determine priorities.</p> <p>In addition, there are a number of meetings with key stakeholders from the business where procurement is discussed. However, these meetings are not formal and thus not minuted.</p> <p>If there is no documented forward plan of procurement, there is a greater risk that the Corporation is not aware of all procurement to be conducted and may lead to procurement not being conducted in</p>	Low	The Corporation will create a forward plan of procurement activity to be conducted with a plan to have a live formal forward plan in place by September 2020.	30 September 2020	Procurement Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				the most efficient and effective manner.				
3	<p>Once it is adjudged that there is a need for a service or works contract to be procured, if it is over £5,000, a Tees Valley Combined Authority (TVCA) Contract Justification Form is completed.</p> <p>Where a procurement is under £5,000, the Corporation completes a Purchase Order Request Form.</p> <p>Once the form has been completed, the Corporation require sign off by a Chief Officer to proceed to procurement, if it is anticipated to be under £250,000 for services or £1,000,000 for works.</p> <p>If it is over £250,000 for services or over £1,000,000 for works, Board approval is required. This is either through discussions within Board meetings</p>	Yes	No	<p>Our testing of a sample of 20 contracts awarded confirmed that in 16 cases the Contract Justification Form and approval had been correctly completed. In the four non-compliant cases:</p> <ul style="list-style-type: none"> STDC-SS-0041, the contract was above the £500,000 threshold and so required Board approval for the tender of the contract. The Corporation could not provide evidence to confirm that the Board had approved the tender of the contract. STDC-SS-0036, the Contract Justification Form was signed by the Director of Finance, acting in capacity for STDC and TVCA, however, the form was not dated. STDC-SS-0038, there was no evidence of a Contract Justification Form having been approved by a senior officer at the Corporation and TVCA. STDC-SS-0069, there was no evidence on the Contract Justification Form of approval by the TVCA Director of Finance. <p>If the Contract Justification Form has not been correctly approved, it may</p>	Medium	<p>The Corporation will ensure that for each contract the Contract Justification Form has been completed and approved, and there is evidence of Board approval for the tendering of goods and services, if the value of the contract dictates.</p> <p>As part of the introduction of the new procurement strategy, the Corporation will introduce its own approval forms.</p>	30 December 2019	Procurement Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	<p>or through a Written Resolution from Board members.</p> <p>After it has been approved by the Corporation, it is sent to TVCA for final approval as it is TVCA who are contracting with the supplier. The approval usually comes from the Director of Finance, as the role is a dual role between TVCA and STDC and so they are aware of the requirement in advance.</p>			lead to contracts being procured which have not been provided for within the approved budgets.				
4	Once a decision has been made to award a contract the Corporation complete an Award of Contract Form.	Yes	No	<p>From testing of a sample of 20 contracts awarded, it was confirmed that in 16 cases the Contract Award Form and approval had been correctly completed. In the four non-compliant cases:</p> <ul style="list-style-type: none"> STDC-SS-0041, the contract was above the £500,000 threshold and so required Board approval for the award of the contract. The Corporation could not provide evidence to confirm the Board had approved the award of the contract. STDC-SS-0073, the Contract Award Form had been signed, 	Medium	The Corporation will complete the Award of Contract Form in full before a contract commences.	30 December 2019	Procurement Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>however, not dated by the TVCA Director of Finance.</p> <ul style="list-style-type: none"> STDC-SS-0036, the Contract Award Form had not been signed by either a senior officer at the Corporation or the TVCA Director of Finance. STDC-SS-0038, the Contract Award Form had been signed, however, had not been dated by the senior officer for the Corporation. <p>Without sufficient evidence to show the contracts have been finally approved and when they have been approved, it means it cannot be evidenced that approval was confirmed prior to work being conducted.</p> <p>In all cases a purchase order had been issued via TVCA, which is approved by an STDC chief officer and then by the relevant TVCA approver, meaning the commitment was approved and in line with the requirements.</p>				
5	All of the STDC contracts are reported via the TVCA contracts register which is published on the TVCA website.	Yes	No	<p>Our review of the website confirmed that the TVCA contracts register is available via the website.</p> <p>It was noted that the TVCA contracts register did not have all of the Corporations awarded contracts</p>	Low	The Corporation will notify the owner of the contracts register at TVCA of the information to be added onto the contracts register.	31 March 2020	Procurement Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
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listed. Of the 56 awarded contracts by the Corporation, there was only 23 listed on TVCA's contracts register. These were identifiable by either the Corporation in the contract title, the Corporation reference used or a combination of both. There may have been other contracts listed on the register; however, these are not easily identifiable.

APPENDIX A: SCOPE

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

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objectives of the area under review

To ensure the Corporation's expenditure is undertaken in accordance with its Constitution, Public Procurement and European regulations.

Areas for consideration:

As a public sector organisation, the Corporation has a duty to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for. It also has a duty to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Our review will consider the following:

- A procurement strategy is in place and has been ratified by the Corporation's senior management team / board.
- Procurement activity has been undertaken by appropriately qualified staff.
- Forward pipeline / contract register planning is undertaken to inform procurement activity.
- Through sample testing, we will confirm the procurement system provides evidence of a transparent and controlled framework of authorised, equitable procurement and it is in line with current legislation. We will consider various procurement routes taken e.g. RFQ / single tender for appropriateness.
- Corporation spend by supplier is analysed to inform future contract / framework arrangements.
- The Corporation is transparent in its expenditure / contracts and publishes key information.
- Reporting on procurement through the organisation's governance structure.

We will consider the end-to-end process to ensure that no 'bottlenecks' exist in the process.

The following limitations apply to the scope of our work:

- Testing will be completed on a sample basis, so we will not confirm all transactions have been undertaken in accordance with the regulations / legislation.
- Our review will focus on procurement only. We will not consider expenditure through the P2P / credit card processes.
- We will not review technical specifications for appropriateness.
- We will not review the detail included in contracts for appropriateness.

- We will not consider contract variations as part of this review.
- We will not review the weighting applied to tender activities undertaken by the Corporation.
- We will not review the framework in place to monitor contractor performance or the Corporation's approach to contract management.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Procurement Manager
- Interim Head of Finance

Documentation reviewed during the audit:

- TVCA Constitution
- MCIPS Qualification
- Contract Justification Form
- Tender information and documents
- Framework documentation
- Contract award
- TVCA contracts register
- Contract management report
- STDC Board minutes

FOR FURTHER INFORMATION CONTACT

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

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AGENDA ITEM 6

REPORT TO THE AUDIT & RISK COMMITTEE

3RD MARCH 2020

REPORT OF INTERIM HEAD OF FINANCE

REVIEW FURTHER YEAR OF RSM CONTRACT FOR 2020/21

SUMMARY

This paper discusses the continuation of RSM as internal auditors for the 2020/21 financial year.

RECOMMENDATIONS

It is recommended that the Audit & Risk Committee endorse RSM to continue as internal auditors for the 2020/21 financial year

DETAIL

1. The contract that is in place with RSM as internal auditors covered an initial period of one year until 31st July 2019, and included an option to extend for 12 months, and then a further option to extend for a further 12 months once the 2019/20 audit is complete.
2. Management recommend that the second option to extend for a further 12 months is endorsed in the interests of continuity, and in order to benefit from the efficiencies brought by maintaining the existing relationship with a tested supplier.

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

RISK ASSESSMENT

This report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

Not Applicable

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Post Title: Interim Head of Finance

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