

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & GOVERNANCE COMMITTEE

Date: Friday 3rd February 2023

Time: 10.00am

Venue: Teesside Airport Business Suite, Teesside International Airport

Attendees:		Apologies:
Chris White (CW)	Chair	Allan Armstrong – Independent Member
John Baker (JB)	Independent Member	Mike Sharp – Independent Member
Cllr Anne Watts (AW)	RCBC Representative from TVCA Audit & Governance Committee	John McNicholas – Teesworks
Gary Macdonald (GM)	TVCA	Julie Gilhespie – TVCA
Victoria Smith (VS)	TVCA	Michael Gibson - RSM
Natalie Robinson (NR)	Teesworks	
Derek Weatherill (DW)	Teesworks	
Emma Simson (ES)	TVCA	
Philip Church (PC)	RSM	
Hollie Adams (HA)	RSM	
Cameron Waddell (CW)	Mazars (via Teams)	
Cath Andrew (CA)	Mazars (via Teams)	
Chris Potter (CP)	Azets (via Teams)	
Nicola Dean (ND) (Governance)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	Welcome & introductions	The Chair welcomed everyone to the Meeting and a round table of introductions were made.		
2.	Apologies for Absence	Apologies for absence were noted and submitted as above.		
3.	Declarations of Interest	John Baker raised an interest in South Tees Site Company (STSC) being a member on the Board. No other declarations were raised.		
4.	Minutes from the Previous Meetings & Action Tracker	<p>The minutes of the meetings held on 1st August 2022 and 19th August 2022 were agreed as a true record and there were no questions or comments received.</p> <p>The Action Tracker was reviewed. Completed actions were noted, with open actions updated throughout the meeting as part of the Agenda.</p> <p>RESOLVED THAT: Members agreed the Minutes as accurate.</p>		
5.	Executive Update	<p>Members were provided with the Group Update in advance of the meeting, detailing the key activity within the South Tees Development Corporation (STDC) since the last Committee. Gary Macdonald, (GM), Group Director of Finance & Resources, presented the Report, which reviewed the activity that had taken place throughout 2022 on the Teesworks site and provided an overview of developments coming in 2023.</p> <p>Members queried whether the Centre for Digital Trade and Innovation is being funded by Government. GM confirmed this is part of the Seed Capital Funding that is received in relation to the Freeport. In response to a question around SeAH, and whether it is on track in terms of timelines, GM informed the Committee that SeAH had started work on site including piling, advertising jobs and making</p>		

		<p>appointments, looking at supply chain jobs with around 1500 jobs in that area and 750 direct jobs. It was confirmed work is going to plan with regular meetings with the operational team.</p> <p>Members were also interested whether SeAH's timing aligns with development of the quay. GM confirmed that SeAH has timescales within which it requires the Authority to deliver to enable SeAH to move onto the quay and ship out. It was confirmed that Quay works were continuing, and capital dredging ongoing. The independent report on crustaceans has now been published by the independent panel. STDC continues to comply with its licensing requirements, as it has done throughout its works, and the operational quay is expected to be available for SeAH in 2024 for when monopiles will be coming out of their factory and within the timescale agreed.</p> <p>RESOLVED THAT: Members noted the Update Report.</p>		
6.	Internal Audit Actions Update	<p>Members were issued the Internal Audit Actions Update Report in advance of the meeting which presented the position of current internal audit action plan progress as of December 2022.</p> <p>RESOLVED THAT: Members considered the analysis and audit progress set out in the paper and acknowledged the annual audit schedule.</p>		
7.	Internal Audit Progress Report	<p>The Chair noted good assurances coming out of all Audits and Philip Church (PC), of RSM presented the Internal Audit Progress Report, outlining the following Internal Audits completed against the delivery plan:</p> <ul style="list-style-type: none"> • Logic Models • Procurement to Pay Process • Scrap & Disposal of Assets • SeAH/SBQ Project <p>The Chair highlighted there are occasions text in Papers/Audit Reports slips into Audit & "Risk" and reminded the Committee it is concerned with Audit & "Governance" and to consider how that relates to scope. NR assured the Committee the scope of the audits had been undertaken in line with the new Terms of Reference.</p>	2 Audit Reports to be brought to	TVCA/RSM

		<p>The Chair noted that in a cycle, the Committee receives 6 reports from RSM and recognised 4 were being presented today. PC agreed that this shouldn't be happening as the plan is to bring 2 to each Committee. GM noted this as an exception, but a fair observation that has been addressed for future.</p> <p>RESOLVED THAT: Members noted the Internal Audit Progress Report.</p>	each Committee	
8.	Internal Audit Reports	<p>Members were issued with the Internal Audit Reports and the conclusions are summarised below:</p> <p>Logic Models – Five medium priority and two low priority management actions were agreed with “reasonable assurance” given. Natalie Robinson, (NR), Group Risk Manager, noted that follow up action has now been undertaken and completed regarding action tracking.</p> <p>Members queried whether communications with BEIS have been rectified. NR confirmed this to be the case and explained there was a Tracker which formally documented any actions from packs/sessions with BEIS and this is being monitored with all the actions in progress.</p> <p>They also asked whether the Authority was comfortable with the electrical risk. GM advised that he was confident that, with the monthly risk management activity actions are being progressed, and from a governance perspective, he was content these were being tracked and managed by relevant senior management. The Chair noted that receiving “reasonable assurance” in this area was good.</p> <p>Procurement to Pay Process – Three management actions, comprising two medium and one low priority action were agreed as a result and “reasonable assurance” was given. NR noted that the identified actions had been covered since the submission of this report and the gaps identified were from a legacy system. It was explained that there is no such risk going forward as the new system doesn't allow that gap.</p> <p>The Chair noted that it was positive to see the significant progress made, asking if there was a follow up on this with RSM to evidence the improvements that have been achieved. NR explained that there is always a follow up of audit areas the following year.</p> <p>Scrap & Disposal of Other Assets – One medium and one low priority management action were agreed with “substantial assurance” being given. CW noted this was a positive position with the issues managed and closed out.</p> <p>SeAH Programme & South Bank Quay – No management actions were raised, and “substantial assurance” given. The Committee were informed the review concluded that STDC has adequate controls and systems in place to manage the SeAH Plant and South Bank Quay Projects.</p> <p>The Chair acknowledged the positive position across the Audits.</p>		

		RESOLVED THAT: Members noted the Internal Audit Reports.		
9.	External Audit Annual Report 2020/21	<p>Cameron Waddell, (CW), Mazars, advised that the 20/21 Auditors Annual Report was now signed for the last year and the Committee had previously seen this in draft form. It was explained that this sets out an unqualified opinion on the single entity accounts and no issues were raised around VFM.</p> <p>RESOLVED THAT: The Annual Report was noted.</p>		
10.	External Audit Annual Plan 2021/22 (Audit Strategy Memorandum)	<p>VS explained that it was unusual to have audit documents spanning a number of years and highlighted that last year’s audit completion plan was brought to the Committee as final since it now included the VFM opinion that highlighted there were no weaknesses in the VFM for the organisation. This report was discussed in detail at the last Committee as draft, but the final is required to be shared for completeness.</p> <p>The audit plan for the current audit was explained to have been presented to the Committee due to the postponing of the December committee and the timings, this was shared by Mazars.</p> <p>The STDC single entity audit is nearing completion and therefore the completion report in respect of this year’s audit for the single entity, is also included in the pack, to ensure management have information timely. Cameron Waddell, (CW), Partner at Mazars, updated the Committee on the main changes and explained they were associated with the entities that sit within the STDC Group so there is a reliance on the Group auditor, Azets. CW assured the Committee that Azets have been helpful in keeping them updated and providing copies of working papers with a good relationship formed.</p> <p>Cath Andrew, (CA), Senior Manager at Mazars, noted a correction in the Audit Strategy Memorandum, noting it should be corrected as covering the period 20/21 (page 19) not 21/22. It was agreed this would be re-issued by Mazars and re-published with the correct version.</p> <p>RESOLVED THAT: The Audit Strategy Memorandum was noted subject to the amend highlighted.</p>	Mazars to provide amended Memorandum and TVCA to re-publish	Mazars/TVCA - Received and complete

<p>11.</p>	<p>External Audit Completion Report 2021/22</p>	<p>CW informed the Committee that it was anticipated there would not be any issues and that an unqualified opinion was expected to be issued, though it was explained work was ongoing with GM and Azets to ensure this opinion isn't changed and some work is required to complete the Audit.</p> <p>The Committee was advised that Mazars had yet to receive assurance from the Auditors of Teesside Pension Fund but were expecting to get that shortly, and no later than next month. It was further explained that the level of error (if any identified) would be material to STDC and the Group, and if an updated actuarial letter would be needed. The Chair acknowledged that the pension issue was out of Management and Auditors' control and will have to wait on that information. GM assured the Committee he is going to contact Lead Administrator at Teesside Pension Fund to get likely timescales so a future meeting can be arranged.</p> <p>CW informed the Committee there was good progress made, but that the STSC Audit had not yet been reviewed as Azets were still finalising this and once that's done it will be completed, but it was understood there had not been any big issues been raised. Transactions, and valuation of land and buildings were explained to still be in discussion on the carrying value of assets at 31 March 22. CW informed Members that STDL (South Tees Developments Limited) accounting standards were different to those of the Group so it was advised the difference will be a technical accounting difference. It was advised that Mazars' valuers would speak to GM on this and the underlying evidence and judgements that have been applied, to see they are happy with the approach and if not, what needs to be done to achieve that. Re-assurance was given that all parties were seeking to resolve these issues so by the time that assurance is received, can get everything signed off.</p> <p>The Chair noted this was a good audit progress update and it was positive to see the relationships are working well to get to completion and despite the issues, the Committee has been sufficiently assured on how progress will be made. It was confirmed that once the outstanding streams of work are complete there is a need to call another meeting once signed off on the entity and group accounts. GM explained he envisages a meeting being called before May and will look to give as much notice as possible.</p> <p>CW noted there was nothing in terms of disclosures, nothing to report on consolidation process or recoverability of debtors.</p>	<p>GM to contact Lead Administrator regarding Teesside Pension Fund for likely timescales</p> <p>Mazars valuers to speak to GM on valuation of land</p> <p>GM to get timelines and arrange Extraordinary Meeting</p>	<p>GM</p> <p>Mazars/GM</p> <p>GM/ Governance</p>
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12.	External Audit Progress Update	A verbal update was provided on the External Audit Progress Update. RESOLVED THAT: The External Audit Progress Update was noted.		
13.	Annual Financial Accounts 2021/22 STDL and STSC	The Committee was provided with the Annual Financial Accounts 2021/22 for STDL and STDC in advance of the meeting. No questions were raised, and the Chair noted that the Accounts were generally in good order, though there is a need to get to a resolution in order to get them signed off. RESOLVED THAT: The Annual Financial Accounts STDL and STSC were noted.		
14.	Subsidiary Audit Reports/ Highlights Memorandum STDL and STSC	Chris Potter, (CP), of Azets took the Committee through the Report advising of the findings on the STDL Audit and explaining that the STSC Audit was a little further behind but hoped to be resolved in the next week or so. CP explained that the STDL Audit had gone well with one outstanding area and not a lot of audit differences/audit errors. The Committee was advised there were some bad debt provisions, but the balance left in accounts is reasonable and recoverable. The one point to resolve was explained to be in conjunction with Mazars on the valuation of the land being consistent across the Group and that would be completed as soon as able. It was explained that some internal control observations were noted; that the land registry deeds were not in the correct name and another in the claiming of some VAT but the Committee were informed that there were no fundamental control weaknesses identified, with a significant improvement on what has been seen historically. VS updated Members that the land registry amendment had now been made with the update filed and the VAT return on correction had also been submitted. GM noted positive progress following the issues experienced last year being resolved and a smooth audit, giving thanks to all involved.		

		<p>Members asked if £75k of £1m retention is no longer payable, how did that arise? VS explained this is in relation to a normal business transaction which is being negotiated. GM explained that the retention was a guesstimate at the time as a figure wasn't known and it was a high-level estimate, and the cost is now being worked out and what is eligible. The Chair recognised a provision for the sector and entity issues and saw this as a prudent step, recognising the risk in that sector.</p> <p>RESOLVED THAT: Members noted the Subsidiary Audit Reports/ Highlights Memorandum STDL and STSC.</p>		
15.	Proposal for Review of Committee Effectiveness (Self-Assessment)	<p>Emma Simson, (ES), Acting Chief Legal Officer, summarised the proposed method to review the effectiveness of the Committee, as well as a Skills Audit to ensure it has access to the necessary skills to discharge its function.</p> <p>It was noted that there was an outstanding action to hold an away day (following Terms of Reference review) for the Committee to get together outside of the meeting schedule. GM suggested that the self-assessment and away day could be undertaken in parallel, and the session can supplement the induction process for newer members. The Chair was keen for the Committee to do the effectiveness assessment now and to do so openly and honestly.</p> <p>Navigation of printed Agenda & Papers packs was identified to create issues and having page numbers on future packs would be useful. It was agreed that there should be ease of access in both electronic and printed format and using the Agenda as a contents page may also be useful to aid this.</p> <p>The Chair suggested in the Skills Audit there should also be a free text question on Members' understanding of the function and responsibilities of an Audit & Governance Committee and what skills they feel they have that makes them equipped to feed into that.</p> <p>RESOLVED THAT: Members agreed the Effectiveness & Skills Proposal and timelines.</p>	<p>Arrange an away day for Members</p> <p>Page Numbering/ Contents page & page numbering for future Agenda & papers packs</p> <p>Add section on Members Skills for A&G</p>	<p>Governance</p> <p>Governance</p> <p>Governance</p>
16.	Forward Programme	<p>The Forward Plan was reviewed, and the areas identified for the future, agreed.</p>		

		<p>NR explained the Forward Plan was formulated using the detail the Chair advised as good practice, with proposed items in line with Financial Account's and Audit timelines and it was confirmed the content is reflective of the Terms of Reference.</p> <p>The Chair confirmed the Forward Plan should be a standing item and it would be useful to look at how to record within it a tracked progress of if things were covered or not and if ahead or behind plan.</p> <p>It was suggested it may be useful to have H&S as a standard item as it is a key part of the Audit process.</p> <p>RESOLVED THAT: Members agreed and noted the Forward Programme.</p>	<p>To become a standing Item and to track progress within it</p> <p>H&S to be added as a standing Item</p>	<p>Governance</p> <p>Governance</p>
17.	PSAA Appointment of External Auditors Update	<p>GM presented a Report on the options for the re-tender of the External Audit Contract that will cover the period 2023-24 and 2027-28 financial statements.</p> <p>The Committee were notified that Ernst and Young had been appointed as the new External Auditor.</p> <p>RESOLVED THAT: The Committee considered the report and the options presented in respect of future External Audit services;</p> <p>ii. Note that the preferred Option 1 for progression of future External Audit Services has been agreed by Senior Management and notified to PSAA;</p> <p>iii. Note the progress made by PSAA in relation to their procurement process and next steps for the remainder of the process.</p>		
		<p><i>IT WAS PROPOSED AND AGREED TO PASS A RESOLUTION TO EXCLUDE THE PRESS & PUBLIC FROM THE FOLLOWING CONFIDENTIAL ITEM</i></p>		
18.	Risk Management Report	<p>The Risk Management Update Report was presented to the Committee.</p> <p>RESOLVED THAT: i. The Committee consider the analysis and Risk progress set out in the paper. ii. Acknowledge the current Risk position.</p>		
19.	Date and Time of Next Meeting	<p>It was confirmed that the next meeting would be an Extraordinary Meeting and civic Year meeting dates would be arranged.</p>	<p>Arrange March meeting 2023/24 dates to schedule</p>	<p>Governance</p> <p>Governance</p>

		<p>Members were informed that the Chair was looking to step down from his position on the Committee due to commitments in his new role. GM gave his thanks to the Chair for his input and commitment to the Committee, wishing him every success with his new role.</p> <p>The Committee were advised that interim arrangements for the chairing function would be considered, as well as exploring the marketplace for a replacement member. The Committee were informed that recent recruitment had seen the appointment of a new Independent Member, Mike Casper who unfortunately was unable to attend today's meeting due to unforeseen circumstances but will be introduced at the next Committee.</p>	<p>Interim Chair Arrangements</p> <p>Recruitment to Committee</p>	<p>GM/Governance</p> <p>GM/Governance</p>
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