

Date: Wednesday 2nd June 2021 at 9.30am

Venue: Microsoft Teams meeting

Membership:

Chris White – (Chair - Independent member)

Paul Booth - (STDC Board)

Professor Jane Turner – (Teesside University)

John Baker – (Independent Member)

Cllr Peter Berry (TVCA A&G Representative)

Agenda

1. Welcome & Introductions

2. Apologies for Absence

3. Declarations of Interest

4. Minutes of previous meeting

Attached

5. Chief Executive's Update

Attached – Appendix 1 & 2 of this item are not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

6. Internal Audit Progress Report

Attached

7. Internal Audit Actions Update

Attached

8. External Audit Strategy Memorandum

Attached

9. Project Management Audit

Attached

10. Freeport

Presentation

11. Risk Register Update

This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

Attached

12. Forward Programme & Action Register

Attached

13. Date and Time of Next Meeting:

TBC

Members of the Public - Rights to Attend Meeting

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

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

South Tees Development Corporation Declaration of Interests Procedure

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

Personal Interests

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

Declarations of interest relating to the Councils' commercial role

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

Procedures for Declaring Interests

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

Register of Interests

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

Declaration of Interests at Meetings

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

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

Sensitive Information

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

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE

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

Date: Wednesday 24th February 2021

Time: 9 am

Venue: Microsoft Teams Meeting

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

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	Welcome and introductions	The Chair welcomed everyone to the Meeting.		
2.	Apologies for Absence	Apologies were given as above.		
3.	Declarations of Conflict of Interest	There were no declarations of interest		
4.	Minutes of previous meeting	The minutes of the meeting held on 16 th December 2020 were agreed as a true record.		
5.	Group Chief Executives Update	<p>A report was circulated providing an update to the Committee on Key activity within STDC since the last meeting.</p> <p>A risk section has been included to allow Members to see key risks impacted by the activity within the report.</p> <p>It was agreed that it would be good practice to look at further deep dives into specific projects in future. These will be added as agenda items where appropriate.</p> <p>Tees Valley Freeport application has been submitted and a decision on this is expected in the next few weeks. Guidance on next steps will be issued by Government after the application process is complete. Full governance arrangements will be implemented once this guidance is received.</p>	Offshore wind & Freeport deep dive to be brought to the next meeting if application is successful	GM

		<p>The programmed work on site has been accelerated in some areas and for the right reasons. A map can be provided showing the zones if this is helpful. This will allow Members to visualise the work that is being carried out.</p> <p>It was agreed that there is a further step to take to ensure Members are clear on risk and changes to risk moving forward. The approach to reporting the changes in the risk profile of STDC will be reviewed with any future reporting incorporated in updates to the Risk Register agenda item going forward. NR, GM & CW to meet to discuss how to move this forward.</p> <p>Resolved that the update is noted</p>	<p>Map of zones on site to be shared with members</p> <p>Arrange meeting for CW, GM & NR to discuss further</p>	<p>JM</p> <p>SJ</p>
6.	External Audit Annual Audit Letter	<p>A report on the Annual Audit letter was circulated. The Audit was concluded on 4th December 2020. Findings from the audit are set out within the report.</p> <p>Final fees are higher than the proposed fees for the year due to additional work undertaken. These were agreed in advance and STDC are comfortable with these. A Group Financial Controller is to be appointed to ensure all accounting standards are met.</p> <p>There is a link within the report to the Redmond review. If implemented this will lead to some changes within the audit process, including a change to current set deadlines. Consultation is ongoing currently regarding the proposals within the report. It was noted that half of all audits were delivered late last year, and auditors are therefore still playing catch up. It is thought to be highly unlikely that Local Government audits will be delivered by September 2021. This view has been fed back into the National Audit Office and we may see the deadline for audit pushed back again this year.</p> <p>RESOLVED that the detail of the report is noted.</p>		

7.	External Audit Progress Report	<p>A report was circulated detailing External Audit Progress.</p> <p>RESOLVED that the detail of the report is noted.</p>		
8.	Internal Audit progress Report	<p>A report was circulated detailing Internal Audit Progress.</p> <p>It was agreed that the graphic showing progress against the audit plan needs to map against the original plan so Members can see if progress is on track. This detail will be included in all future reports.</p> <p>RESOLVED that the detail of the report is noted.</p>		
9.	Follow up of previous Internal Audit Management actions	<p>A report was circulated detailing follow up against previous Internal Audit Management actions.</p> <p>RESOLVED that the detail of the report is noted.</p>		
10.	Internal Audit Actions Update	<p>A paper was circulated detailing progress against Internal Audit actions.</p> <p>It was noted that the table showing overdue actions that is usually detailed in this report is missing. Appendix 2 shows an extract of the log detailing all outstanding actions. All actions are lapsed but the reason for this is that they can only be completed when PMO is implemented. A review of the delivery timescales has resulted in a new date of end of March being set for implementation. PMO has a 2-stage implementation. Stage 1 will be complete by end of March and stage 2 by end of April.</p>		

		<p>It was agreed that the report needs to show a table of overdue actions and reasons why. The original target dates should remain and narrative can give reassurances as to the detailed plan and dates for delivery.</p> <p>It was also noted that whilst there is an ongoing process for implementation of PMO some projects are already underway and it is important that any risks associated with these are being considered. It was agreed to report back on these projects retrospectively to satisfy the Committee that all assurances are in place.</p> <p>It was agreed that it will be useful to deliver a presentation to Committee regarding PMO and its benefits. This will allow feedback to be given that can assist in shaping future reporting.</p> <p>Resolved that the detail of the report is noted</p>	<p>Table to be added back into report</p> <p>Retrospective reporting of projects to be included in report where relevant</p> <p>PMO Presentation to be added to agenda</p>	<p>MR</p> <p>MR</p> <p>JM</p>
11.	Demolition Framework Update	<p>A report was circulated providing an update on the Demolition Framework.</p> <p>It was questioned if the timing of this item coming to Committee is right. This is the first time an update on the Framework has been provided and some of the risks have already passed. It was agreed that whilst it would be good to bring all key projects to this Committee there is a logistical challenge with this due to the number of projects ongoing at any time. Where a project coincides with Committee then it can be included on the agenda but there will also be a requirement to look at some projects historically for assurance.</p> <p>Resolved that the detail of the report is noted.</p>		
12.	Risk Management Policy and Framework approval	<p>The Group Risk Management Policy and Framework was circulated.</p>		

		<p>It was questioned where the process of highlighting and documenting risks is captured. There is a Process guide to be shared in scheduled Induction training. This document will be shared with Committee.</p> <p>Resolved that the Committee approves the Group Risk Management Policy and Framework to be shared across the Group.</p>	Document to be circulated	NR
13.	Risk Register Update	<p>A resolution to exclude the press and public under paragraph 3 of schedule 12A of the Local Government Act 1972 was agreed.</p> <p>A Paper was provided detailing a risk management update.</p> <p>The Committee were advised that workforce planning is currently underway with a plan for the next 5 years. This plan needs to be signed off by STDC Delivery Group. Following this the plan can be circulated to this committee to provide assurance on capacity and planning.</p> <p>Resolved that the detail of the update is noted</p>	Workforce plan to be circulated to Committee once signed off.	GM
14.	Electricity Infrastructure Update	<p>A Report was provided updating the Committee on the procurement of the Joint Venture Partner for the Electrical Infrastructure Project.</p> <p>Resolved that the content of the report is noted.</p>		
14.	Forward Programme & Action Register	<p>The Action Register for the Committee was discussed and updated.</p> <p>The meeting schedule for the next year and forward plan for the Committee are being finalised and will be shared with Members as soon as possible.</p>		

15.	Date and Time of Next Meeting	Date of next Meeting – TBC		

AGENDA ITEM 5

REPORT TO THE STDC AUDIT AND RISK COMMITTEE

2ND JUNE 2021

REPORT OF THE GROUP CHIEF EXECUTIVE

GROUP CHIEF EXECUTIVE UPDATE

SUMMARY

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

RECOMMENDATIONS

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

ORGANISATIONAL DEVELOPMENTS

1. Since the Last update to the Committee the Tees Valley has been announced as one of the successful bidders for Freeport Status. As a large area of the proposed Freeport sits within the Teesworks Site Boundary, work is ongoing to reflect the impacts of freeports on the wider regeneration programme to ensure best advantage is taken of freeport incentives. In particular, tax zones, which offer a range of time limited tax incentives to eligible businesses
2. In addition to confirmation of Freeport status STDC has continued to develop a business case for additional funding linked to development of the Tees Valley Offshore Wind Hub on the South Bank area of the site. This business case is expected to secure a further £20m of funding to support site preparation works and ensure that the site is ready to accommodate offshore wind manufacturers at the earliest opportunity. A large part of the Offshore Wind hub also forms part of the Teesside Freeport and is expected to have tax zone status.
3. As part of the plans for the proposed offshore wind hub, in March LM Wind (a subsidiary of GE Renewable Energy) announced plans to open and operate plant for the production of offshore wind turbine blades on the Teesworks Site and Heads of terms have been agreed. The plant is currently in the detailed design phase and is expected to open and start production in 2023 alongside the completion of the Teesworks Quay at South Bank
4. Further developments by operational area are provided below.

FREEPORT

5. In March 2021, as part of the Spring Budget, Tees Valley was announced as one of the first places to get Freeport status under the new Government policy to create Freeports across the country. Covering 4,500 acres, the Teesside Freeport is the largest in the UK. To put the size into perspective, it is equivalent to 2,550 football pitches. It will create more than 18,000 jobs and provide a £3.2billion boost to the local economy over the next five years.
6. In addition, the Government has set an ambitious timeline and is keen to designate the first Freeports by the end of 2021, which will require working at pace. Ahead of this, prospective Freeports will need to submit an Outline Business Case (OBC) and Full Business Case (FBC), setting out how seed capital funding will be spent and connecting this investment to the wider Freeport proposal and the delivery of the policy objectives.
7. In parallel, prospective Freeports will also need to work with HMT and HMRC to confirm and authorise their tax and customs sites and with DIT to agree a package of practical trade and investment support for the Freeport.
8. We expect the process for formally designating Freeports to run to the following timelines:

Activity	Target Completion Date
Governance structures ratified by Government	Completed
OBC development	Summer 2021
Tax sites confirmed	From Summer 2021
Customs sites confirmed	From Autumn 2021
FBC development	Autumn 2021

9. Teesworks has allocated a team to plan, develop and implement the Freeport customs and tax zones on site and to support the Teesside Freeport governance process.

COMMERCIAL

10. To date, Teesworks has received in excess of 200 direct enquiries from occupiers looking to locate their businesses on the Teesworks site, with a total area of 2,267 acres required to fulfil the requirements. Of these 200 enquiries approximately 50 are currently active, with 15 being either taken forward to development or further analysed to evaluate their credentials. The main sectors that these enquiries come from include: Renewable Energy, Manufacturing, Recycling, and Logistics & Transport.
11. We are assessing ability to locate on site via two methods; firstly, a Design & Build (D&B) where Teesworks Limited (the group's joint venture with private sector partners) will develop the property on behalf of the occupier, funding the development by selling the income onto the investment market. This method requires an institutional grade or undoubted covenant strength (e.g. General Electric). The second method is fundamentally a ground rent, where the occupier is provided a fully remediated/ serviced plot on which they fund their own build and pay Teesworks a ground rent.

12. Other commercial activity include progression of the HV JV, implementation and structure of a new service charge regime across the site and evaluation of commercial business cases for rail, ICT and further utility services.
13. Regarding the Electrical Infrastructure JV Procurement Process negotiations with the Preferred Bidder have continued since February 2021. The main issue has been the impact of the HSE Actions legal which were only issued by the HSE in December 2020, following a COMAH visit in November 2020. This timing was after selection of the Preferred Bidder. One of the HSE actions legal is to undertake a network protection study that will confirm the appropriateness of the protection settings for the Teesworks electrical distribution network. The work will be contracted in May 2021 and will be completed in October 2021.
14. As a consequence of the need to undertake a protection study, the deal structure has changed and will now involve a dual close. The first close, likely in May 2021, to set up a management and sales joint venture to support the wider growth aspirations of the Teesworks site and to oversee early works in support of demolition and / customer connections. The second close, likely in November 2021, will see a new joint venture company being formed between the Preferred Bidder and STDC that will acquire the HV assets and will then own, operate and develop the HV infrastructure. The new business will be branded as Teesworks Power Ltd.
15. Between now and the second close STDC will contract for upgrade works that will strengthen the network, such as Scada system upgrade and earthing protection, these costs will be fully reimbursed at the second close.

PROGRAMME DEVELOPMENT

16. Dorman Point (150-acre site)

Eston Road Highway Access Scheme (new roundabout)

- (a) Preliminary construction activities: 100% complete.
- (b) Main works construction start date: 01-Jun-21.
- (c) Revised programmed completion: 28-Feb-22.

Site Preparation and Ground Remediation Works, Phase 1 (40 acres, western zone of site)

- (a) Construction progress: 50% complete
- (b) Programmed completion:
 - Phase 1a (TV ERF site) - 30-Jul-21
 - Phase 1b (remainder of site) – 31-Oct-21.

Site Preparation and Ground Remediation Works, Phase 2 (50 acres, eastern zone of site)

- (a) Construction progress: 60% complete
- (b) Programmed completion: 30-Sep-21.

Site Preparation and Ground Remediation Works, Phase 3 (30 acres, central zone of site)

- (a) Programmed start date – Dec-21.

Site Preparation and Ground Remediation Works – Phase 4 (30 acres – former SSI land)

- (a) Programmed start date – Oct-21.

17. Metals Recovery Area (50-acre site)

Site Preparation and Ground Remediation Works

- (b) Construction progress: 98% complete
- (c) Revised programmed completion: 28-May-21.

18. South Bank

South Bank Quay Phase1 (450 linear metres of usable quay)

- (d) Surveys and investigations – complete.
- (e) Planning permission – secured.
- (f) Marine Works Licence – expected Jun-21.
- (g) Currently out to tender for the contractor, utilising a two-stage, Early Contractor Involvement (ECI) Design & Construct delivery model. Stage 1 tenders due for return: 24-May-21.
- (h) Two bidders will be selected to go forward into the Stage 2 ECI process, where each will develop their detailed proposals and pricing for the project.
- (i) Contract commencement: 06-Sep-21.

Site Preparation and Ground Remediation Works

Area C (GE OSW Blade Manufacturing Site – 60 acres)

- (a) Advance major site clearance and demolition works ongoing.
- (b) Ground remediation works commence: 01-Jun-21.
- (c) Target completion:
 - Phase 1 (main factory site): 30-Sep-21
 - Remainder of site: Feb-22.

Area B (Land behind South Bank Quay Phase 1 – 70 acres, ex-Tarmac leased land)

- (a) Scheduled commencement: 14-Jun-21
- (b) Target completion:
 - Phase 1 (100m wide land strip behind quay – 20 acres): 30-Sep-21
 - Phase 2 (remainder of land – 50 acres): Jun-22.

Area A (Land behind South Bank Quay Phase 2 – 90 acres)

- (a) Advance site clearance works 100% complete.
- (b) Ground remediation works commencement date: TBC.

19. SLEMS Area (60-acre site)

- (c) The technical consultant has now been appointed to commence working up design solutions to the remediation of the SLEMS, in particular the treatment of the 1.0 million tonnes of BOS Oxide.
- (d) We have targeted a 6-month programme for the design and approvals process.

20. Demolition Works Programme

General

- (e) Demolition Contractors' Framework established, with five contractors on Lot 1 and four contractors on Lot 2.
- (f) A full demolition schedule has been drawn up covering all of the remaining demolition projects across Teesworks. This is subject to regular review and update via fortnightly senior level progress meetings.
- (g) The schedule and related framework delivery strategy is now under further review to address the requirement for acceleration in the programme to ensure sites are ready for development in line with Freeport timescales.

Heavy Fuel Oil (HFO) Tank Farm and Buildings at South Bank

- (a) HFO Tank Farm: 100% complete.
- (b) Buildings at South Bank: 90% complete.
- (c) Programmed completion: Jul-21.

Torpedo Ladle Repair Shop Complex (Dorman Point)

- (a) Main shed buildings: 100% complete
- (b) Office buildings: 30% complete.

Advance Demolitions, Redcar (the Foundry and NZT sites)

- (a) Coal Handling Facility, Redcar: 90% complete
- (b) RDL Stores, Tube City, various conveyors: 95% complete.
- (c) Raw Materials Handling Facility: 5% complete.
- (d) Programmed completion: Oct-21.

Primary Demolition Programme

BOS Plant

- (e) Scrap Bays: 85% complete.
- (f) Mould Bay and Export Bay: commenced 13-May-21 (16-20 wk programme).
- (g) Coke Oven Gas Main: contract awarded, commences Jun-21 (18 wk programme).
- (h) Other phases presently being considered and priced.
- (i) Overall completion date brought forward, now targeted for mid- to late-2022.

Stock Houses, Area Workshops and Related Conveyors (NZT Site)

- (j) Conveyors: 75% complete.
- (k) Area Workshops - STSC operatives to be relocated to Redcar Power Station in June/July 2021, ahead of demolition.
- (l) Overall completion scheduled for: 17-Dec-21.

South Bank Coke Ovens

- (a) Battery complex demolition awarded (part of GE site).
- (b) Programme dates: 01-Jun-21 to 23-Oct-21.

21. Net Zero Teesside Site (125 acres)

- (a) The NZT team is now very close to providing a robust steer on site preparation and ground remediation requirements and timescales.
- (b) Initial ground investigation work has commenced to pave the way for further groundworks and site remediation.

22. GE OSW Blade Manufacturing Facility, South Bank

- (a) Design team (Ryder Architecture, Billingham George & Partners, and Cundall) appointed in April and now working on the development of the concept design.
- (b) The plan is that the design team will be novated to the Contractor once appointed, during the detailed design stage.
- (c) Construction programme: Oct-21 to Feb-23.

23. Redcar Gate Entrance Improvements

- (a) Status: 100% complete.

24. South Bank Coke Oven Ammonia Washers

- (a) Invasive demolition commenced May, with the first tower high reach demolition complete from 42m down to 8m
- (b) All ultra-high reach activities are due to be complete by the end of May with hand back of site by late June.

25. Decontamination project

- (a) High pressure water jetting in Redcar commenced in March. The formal contract end date for the decontamination project is late November 2022. However, the latest estimate is the for actual completion is currently June and September 2022 of the fuel oil and coke oven gas, respectively.
- (b) To date delays have been experienced due to the nature of the contaminants within the gas mains. In many areas there are significant of deposits.
- (c) Discussions are currently in place with the contractor around speeding up progress by the introduction of additional crews. This will accelerate cash flow but with the aim of bringing the project forward, thus removing the interface between this project and various demolition projects on the Redcar site and the associated costs.
- (d) Consideration is being given to potential cost savings as a result of alternative waste disposal strategies.

SITE MANAGEMENT REPORT

See Appendix 1.

FINANCE UPDATE

26. As there has not been a Board meeting since the last Committee meeting the usual Board financial update is not attached. Below is a summary of financial performance for the 12 Months to 31 March 2021 for information

		2020/21	2020/21	2020/21	2020/21
		Outturn	Var	Approved	Var
	Actual	Forecast	Outturn	Budget	Budget
Performance overview	£'000	£'000	£'000	£'000	£'000
Central costs					
Overheads	2,107	2,096	(11)	2,813	706
STDL Site Management	1,080	1,173	93	1,173	93
	3,187	3,269	82	3,986	717
Projects					
Teesworks	6,074	5,584	(490)	9,855	3,781
Dorman Point	10,361	11,191	830	10,017	(344)
South Bank	12,445	12,681	236	10,912	(1,533)
Teardrop	218	311	92	985	767
Net Zero Teesside	39	202	164	531	492
Foundry	154	-	(154)	502	348
Steel House (incl Gatehouse)	2,399	2,468	69	5,000	2,601
IFC	-	-	-	380	380
Other	142	196	53	49	(93)
	31,832	32,633	800	38,231	6,399
Land acquisition					
CPO Settlement/other	15,764	15,900	136	19,640	3,876
Total spend	50,784	51,802	1,018	61,857	10,991

- Full year spend to 31 March 2020 is reported at £50.7m compared to an anticipated outturn position of £51.8m. The £1m variance compared to outturn expectations is principally driven by lower than forecast levels of aggregates processing at Dorman Point and South Bank.
- Aside from the above delivery to the year end was in line with management expectations.
- Compared to budget project delivery out turned at £6.3m below the approved budget envelope. This level of spend was set as a challenge target and the profile of programmed activity has reflected core priorities with a focus on Dorman Point and South Bank with work on other areas of the site deferred in the programme as priorities develop linked to material developments such as Freeports.
- Similarly, the programmed underspend on Land Acquisition/ CPO does not reflect a saving, rather deferral of completion of certain land transactions into 2021/22.

Note that all government funding streams including Business Case MOU, MHCLG Prairie (Dorman Point) and Getting Britain Building (Steel House Gatehouse) are all being spend in line with targets/ expectations.

Financial planning 2021/22

27. The development of the budget and financial plan for 2021/22 continues in light of the requirement to reflect the development of the Tees Valley Offshore Wind Hub and likely requirements of Freeports.
28. Updated Plans will be presented to Board at their next meeting later in June and will be provided for consideration at the next Committee meeting.

FINANCIAL IMPLICATIONS

29. The financial implications of programme activity are captured in the STDC Delivery Group meetings throughout the year. The Group received regular financial updates linked to programme milestones and a procurement pipeline has been produced to integrate with the programme plan. This will ensure spending profiles are monitored and key critical expenditure path items are identified.

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

Risks are reviewed on a regular basis by Risk Owners and the Risk Management Team. For further information, see Appendix 2.

CONSULTATION & COMMUNICATION

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

EQUALITY & DIVERSITY

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

Name of Contact Officer: Julie Gilhespie

Post Title: Group Chief Executive

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South Tees Development Corporation

Internal Audit Progress Report

2 June 2021

This report is solely for the use of the persons to whom it is addressed.
To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

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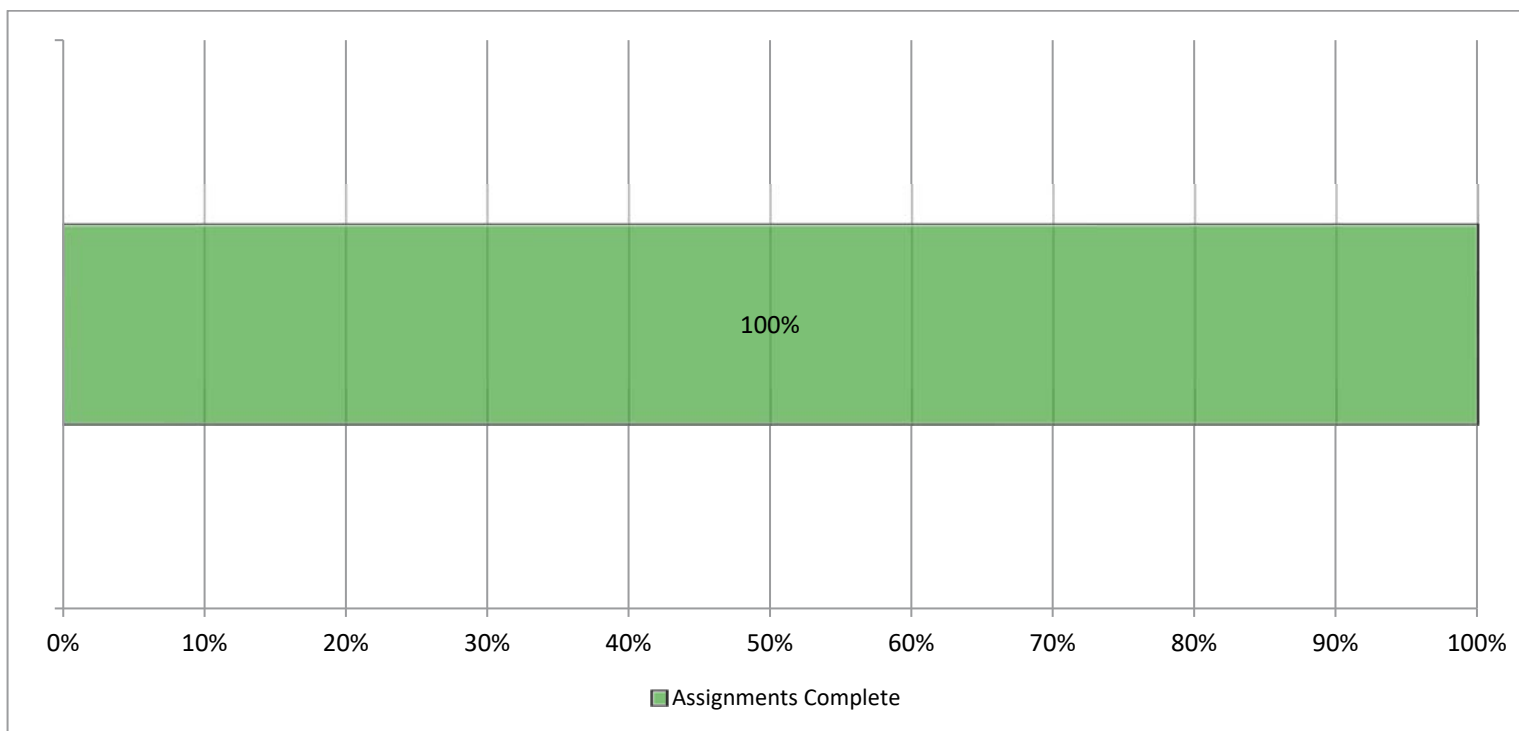
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1 Introduction

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

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



2 Reports

2.1 Summary of final reports being presented to this committee

We have finalised three reports since the previous meeting and these are detailed below:

Assignment	Opinion issued	Actions agreed		
		L	M	H
<u>South Tees Site Company: Actions Follow Up</u> <u>Objective:</u> Previous audit actions raised on the South Tees Site Company have been implemented and are operating effectively in practice.		3	0	0
<u>Project / Programme Management</u> <u>Objective:</u> The PMO and Programme Delivery Platform have been set up to support the successful delivery of the capital programme and there is an appropriate level of rigour around the existing constituent projects. <u>Risk:</u> Failure to deliver the required programme outputs and outcomes in the desired timescales.		1	3	0
<u>Key Financial Controls</u> <u>Objective:</u> The accounting transactions of the South Tees Development Corporation (STDC) are undertaken accurately and in accordance with established financial regulations and the Scheme of Delegation.		0	0	1

Appendix A - Key performance indicators (KPIs)

Delivery			Quality		
	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	8 days (average)	Conformance with PSIAS and IIA Standards	Yes	Yes
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	As and when required
Final report issued within 3 days of management response	3 days	1 day (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working day	-

Appendix B – 2020/21 Internal audit assignments previously reported

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

Assignment	Opinion issued	Actions agreed		
		L	M	H
Follow Up of Previous Internal Audit Management Actions	Good Progress	1	0	0

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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.

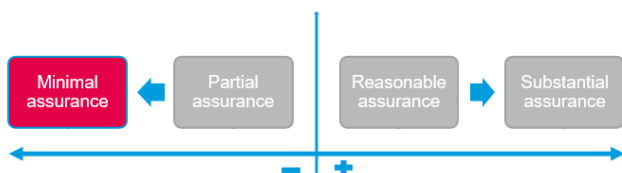
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ASSIGNMENT REPORT REFRESH 2021/22

Internal audit assurance levels

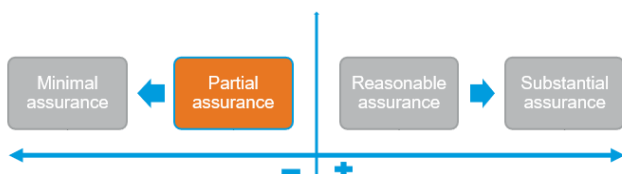
We always appreciate feedback from clients; and one of the consistent comments we are asked about is the use of the term 'no assurance' as one of our opinions. Having considered this and acknowledging that there is always some degree of control in place, we have updated our wording to change 'no assurance' to 'minimal assurance'. This change will be effective from audit plans that commence after 1 April 2021.

As you will be aware, each assurance level is illustrated with a graphic, which is accompanied by the formal wording which we include in our reports. For 'minimal assurance' (previously 'no assurance') this is represented by a red graphic. As we are making this subtle change to the wording, we have also taken the opportunity to refresh the graphics we use for all of our assignment assurance levels (see below).



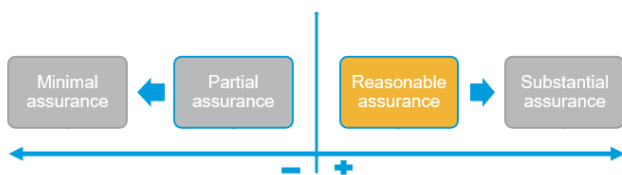
Taking account of the issues identified, the board can take **minimal assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk(s).



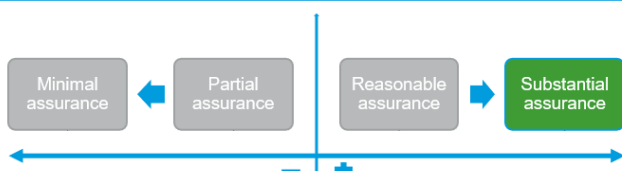
Taking account of the issues identified, the board can take **partial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take **reasonable assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

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



Taking account of the issues identified, the board can take **substantial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

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SOUTH TEES DEVELOPMENT CORPORATION

South Tees Site Company: Actions Follow-Up

Internal audit report 2.20/21

FINAL

22 April 2021

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

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

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1. EXECUTIVE SUMMARY

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

Why we completed this audit

The South Tees Site Company (STSC) was acquired in October 2020, under the control of Tees Valley Combined Authority (TVCA), as part of the plan to regenerate the former SSI steelworks site on Teesside. The role of STSC is to ensure the safe and secure operation of the South Tees site's land and assets, pending redevelopment, and deliver a large-scale decontamination project. Prior to its acquisition, STSC had been subject to audits from a number of bodies, primarily the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

The purpose of this audit was to determine whether previous audit actions raised on the South Tees Site Company have been implemented and were operating effectively in practice. To assure this, we looked at a number of key areas, such as whether the actions raised in NAO and GIAA audits had been implemented effectively by STSC; how the status of such actions are reported and tracked upon; and whether the coverage of audits of STSC has adequately reflected the key risks faced by the organisation, or its key operational areas and how it has changed during this time.

At the time we preformed the fieldwork for this review, the STSC actions tracking spreadsheet listed a total of 61 management actions (10 high, 35 medium and 16 low priority) brought forward from pre-acquisition audits, of which 55 were stated as being complete. The six actions which were stated as still open were one high, four medium and one low priority actions.

Conclusion

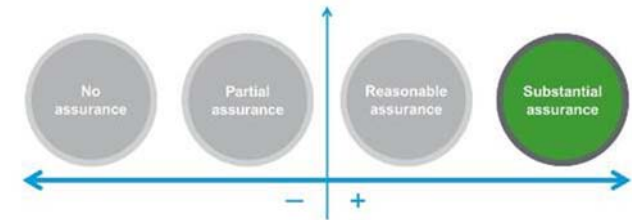
We found that there was a well-established and understood mechanism in place for recording and tracking actions arising from reviews by external bodies, supported by the use of an action tracker spreadsheet and reporting mechanism.

Despite this, currently, action tracking is done by separate leads for each entity and it may be worth considering merging the tracking of actions for STSC and STDC, dependent upon the future of the entities. Additionally, from a sample of 14 actions, we identified one action that had been closed without sufficient evidence to do so. We also identified one action that was currently in progress, but a decision had been made by the company not to adopt the action in full, with no formal risk acceptance documentation in place.

As a result of our review we have raised a total of **three low priority** management actions. Details of these actions can be found under section two of this report.

Internal audit opinion:

Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



Key findings

Our audit review also identified that the following controls are suitably designed, consistently applied and are operating effectively:



The 2021/22 annual audit plan was unable to be provided at the time of this audit, due to this currently being in development. However, the STSC Group Risk Manager was able to provide us with a copy of the Group Strategic Risk Register and confirmed that this is included as part of the decision making for the annual audit plan. We were also provided with meeting minutes from the Audit and Risk Committee bi-monthly meeting, which provided assurance that the risk register is reviewed and discussed on an ongoing basis.



The Group Risk Manager holds a consolidated Action Plan Tracker, which contains a list of all audit actions. Once an audit has been completed, the corresponding actions will be input into the tracker. This is continuously updated, to show both the progressive work undertaken to complete the actions, and also evidence for completed actions. We were provided with a copy of the STSC consolidated Action Plan Tracker and were able to evidence that the company have a robust, and efficient method of audit action tracking in place.



Through interviews with the STSC Group Risk Manager, and documentation review, we were able to evidence that regular monthly updates are provided to the STSC Keep Safe Director regarding the status and progressions of all audit action plans across the company. Meeting minutes for the Audit and Risk Committee Meeting were provided, evidencing that the closure of actions is discussed at the quarterly meeting. However, progress on action progress for STSC is only provided to the Keep Safe Director, and not the Audit and Risk Committee; therefore, STSC may want to consider providing the Audit and Risk Committee with a monthly update on audit action progression.



We selected a sample of 14 actions taken across all previous audits, which included a mixture of high and medium priority actions, as well as actions that were recorded as closed and in progress. From our sample of 14, we were satisfied that 13 of these met the criteria to either be classed as closed, or adequately progressing and on track for completion. This result was confirmed through a mixture of sample testing documentation provided for each control, and interviews with the Group Risk Manager.

2. DETAILED FINDINGS AND ACTIONS

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.

Area: Action Tracking				
Control 1	Missing control <p>The Group Risk Manager holds a consolidated Action Plan Tracker which contains a list of all audit actions. Once an audit has been completed, the corresponding actions will be input into the tracker. This is continuously updated to show both the progressive work undertaken to complete the actions, and also evidence for completed actions.</p>	Assessment: Design × Compliance -		
Findings / Implications	<p>We were provided with a copy of the STSC consolidated Action Plan Tracker and were able to evidence that the company have a robust, and efficient method of audit action tracking in place. The tracker has a separate section for each specific audit and follows a consistent method of reporting updates for all audit areas. Report references, action descriptions, action owners, completion dates, priority and current status were all recorded within the Tracker. Current action statuses were rated red, amber or green ("RAG rating"), to provide clear visualisation of the progress, or risk. An update column was also included, and each action had detailed explanations, updates or commentary from management, regarding progress or reasons for completion. A further tab also provided evidence links, allowing for all action plan completion and progression evidence to be easily located and stored in a centralised place. We were satisfied that action targets met the "SMART" criteria (sufficient, measurable, achievable, relevant and timely), and regular action updates had been provided by owners where necessary.</p> <p>Despite this, we found that, currently, action tracking is done by separate leads for each entity. Depending upon the entity, there are leads for tracking the actions and, therefore, it may be worth considering merging the tracking of actions for STSC and STDC, dependent upon the future of the entities. Having separate processes for closely-related entities could give rise to inconsistency in prioritisation or treatment of actions arising from audits.</p>			
Management Action 1	<p>Consideration will be given as to how best to incorporate STSC into the overall TVCA governance and assurance frameworks, so that STSC is fully considered alongside all other group entities, and ensuring related actions are included within reporting escalation / mechanisms.</p>	Responsible Owner: Group Risk Manager	Date: 30 June 2021	Priority: Low

Area: Action Implementation

Control 2	The actions raised in National Audit Office (NAO) and Government Internal Audit Agency (GIAA) audits have been implemented by South Tees Site Company. Any actions that remain outstanding have been adequately tracked and implemented, with supporting evidence in place to identify this.	Assessment:
		Design ✓
		Compliance x
Findings / Implications	<p>We selected a sample of 14 actions taken across all previous audits, which included a mixture of high, and medium priority actions, and actions that were recorded as closed, and in progress. A full breakdown of the sample is as follows:</p> <ul style="list-style-type: none"> • Priority – five High and nine Medium. • Status – 11 closed and three in progress. <p>Actions were considered from the following Action Plans:</p> <ul style="list-style-type: none"> • “28 Actions List” – Three. • Budget Forecasting & Control – Three. • CoMAH (Control of Major Accident Hazards) – One. • GIAA – Three. • Transition Audit – Two. • Value for Money – Two. <p>As part of our sample testing during this audit we were able to confirm that audit actions raised for the South Tees Site Company had been adequately tracked. Furthermore, from our sample of 14, we were satisfied that 13 of these met the criteria to either be classed as closed, or adequately progressing and on track for completion. This result was confirmed through a mixture of sample testing documentation provided for each control, and interviews with the Group Risk Manager.</p> <p>However, from our sample of 14, we identified one action that had been closed, without sufficient evidence to do so. Action 1.2 from the Budget Forecasting & Control Action Plan advised that “<i>STSC Finance should agree an organisational policy and guidance document on budgetary control and forecasting</i>”; and whilst forecasting process documents were provided; these hadn't been signed off by the appropriate personnel. We were also unable to evidence a process document in relation to budget monitoring.</p> <p>We also identified an action that was currently in progress, but where a decision had been made by the company not to adopt the action in full. Action 3.1 from the Value for Money Action plan advised “<i>The annual budgeting process should be reviewed and budgets for each operational area created from a zero budget, based on the actual costs needed to run the business at the required levels. Whilst, it is clear that ongoing monitoring of this does take place, further work to initially link the budget to routines and processes should be undertaken to assess whether STSC are achieving VfM through this route.</i>”</p> <p>It was confirmed to us by the Finance Manager that the decision had been taken that STSC would not adopt a zero based budgeting approach for such a small company with a limited life span, as the cost of operating at this level would be too timely and expensive. Although the Group Risk Manager confirmed that any request to accept or close a risk is included in the quarterly Audit Committee</p>	

Area: Action Implementation

Meeting, and was able to provide meeting minutes to evidence this, this decision had not been formally logged and no risk acceptance process had been completed. This opens the company up to challenge from the external auditor, and runs the risk that further non-, or late delivery of actions may go unchallenged.

Management Action 2	The decision to not adopt in full action 3.1 from the Value for Money action plan will be logged on the Finance Risk Register and a formal risk acceptance will be documented.	Responsible Owner: Group Risk Manager	Date: 30 June 2021	Priority: Low
Management Action 3	Action 1.2 from the Budget Forecasting & Control action plan will be re-visited to ensure this has been completed in full.	Responsible Owner: Senior Accountant	Date: 31 July 2021	Priority: Low

APPENDIX A: CATEGORISATION OF 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 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, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls* **		Agreed actions		
					Low	Medium	High
Previous audit actions raised on the South Tees Site Company	1	(4)	1	(4)	3	0	0
Total					3	0	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.

** More than one action has been raised in respect of the control.

APPENDIX B: SCOPE

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

Objective relevant to the scope of the review

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

Scope of the review

Objective of the area under review

Previous audit actions raised on the South Tees Site Company have been implemented and are operating effectively in practice.

The South Tees Site Company (STSC) was acquired in October 2020 as part of the plan to regenerate the former SSI steelworks site on Teesside. Prior to its acquisition, STSC had been subject to audits from a number of bodies, primarily the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

Our review will focus on:

- Whether the actions raised in NAO and GIAA audits have been implemented by STSC.
- How the status of these actions has been tracked and reported upon.
- What actions remain outstanding and what plans are in place to implement them.
- Whether the coverage of audits of STSC has adequately reflected the key risks faced by the organisation or its key operational areas and how it has changed during this time. The output of this element of our review will help to inform discussions regarding future internal audit activity in respect of STSC.

The following limitations apply to the scope of our work:

- Our review will focus only on a sample of high and medium priority actions.
- We will not consider the appropriateness of actions implemented.
- We will not seek to substantiate any financial transactions or re-perform any reporting activities.

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 30 March 2021
Draft report issued 19 April 2021
Responses received 22 April 2021

Final report issued 22 April 2021

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Philip Church, Client Manager
Michael Gibson, Assistant Manager
Stephanie Alexander, Senior Auditor

Client sponsor Mike Russell, Head of Finance and Resources

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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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SOUTH TEES DEVELOPMENT CORPORATION

Key Financial Controls

Internal audit report 5.20/21

FINAL

13 May 2021

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1. EXECUTIVE SUMMARY

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

Why we completed this audit

The South Tees Development Corporation (STDC) is in the process of setting up its own chart of accounts in preparation for the separation of its accounting activities from those of the Tees Valley Combined Authority (TVCA), and also to begin the process of novating its operating contracts away from TVCA. Preparation of STDC's accounts currently requires a large degree of manual intervention, even though STDC has very recently obtained its own access to the Group's accounting system, Agresso. Our review was undertaken with this in mind and although there were a number of areas where we found gaps in current processes, this was known by STDC management and this has been reflected in how we have written this report. It should also be noted that this review covers the financial activities of STDC and its subsidiary South Tees Developments Limited (STDL) only as it was planned prior to the transition into the Group of the South Tees Site Company (STSC).

The Finance Team is currently made up of the Head of Finance and Resources, the Finance Manager and a contractor who is assisting with the "go live" of the Agresso financial system. Following a recent restructuring exercise which brings together the teams from STDC and the South Tees Site Company (STSC), and once the Agresso financials system is properly up and running, it is anticipated that any gaps in current processes will be addressed as improved systemisation increases efficiency.

This Key Financial Controls review covered a review of documented finance processes and procedures including the financial regulations and scheme of delegation. Our review also looked in detail at approval processes, current month end processes and reconciliations. In addition, our review also looked at the controls surrounding setting, approving and monitoring the budget. Due to STDC only recently accessing the accounting system, Agresso, our review looked at the controls and processes in currently in operation over accounting entries and adjustments.

Conclusion

Our review identified that many of the typical key financial control processes we would expect to see are either not currently in place or not fully implemented at STDC owing to the fact that most of its financial transactions and all of its accounting entries still take place within TVCA's accounts. Therefore, key control processes such as account reconciliations take place in the live TVCA finance system. As a result, transactions must be extracted from the TVCA system and reanalysed in order to generate the accounts for STDC. Consequently, the production of STDC's accounts requires a large degree of manual intervention, particularly on the part of the Finance Manager. However, any potential issues in control over the reporting of STDC's financial transactions are mitigated to a certain extent by this level of manual intervention, the overall low volume of transactions currently, the oversight of the Head of Finance and Resources and the controls in existence in TVCA over the processing of transactions and payments.

Of these typical key financial control processes we would expect to see we identified that the Corporation will need to improve its current policies and procedures including the financial regulations, posting of accounts into Agresso, month end processes, monthly reconciliations and approval limits within the scheme of delegation in order to ensure that the organisation is able to maintain control and visibility over its financial transactions as the business grows in complexity, as is anticipated. However, we also identified, and confirmed with the Finance Manager and the Head of Finance and Resources, that these areas were already known to STDC although have been further highlighted as a result of our review.

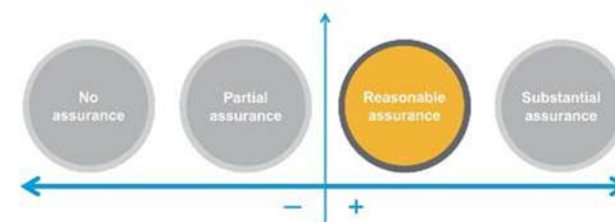
For this reason, we have given this audit a **reasonable** rating.

Rather than raising multiple actions as a result of our findings, we have raised **one high** priority management action, details of which can be found under section two of this report, for management to include these issues in a consolidated action plan in order to move forward the extraction of STDC's financial activities from those of TVCA.

Internal audit opinion:



Taking account of the issues identified, the Board can take **reasonable assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.

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.



Key findings

Our audit review identified that the following controls are suitably designed, consistently applied and are operating effectively:

-  STDC owns a cost centre that sits within TVCA's chart of accounts on Agresso. Transactions are firstly managed within TVCA and then charged to STDC. Extracts are provided to the Finance Manager, input into a spreadsheet, and reviewed for appropriateness and accuracy and then entered into STDC's cost centres. We reviewed the accounts for periods eight, nine and 10 (November and December 2020, and January 2021), and we walked through the month end processes with the Finance Manager. The walk through and review of extracts enabled us to confirm this process had taken place for the periods reviewed.
-  STDC have employed a contractor to lead the transition of STDC's financial records onto its own area of Agresso. Discussions with the contractor confirmed that the engagement was focussed upon this transition as well as to investigate and resolve the current issues with the finance system Agresso which primarily relate to the ability to gain reliable access to the remotely hosted software.



STDC have established a set of financial regulations which sit within STDC's approved Constitution to manage STDC's financial transactions and were approved by the Board on 3 June 2020.



STDC's financial regulations include a documented scheme of delegation, which was created on 3 June 2020 and authorised by the Board.



The scheme of delegation is in line with the financial regulations and documents the segregation of duties required for critical activities on behalf of STDC, including the review and authorisation of payments.



Payments paid directly from STDC's bank account were found to have been approved appropriately, in line with the scheme of delegation. Testing was undertaken on the six bank transactions made between April 2020 and March 2021. For five out of the six payments evidence was provided to support the appropriate approvals in place and for the remaining payment, approval was not required as it was a charge raised by the bank for usage of the account.



The budget is initially compiled by the Head of Finance and Resources and reported quarterly to the Delivery Group and the Performance Group for authorisation and approval. Testing confirmed the budget for 2020/2021 was presented to the Board on 29 July 2020 and was approved.



Each quarter the budget is updated for current performance and reported to the Delivery and Performance Groups and the Board. Testing confirmed that the budget had been presented to, and reviewed by, both groups on a quarterly basis.



Currently, STDC have only a limited number of fixed assets. Land, which is held at valuation, and three vehicles used on site which are depreciated annually. Annually, land is professionally revalued and reflected in the accounting records. In relation to the vehicles, which are depreciated on a monthly basis and included within the monthly accounts, a review of the month end accounts for period eight, nine and 10 confirmed that this exercise had been undertaken.

We identified the following weaknesses / findings:



The financial regulations do not currently document the financial procedure rules for setting an annual budget.



At the time of the audit STDC was experiencing issues with the financial system, Agresso, both in terms of intermittent access issues and persistent failures when trying to upload journals. As a result, accounts data could not be uploaded at month end and this was being considered by the consultant at the time. Management has since advised that the issue has been largely addressed.



STDC do not currently have a set of documented month end procedures in place to document the activities to be completed each month, the timetable for the completion of each activity and the relevant responsible owner for completion for each activity. Management has commented that these processes will link to the system launch and the consultant is documenting proposed key month end process recommendations as part of her engagement.



At the time we performed our fieldwork there was no requirement for STDC to perform its own general ledger account reconciliations since all accounting entries flow through TVCA (which has its own reconciliation processes, and which were not within the scope of this audit) and, in extracting, reanalysing and reposting STDC's transactions to generate STDC's accounts, all entries are scrutinised each month. However, going forward, STDC will need to establish a framework of reconciliations, incorporating responsibilities, timescales and review / sign-off processes, which will need to be formally incorporated into its month-end timetable.



A review of the subsidiary scheme of delegation identified that it did not document the processes in place for approval purchases under £5,000. Management has commented that this will be rectified before system go-live and is a minor oversight.

As noted above, rather than raising a separate management action for each of these, we have incorporated them into one consolidated action for management to have an overall action plan, with known timescales and action owners to address these weaknesses. **(High)**

2. DETAILED FINDINGS AND ACTIONS

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.

Area: Key Financial Controls				
Control	Missing control	Assessment:		
	STDC have a suite of key financial controls to govern its financial transactions and the production of its accounts.	Design	x	
	STDC are aware of the current gaps in the operation of key financial controls and have documented an action plan, including action owners and action implementation dates for completion.	Compliance	-	
Findings / Implications	<p>A number of actions were identified during testing, and through discussion with the Finance Manager and the Head of Finance it was identified that these issues were known by both members of staff, and therefore we have documented a table of actions to be reviewed and completed. The table in appendix A documents the detailed findings for each action.</p> <p>Failure to address these issues could, potentially, compromise or delay the organisation's ability to fully extract itself from TVCA and operate effectively and efficiently as a separate entity as it grows in complexity in future.</p>			
Management Action 1	We will review the action table in Appendix A and document the actions and action dates to be undertaken and by when. We will then develop our own action plan, using both the findings as per this review and actions identified by ourselves.	Responsible Owner: Head of Finance and Resources	Date: See Appendix A	Priority: High

APPENDIX A: ACTION PLAN

The table below documents the areas identified as a result of our review which management will need to incorporate into an action plan to enable the extraction of STDC's accounting records from those of TVCA. There may also be other areas not included in this table which management need to address, but which have not formed part of the scope of this audit.

Audit Findings	Known area for improvement by STDC	Suggested action to be undertaken by STDC	Action agreed by STDC	Action Date
STDC's financial regulations include a documented scheme of delegation, which were created on 3 June 2020 and authorised by the Board. A review of which identified that the financial procedure rules do not currently include any provision for setting an annual budget.	Yes – this was explained in the opening meeting of the audit by the Head of Finance and resources that it is known by STDC and is a work in progress to update the financial regulations.	STDC should continue to update the financial regulations and the scheme of delegation to ensure that the financial procedure rules include provision for setting an annual budget. Once updated, the financial regulations should be approved by the Board, re published on STDC's website and shared with the relevant staff.	The action for annual budget setting will be completed by management by 30 September 2021 in advance of the 2022/23 budgeting cycle and approved at the next scheduled board meeting.	30 September 2021
Each month, STDC extract the transactions coded against the code 40012 within TVCA's financial system, Agresso. A complete review of all transactions is completed prior to being uploaded into STDC's set of accounts within Agresso. It was explained by the Finance Manager that since period five	Yes – this is known by STDC and is a work in progress and a consultant is currently working with STDC to resolve the current issues. A discussion was held with the Consultant who explained that a review is currently underway to resolve the current known issue with Agresso.	Once the current issues with the finance system have been resolved, final month end transactions will be posted to Agresso.	Transactions are now up to date in Agresso N.B moving forward the journal uploading process will cease as STDC begins to process individual transactions.	Stated as complete by management.

(August 2020), the final transaction accounts have not been uploaded back into Agresso due to system issues. It was explained that this has not made an impact on the financial reporting and it is a known issue in which plans are being developed to solve the issue.				
<p>Each month, the Finance Manager undertakes several month end duties which include the following:</p> <ul style="list-style-type: none"> • All month end data is pulled into a pivot table and checked by the Finance Manager. • Monthly purchase orders reviewed for appropriateness and to ensure they all relate to STDC. • A review of invoices for appropriateness and to ensure they all relate to STDC. • Monthly adjustments, accruals and prepayments are accounted for. 	<p>Yes – this is known by STDC and is a work in progress, the consultant is currently working with STDC to resolve the current issues with the finance system, once rectified STDC are aware of the need for a documented month end procedure.</p>	<p>Once STDC's transactional activity is moved to its own area of Agresso and recorded on its own chart of accounts, appropriate month end processes will be implemented and documented as follows:</p> <ul style="list-style-type: none"> • A timetable for completion of each activity and documented roles and responsibilities. • Activities to be completed each month. • A timetable for completion of each activity. • The relevant responsible owner for completion for each activity. 	<p>Draft procedures already in place.</p> <p>Full go live expected 1 July 2021</p>	1 July 2021

<ul style="list-style-type: none"> • Analysis exercise undertaken in the 40012 (STDC) cost centre and re-coded to relevant ledgers. • Month end reporting to the Head of Finance and Resources. <p>It was explained by the Finance Manager and the Head of Finance and Resources, that although the above month end processes are completed each month, no procedures currently exist which document the month end process to be adhered to, which includes a timetable for completion of each activity and documented roles and responsibilities. It was explained that both the Finance Manager and the Head of Finance and Resources are aware of the need for month end procedures, however, the current issues with the finance system, Agresso, has delayed the process in documenting this. It was explained that once the issues have been resolved with the system, the month end procedures will be developed.</p>				
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At the time we performed our fieldwork there was no requirement for STDC to perform its own general ledger account reconciliations since all accounting entries flow through TVCA (which has its own reconciliation processes, and which were not within the scope of this audit) and, in extracting, reanalysing and reposting STDC's transactions to generate STDC's accounts, all entries are scrutinised each month. However, going forward, STDC will need to establish a framework of reconciliations, incorporating responsibilities, timescales and review / sign-off processes, which will need to be formally incorporated into its month-end timetable. It was explained by the Finance manager that STDC are aware of the need to undertake monthly month end reconciliations, however, the current staffing structure of STDC does not allow for this to be undertaken at present.	Yes - STDC are aware of the need to undertake monthly month end reconciliations and once the staffing levels grow within the organisation, this will allow for reconciliations to be undertaken.	As soon as staffing levels grow within the organisation, a framework of reconciliations, incorporating responsibilities, timescales and review / sign-off processes, will be formally incorporated into the month-end timetable.	This will be incorporated into the month end procedures. Full go live expected 1 July 2021	1 July 2021
The subsidiary scheme of delegation did not document the processes in place for purchases under £5,000, however a review of the scheme of delegation notes section identified that this is a	Yes - Work is currently ongoing to ensure that the scheme of delegation is updated and approved accordingly to document the processes in place for purchases under £5,000.	STDC should ensure that the scheme of delegation is updated and approved accordingly to document the processes in place for purchases under £5,000.	This oversight will be addressed by a current refresh of the scheme of delegation which is underway in May 2021.	1 July 2021

known oversight and will be addressed in the finance system at go live.	Within the notes section of the scheme of delegation, it is noted that the scheme of delegation be updated and approved accordingly to document the processes in place for purchases under £5,000.		Expect the scheme of delegation to be operationalised with systems transition likely to be complete in early July.	
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APPENDIX B: CATEGORISATION OF 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 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, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls*		Agreed management actions		
					Low	Medium	High
Key Financial Controls	1	(15)	0	(15)	0	0	1
Total					0	0	1

* 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.

APPENDIX C: SCOPE

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

Objective relevant to the scope of the review

Objective of the area under review

The accounting transactions of the South Tees Development Corporation (STDC) are undertaken accurately and in accordance with established financial regulations and the Scheme of Delegation.

Scope of the review

STDC is in the process of setting up its own chart of accounts in preparation for the separation of its accounting activities from those of TVCA, and also to begin the process of novating its operating contracts away from TVCA. Preparation of STDC's accounts currently requires a large degree of manual intervention, although it is understood that STDC has very recently obtained its own access to the Group's accounting system which should facilitate this going forward.

With this background in mind, our review will focus on the following areas:

Key financial controls:

- How STDC's accounting entries are maintained currently.
- How plans are progressing to extract STDC's financial transactions from the other entities.
- Whether an appropriate framework of key financial controls has been established to manage STDC's financial transactions following the separation.
- Whether STDC's key financial controls framework includes an appropriate set of financial regulations and scheme of delegated authority which are regularly reviewed and appropriately authorised.
- What processes are in place to govern the month end close out and reporting of STDC's accounts.
- Whether appropriate reconciliations are performed on key general ledger accounts and that these are subject to appropriate review and sign-off.
- Whether there is an appropriate process in place for the review and authorisation of payments.
- Whether there is appropriate segregation of critical activities.
- Whether appropriate control is maintained over access rights to key systems (e.g. accounting, banking).

Budgetary controls:

- Whether STDC has an established budget-setting process in place, which is linked to its strategic objectives and subject to appropriate challenge and authorisation.
- Whether STDC has an established financial reporting and budget monitoring process in place.
- Whether budget virements are subject to appropriate scrutiny and authorisation.

Controls over accounting entries and adjustments:

- What control is maintained over the recording and accounting for assets.
- What controls are in place over the production and recording of intra-group transactions.
- What controls are in place for key transaction streams such as adjustments and journal entries.

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- We will not substantially re-perform reconciliations.
- We will not perform any physical verification of assets.
- Our review will not cover sales, purchase ledger, procurement or treasury activities.
- We do not endorse a particular accounting, banking or payroll system.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held 7 May 2021
Draft report issued 11 May 2021
Responses received 11 May 2021

Final report issued 13 May 2021

Internal audit Contacts Rob Barnett, Head of Internal Audit
Philip Church, Client Manager
Mike Gibson, Assistant Manager
Jessica Rushworth, Senior Auditor

Client sponsor Head of Finance and Resources

Distribution Head of Finance and Resources

rsmuk.com

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

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

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

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

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



SOUTH TEES DEVELOPMENT CORPORATION

FINAL Annual internal audit report 2020/21

24 May 2021

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

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

THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2021, the Head of Internal Audit opinion for South Tees Development Corporation is as follows:




Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.

Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Risk Committee, our opinion is subject to inherent limitations, as detailed below:

- Internal audit has not reviewed all risks and assurances relating to the organisation.

- 
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the board takes into account in making its annual governance statement (AGS).
 - the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual(s).
 - where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance.
 - due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention.
 - our internal audit work for 2020/21 has been undertaken through the substantial operational disruptions caused by the Covid-19 pandemic. In undertaking our audit work, we recognise that there has been a significant impact on both the operations of the organisation and its risk profile, and our annual opinion should be read in this context.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Based on the work we have undertaken on the systems of governance, risk management and internal control across the organisation, our opinion on governance, risk management and control have been informed by the following:

Governance

We did not perform a specific governance review at the organisation in 2020/21, however we have covered elements of the governance frameworks in place for the following reviews and have used this work to support our governance opinion: Key Financial Controls and South Tees Site Company: Actions Follow Up.

Each of the above reviews received a positive assurance opinion. We concluded that the governance arrangements in place, for the organisation, were adequate and effective.

Risk

We did not perform a specific risk management review at the organisations in 2020/21; however, our risk management opinion is informed by the assessment of the risk mitigation controls and compliance with those controls in our risk-based reviews in the following area:

- Project / Programme Assurance (*Failure to deliver the required programme outputs and outcomes in the desired timescales*)

The specific review (above), which is directly linked to the organisation's strategic risk register, resulted in a **reasonable assurance** opinion.

We have also attended all Audit and Risk Committee meetings throughout the year and confirmed the organisation's risk management arrangements continued to operate effectively and were adequately reported and scrutinised by committee members; with regular updates provided and the risk register shared and reviewed, with appropriate oversight.

Control

We undertook three audits (including the one risk driven review mentioned above) of the control environment that resulted in formal assurance opinions. These three reviews concluded that **two reasonable** (positive) and **one substantial** (positive) assurance opinions could be taken by the Board. We identified that the organisation required further implementation / embedding of a control framework, or to improve the application of the established control framework, for those areas reviewed.

Furthermore, the implementation of agreed management actions agreed during the course of the year are an important contributing factor when assessing the overall opinion on control. We have performed a Follow Up review during the year which concluded that **good progress** had been made towards the implementation of those actions agreed.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during the year.

Implementation of internal audit management actions

We have performed a follow up review to determine the organisation's implementation of internal audit findings and we have reported that **good progress** has been made in implementing the agreed actions.

Follow Up of Previous Internal Audit Management Actions

Our audit focussed on those actions raised as part of the below reviews, and considered if appropriate evidence was in place to demonstrate the actions had been fully implemented as reported to the Audit and Risk Committee or the organisation's management team:

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

The focus of this review was to provide assurance that management actions previously reported had been fully implemented. A total of 10 actions from the Budget Setting and Control and Follow Up of Previous Internal Audit Recommendations were reported as complete at the Audit and Risk Committee meeting on 16 December 2020. In addition, a further nine actions from the Governance and Human Resources audits had been reported by management as being complete but were omitted from the report submitted to the Audit and Risk Committee meeting on 16 December 2020. We were supplied with satisfactory evidence in respect of 16 of the 19 actions declared as complete to the Audit and Risk Committee, or subsequently by management. Of the 19 actions we confirmed 16 had been fully implemented, two had been superseded on the grounds that the original action agreed had subsequently been found to be no longer appropriate, and one action was considered as on-going.

Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

OUR PERFORMANCE

Conflicts of interest

RSM has not undertaken any work or activity during 2020/2021 that would lead us to declare any conflict of interest.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that 'there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.' RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

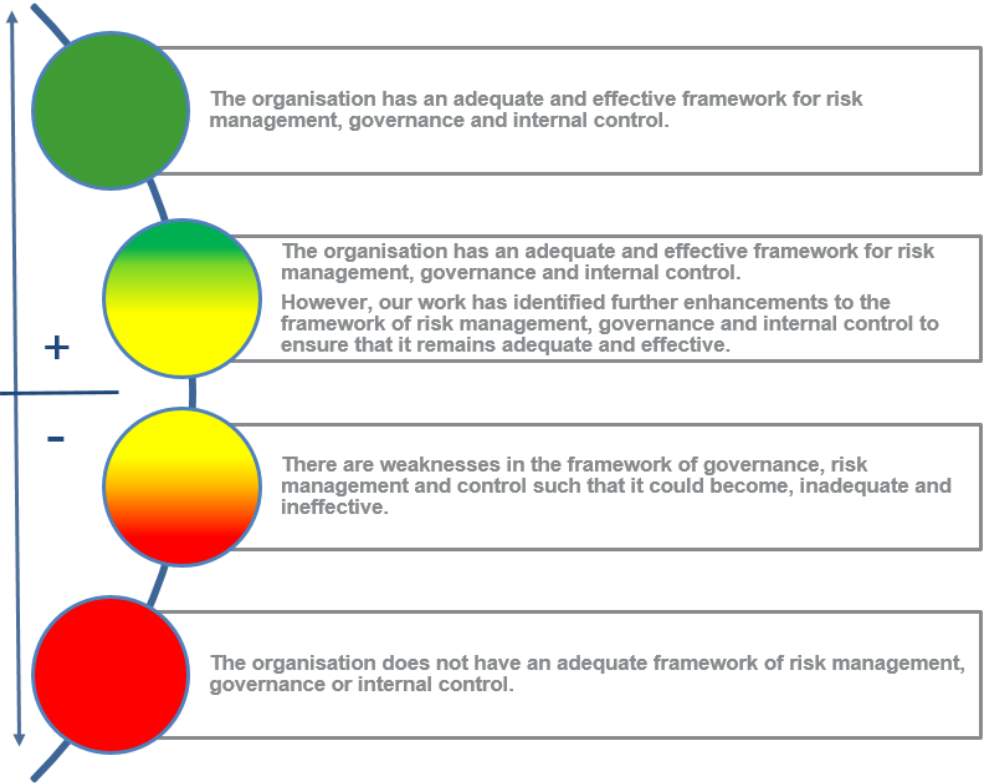
Performance indicators

Delivery

	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	8 days (average)	Conformance with IIA Standards	Yes	Yes
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	As and when required
Final report issued within 3 days of management response	3 days	1 day (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working day	-

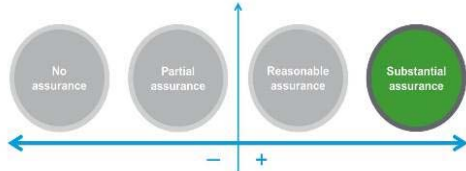
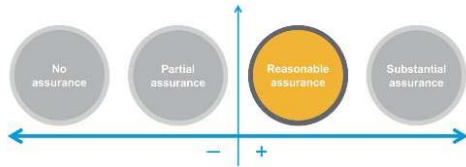
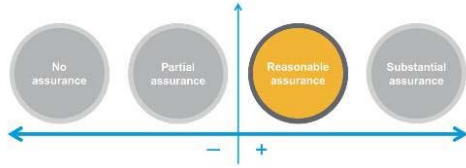
APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
 <p>The organisation has an adequate and effective framework for risk management, governance and internal control.</p> <p>The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.</p> <p>There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective.</p> <p>The organisation does not have an adequate framework of risk management, governance or internal control.</p>	<p>The factors which are considered when influencing our opinion are:</p> <ul style="list-style-type: none"> • inherent risk in the area being audited; • limitations in the individual audit assignments; • the adequacy and effectiveness of the risk management and / or governance control framework; • the impact of weakness identified; • the level of risk exposure; and • the response to management actions raised and timeliness of actions taken.

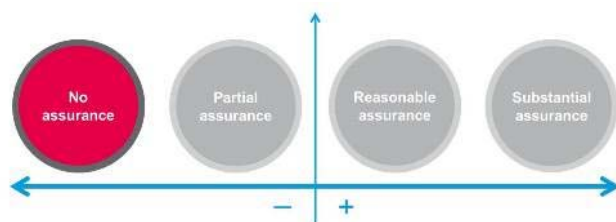
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

Assignment	Assurance level	Actions agreed		
		L	M	H
Follow Up of Previous Internal Audit Management Actions	Good Progress	1	0	0
South Tees Site Company: Actions Follow Up		3	0	0
Project / Programme Management		1	3	0
Key Financial Controls		0	0	1

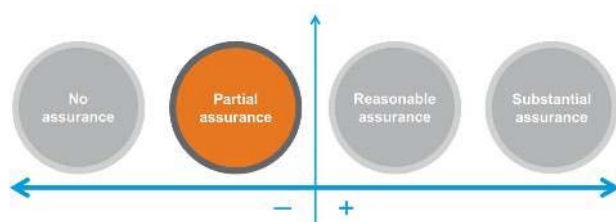
APPENDIX C: OPINION CLASSIFICATION

We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the Board can take:



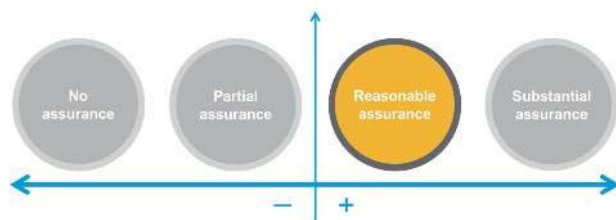
Taking account of the issues identified, the Board **cannot take assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk.



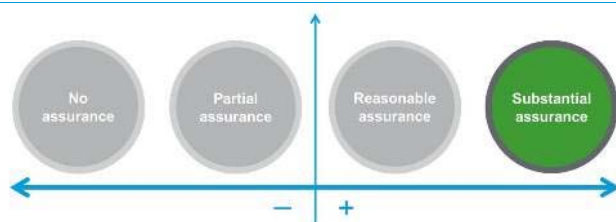
Taking account of the issues identified, the Board can take **partial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk.



Taking account of the issues identified, the Board can take **reasonable assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

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



Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

YOUR INTERNAL AUDIT TEAM

Rob Barnett, Head of Internal Audit

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Philip Church, Client Manager

M: 07528 979982

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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.

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

[Internal Audit Strategy 2021/2022 - 2023/2024 \(including the 2021/2022 Internal Audit Plan\)](#)

Presented at the Audit and Risk Committee meeting of: 2 June 2021

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

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

EXECUTIVE SUMMARY

In preparing our Internal Audit Plan for 2021/2022 we have worked closely with management to produce an audit programme which remains mindful of the continuing developments and challenges around Covid-19. Whilst this plan is presented for consideration by the Audit and Risk Committee, we will continue to hold regular meetings with management, during the year, to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in these ever changing circumstances.

The key points to note from our plan are:



2021/2022 internal audit priorities: internal audit activity for 2021/2022 is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting you in the year ahead. Our detailed plan for 2021/2022 is included at section two of this report.

The internal audit priorities have been discussed and agreed with the following individuals of the organisation:

- Group Director of Finance and Resources.
- Head of Finance and Resources.
- Group Risk Manager.



Level of resource: the level of resource required to deliver the plan is in section two of this report and our daily rates are in line with our tender submission.



Group reviews: during the delivery of the 2021/22 internal audit plan we will conduct internal audits at Tees Valley Combined Authority which cover systems and processes across the whole Group. Where this is the case, we will report, in our Progress Paper to the Audit and Risk Committee, an extract of our findings insofar as they are relevant to the South Tees Development Corporation. In the 2021/2022 annual audit plan for Tees Valley Combined Authority the following audits are anticipated to have relevance to the South Tees Development Corporation:

- HR: Recruitment and Selection.
- Covid-19 Response.
- HR: Payroll.



Core assurance: the key priorities and changes within the organisation during the period have been reflected within the proposed audit coverage for 2021/2022 and beyond. During the development of the internal audit plan the following key areas/documents were discussed/reviewed:

- Strategic Risk Register.



'Agile' approach: our approach to working with you is that we will respond to your changing assurance needs. By employing agile or a flexible approach to our service delivery, we are able to change the focus of audits / audit delivery; keeping you informed of these changes in our progress papers to the Audit and Risk Committee during the year



Delivery methods: We will also consider our approach to the delivery of internal audit assignments during the on-going Covid-19 restrictions, employing remote audit technologies through the use of secure Huddle folders and virtual meeting facilities as necessary. The success of using remote audit technologies is limited to the extent to which information can be shared electronically, however, we will consider whether there are any reviews which can be undertaken using this method and flex audit timings as necessary.



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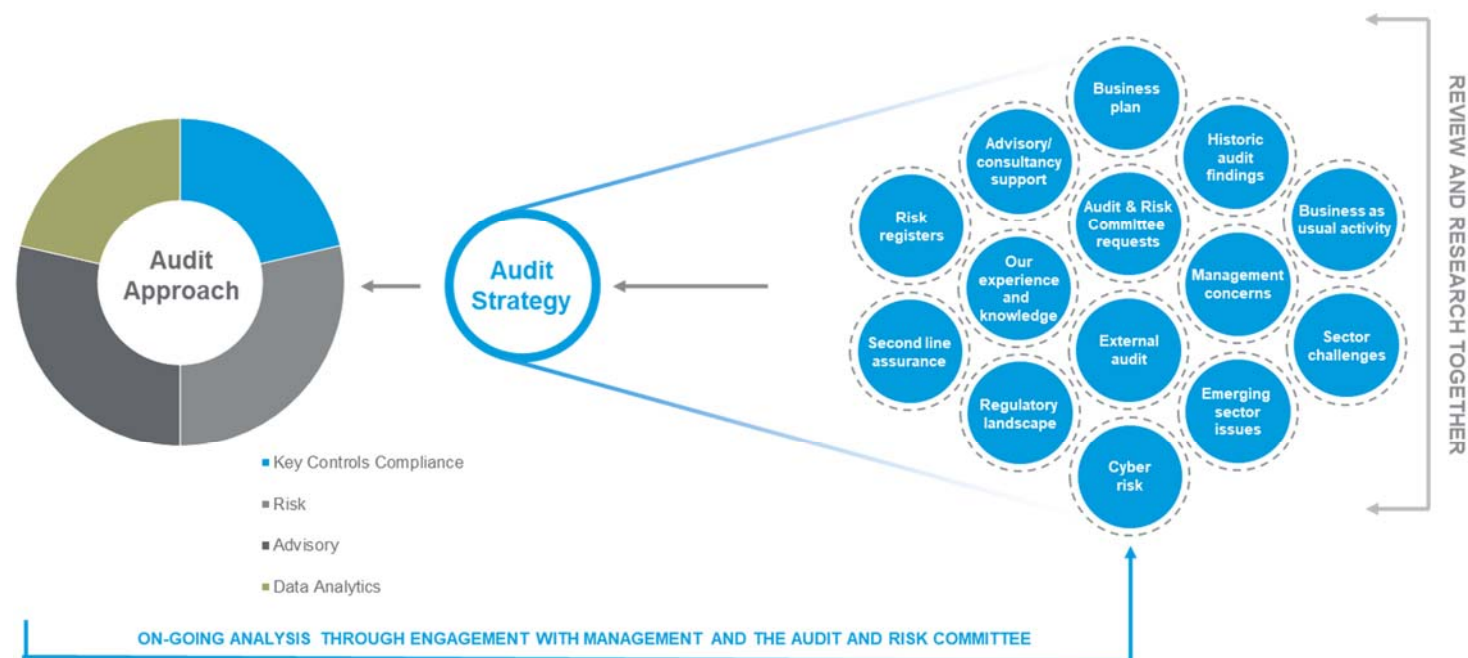
1. YOUR INTERNAL AUDIT PLAN

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting the South Tees Development Corporation in the year ahead.

Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk register / assurance framework to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with senior management and the Audit and Risk Committee.

Figure A: Audit considerations – sources considered when developing the internal audit strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high level strategic plan (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2021/2022

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2021/2022. The table details the strategic risks which may warrant internal audit coverage. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Objective of the review (Strategic risk)	Fee	Proposed timing	Proposed Audit and Risk Committee
Strategic Risk			
<i>GSR-R036: Fraud – management of scrap metals</i>	£4,980	W/c 12 July 2021	September 2021
<u>Scrap and Disposal of Assets</u>			
A considerable amount of value is locked up in the assets to be disposed of from the old SSI Steelworks site. Our review will consider whether the organisation has adequate systems and processes in place to ensure that the disposal of assets is well-controlled to avoid loss and / or theft and to ensure that best value is obtained.			
<i>GSR-R023: Failure to meet objectives</i>	£7,470	W/c 20 September 2021	November 2021
<u>Project Management Office</u>			
South Tees Development Corporation is currently establishing a Project Management Office (PMO) which is scheduled to be operational in May 2021. Our review will consider whether the systems and processes introduced are adequate to ensure the delivery of programme objectives to time and specification.			
<i>GSR-R010: Lack of alignment of priorities and accountable/responsible persons</i>	£2,988	W/c 14 February 2022	June 2022
<u>Effectiveness of Partnership Arrangements</u>			
Our review will consider whether there are adequate and effective systems and processes in place within STDC to ensure oversight over Teesworks Ltd. Our review will not be intended to look at the commercial operation of Teesworks, but rather at how the STDC obtains assurance over its operations.			

Core Assurance

Group Structure

£2,988

W/c 13
September 2021

November 2021

The Group is evolving at a rapid pace and new ventures are beginning or are in the pipeline. Our review will build on previous reviews into governance by considering whether the governance structures and processes are working effectively in practice to ensure that the Group maintains control over its increasingly complex operations.

Other Internal Audit Activity

Follow Up of Previous Internal Audit Management Actions

£2,988

W/c 20
December 2021

March 2022

To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.

Management

£2,988

As and when required throughout
the year

This will include:

- Annual planning;
- Preparation for, and attendance at, Audit and Risk Committee;
- Regular liaison and progress updates;
- Liaison with external audit and other assurance providers; and
- Preparation of the annual opinion.

Total

£24,402

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit and Risk Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation. We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Rob Barnett as your Head of Internal Audit, supported by Philip Church as your Client Manager and Mike Gibson as Assistant Manager.

Core team

The delivery of the 2021/2022 audit plan will be based around a core team.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Our next external review will be conducted during 2021 and we will inform the Audit and Risk Committee of its findings.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2021/2024

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. The risks detailed below are taken from the organisation's Strategic Risk Register as presented to the Audit and Risk Committee meeting.

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance (Independent review / assurance)

2020/21 2021/22 2022/23 2023/24

Audit Area

Strategic risks

GSR-R001: Inability to remove COMAH status

✓

GSR-R010 Lack of alignment of priorities and accountable/responsible persons

✓

(Effectiveness of Partnership Arrangements)

GSR-R013 Management of underdeveloped estate

✓

GSR-R018 Continuity/Disaster planning

✓

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance
(Independent review / assurance)

2020/21 2021/22 2022/23 2023/24

Audit Area

GSR-R020 Process and System

✓

(Project
Assurance)

GSR-R022 HSE intervention

✓

GSR-R023 Failure to meet objectives

✓

(Project
Management
Office)

GSR-R025 Revenue overestimation

✓

GSR-R027 Strategic direction for Utilities

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance
(Independent review / assurance)

2020/21

2021/22

2022/23

2023/24

Audit Area

GSR-R032 Investor Due Diligence

✓

GSR-R036 Fraud - Management of scrap metals

✓

(Scrap and
Disposal of
Assets)

Core Assurance

Key Financial Controls

✓

✓

✓

Human Resources

Governance

✓

(STSC Actions)

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance
(Independent review / assurance)

2020/21 2021/22 2022/23 2023/24

Audit Area

Health and safety ✓

Other Internal Audit Activity

Follow Up of Previous Internal Audit Management Actions ✓ ✓ ✓ ✓

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for the South Tess Development Corporation. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the audit committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to Rob Barnett (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive, with further reporting lines to the Group Director of Finance and Resources and Head of Finance and Resources.

The Head of Internal Audit has unrestricted access to the Chair of the Audit and Risk Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to the South Tees Development Corporation. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Risk Committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Risk Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Risk Committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Risk Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the audit committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- **Internal audit:** a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- **Senior management:** who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.

- **Board:** who are the highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "board" may refer to a committee or another body to which the governing body has delegated certain functions (e.g. an audit committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope six weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee six weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 15 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Huddle.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Risk Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Risk Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Risk Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the Board in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Risk Committee.

Fraud

The Audit and Risk Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the audit committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Audit and Risk Committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

Robert Barnett

Head of Internal Audit

RSM Risk Assurance Services LLP

1 St. James' Place, Newcastle Upon Tyne, NE1 4AD

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

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

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

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

AGENDA ITEM 7

REPORT TO THE AUDIT AND RISK COMMITTEE

2nd June 2021

REPORT OF TEESWORKS HEAD OF FINANCE

PROGRESS AGAINST INTERNAL AUDIT ACTIONS

SUMMARY

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

RECOMMENDATIONS

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

DETAIL

SOUTH TEES DEVELOPMENT CORPORATION

- 24 internal audit actions are carried in from the last ARC reporting cycle which have yet to be formally closed down by Internal Audit. Eight of these had been marked as complete by management leaving 16 actions are marked as in progress.
- The current position shows that a further 6 actions have been marked as complete leaving 10 actions outstanding.

Outstanding actions	Report date	IA closed	Action status		Total
			Mgt completed	In progress	
Budget setting and control	Feb-20	-	1	-	1
Follow up of 2018/19 actions	May-20	-	3	1	4
Procurement	Jan-20	-	5	-	5
Project Management	Apr-20	5	-	9	14
Total		5	9	10	24
<i>High priority</i>		<i>1</i>	<i>-</i>	<i>1</i>	<i>2</i>
<i>Medium Priority</i>		<i>1</i>	<i>5</i>	<i>7</i>	<i>13</i>
<i>Low Priority</i>		<i>3</i>	<i>4</i>	<i>2</i>	<i>9</i>
Total		5	9	10	24

- Remaining outstanding actions relate to

- Project Management** – The implementation of the project Management office continues and an action plan is in place to address remaining outstanding actions. A

further project management audit has recently taken place and the report, which is included in this pack includes a review of the above outstanding actions and plans to complete

- **Follow up** – One action remains linked to roll out of training of Freedom of Information training to STDC group staff. Appropriate FOI Training has been developed and is currently being rolled out by the group governance team. A session for STDC staff is planned for June.

4. An ageing of overdue actions is presented below

Overdue actions	3-4	6-7	9-10	11-12
Follow up of 2018/19 actions				1
Project Management	7	1	1	
Total	7	1	1	1

- **Project Management** – Progress and plans against these actions is covered in a separate internal audit paper included in this pack.
- **Follow up** – Training to be rolled out to STDC Staff in June.

A schedule detailing actions in progress and overdue is enclosed.

SOUTH TEES SITE COMPANY

Reporting against audit streams in South Tees Site Company is currently reported as part of the Risk Management update included later in this pack

At future meetings Internal Audit recommendations across will be collated into a single report across the group

NEW AUDIT REPORTS

Two further Internal Audit reports have been completed in 2021/22 Audit Cycle and are included within this pack covering Key financial controls and Project Management.

Tracking of progress against these reports will begin in the next cycle

FINANCIAL IMPLICATIONS

5. This report has no direct financial implications.

LEGAL IMPLICATIONS

6. This report has no direct legal implications

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

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

EQUALITY & DIVERSITY

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

Name of Contact Officer:	Mike Russell
Post Title:	Head of Finance
Telephone Number:	01642 526 459
Email Address:	mike.russell@teesworks.co.uk

Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Last updated	Status desc	Owner	Notes
Project Management	1	Medium	Define and agree the requirements for a STDC project management approach.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	In progress (programme management plan element only outstanding, PEP complete).
Project Management	4	Medium	Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in particular when starting up and initialising projects.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	Lessons learned are to be discussed and a thematic exercise will take place to identify areas for further development / rectification.
Project Management	5	Medium	Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	The PMO consultants are presenting their plans to the STDC executives in a few weeks where the plans are set for discussion and approval.
Project Management	7	Medium	Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	In progress see action five.
Project Management	8	Medium	Formalise a project assurance model to sit alongside the enterprise risk management framework such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well-managed way.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	In progress. The current description of assurance at a project level is being developed to link with assurance at a programme level.

Internal Audit report	Recommendation reference	Priority	Recommendation	Target date	Last updated	Status desc	Owner	Notes
Project Management	9	High	Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	Clear documentation of processes is required. The decision-making processes in the PEP that has been shared with project managers and designers requires further additions such as the change process, and some elements such as authority levels were deemed incorrect by the Engineering and Programme Director.
Project Management	11	Low	Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.	31-Jan-21	01-May-21	Partly implemented	Engineering & Programme Director	KPIs and targets are required that flow from the highest level through to the projects.
Project Management	13	Medium	Ensure that senior management and other executives in a decision-making role within STDC understand their responsibilities in a project-driven environment.	31-Oct-20	01-May-21	Partly implemented	Engineering & Programme Director	This can be closed as completed.
Project Management	14	Medium	Assess resourcing requirements for client side project management activities and resolve ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.	31-Jul-20	01-May-21	Partly implemented	Engineering & Programme Director	Completed. This can be closed.
Follow up of 2018/19 actions	2	Low	The Corporation will ensure that the draft Freedom of Information Policy, including the publication scheme, is subject to appropriate scrutiny and will be implemented as a formal document. Once the policy is finalised, staff will require training on how to deal with different types of information requests.	30-May-20	May-20	Partly implemented	Governance and Administration Manager	HOF has requested that the governance team develops a video call to deliver this training. Initially the plan was to deliver a face to face session in house but this was delayed as a result of COVID-19 lockdowns

Audit Strategy Memorandum

South Tees Development Corporation
(and Group)

Year ending 31 March 2021



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- 01** Engagement and responsibilities summary
- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Value for Money
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements

Appendix – Key communication points

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

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

May 2021

Dear Audit and Risk Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

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 2021. 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.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to 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

{{_es_:signer1:signature}}

Cameron Waddell
Mazars LLP

Mazars LLP – The Corner, Bank Chambers, 26 Mosley Street, Newcastle upon Tyne, NE1 1DF

Tel: 0191 383 6300 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

**Engagement and
responsibilities summary**

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 2021. 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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. 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.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Audit and Risk Committee, as those charged with governance, of their responsibilities.



Going concern

The Corporation is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Director of Finance as Chief Finance Officer is responsible for the assessment of whether it is appropriate for the Corporation and Group to prepare the accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for reaching a conclusion on the arrangements that the Corporation has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Corporation and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



Fraud

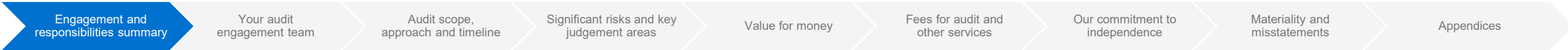
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

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



Reporting to the NAO

The Corporation does not have to complete a WGA return as its financial statements are consolidated into Tees Valley Combined Authority Group, which does. As such, we do not review or report on a WGA return for the Corporation or Group.



02

Section 02:

Your audit engagement team

2. Your audit engagement team



Cameron Waddell
Partner

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0191 383 6300



Cath Andrew
Senior Manager

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David Hurworth
Assistant Manager

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03

Section 03:

Audit scope, approach and timeline

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 impacted 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.

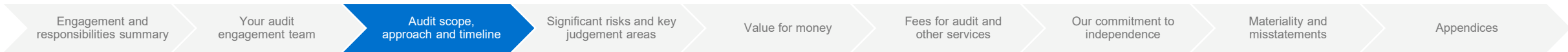
Audit approach

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 on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

Planning January to March 2021

- Planning visit and developing our understanding of the Corporation/Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion November 2021

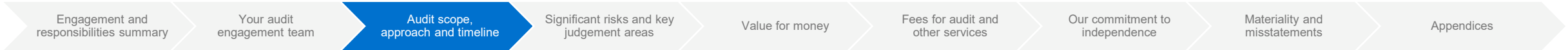
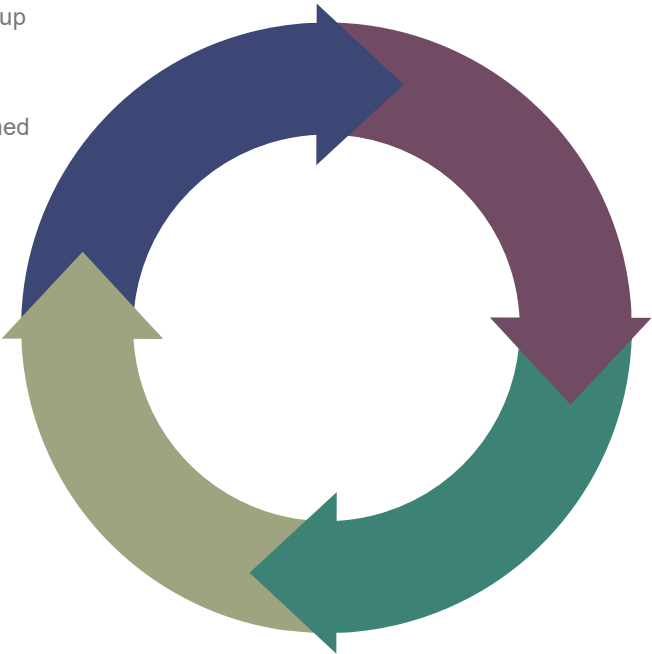
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Risk Committee
- Reviewing subsequent events
- Signing the auditor's report

Interim February to April 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork September to November 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

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, South Tees Site Company Limited, and Tees Works Ltd.

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

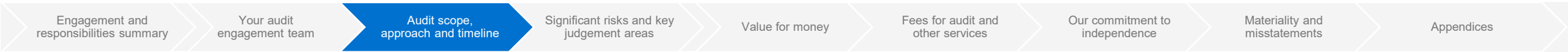
- an overview of the type of work to be performed on the financial information of the components; followed by
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group and the Corporation), and the percentage audited by other audit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

Planned approach by percentage of group (using total assets)

Year	Full scope audit	Limited or specific review	Other audit procedures
2020/21 estimate	100%	0%	0%

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

Year	Audited by Cameron Waddell (Responsible Individual)	Audited by other audit firms
2020/21 estimate	31% (STDC)	69% (all other subsidiaries)



3. Audit scope, approach and timeline

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 on 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

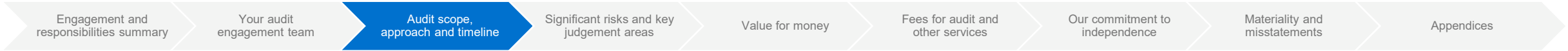
Management makes use of experts in specific areas when preparing the Corporation’s/Group’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item 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), and we will consider available third party information in challenging key valuation movements.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Corporation/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/Group and our planned audit approach.

Item 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.



04

Section 04:

**Significant risks and other key
judgement areas**

4. Significant risks and other 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. The definitions of the level of risk rating are given 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.

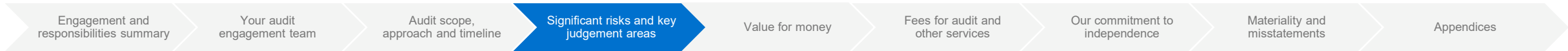
Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include 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

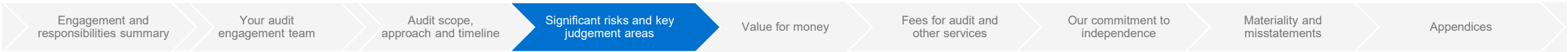
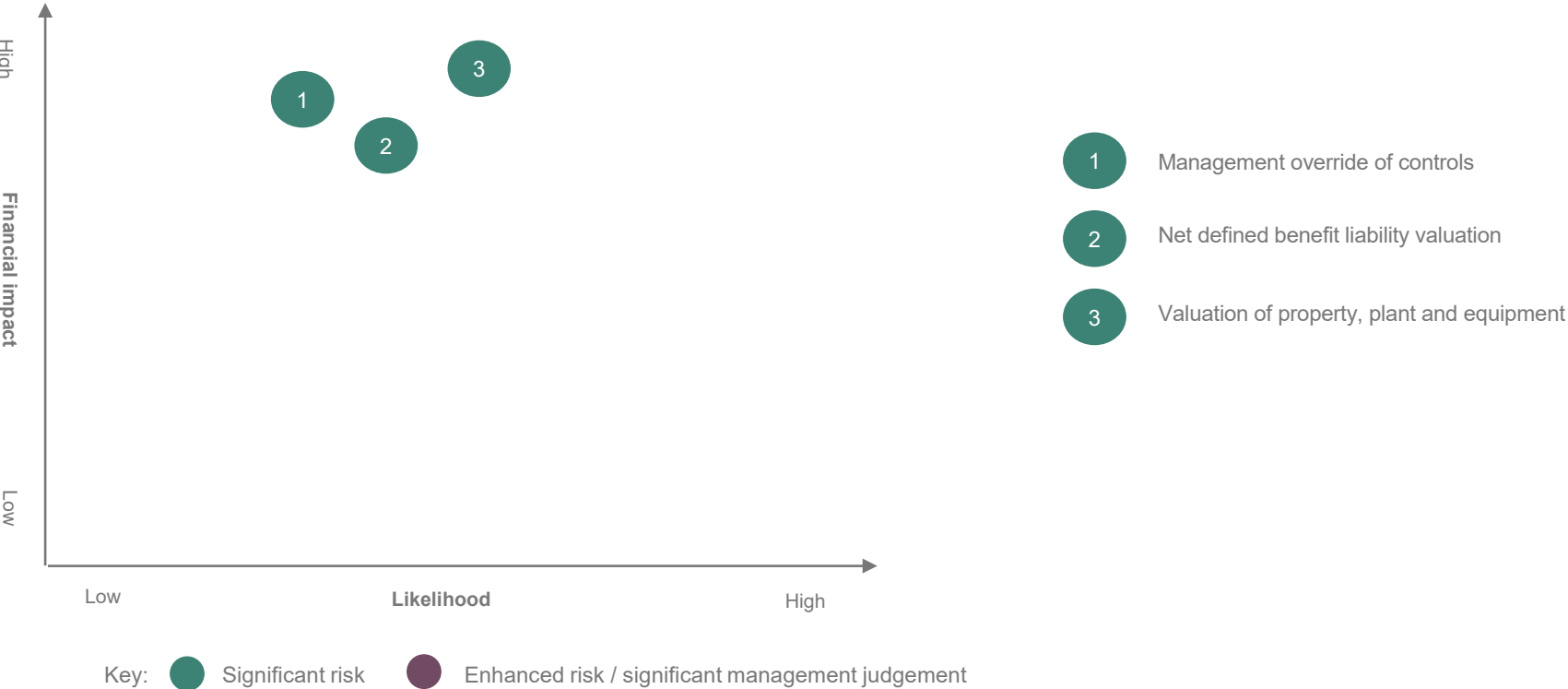
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Corporation/Group. We have summarised our audit response to these risks on the next page.



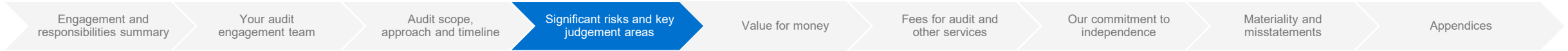
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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

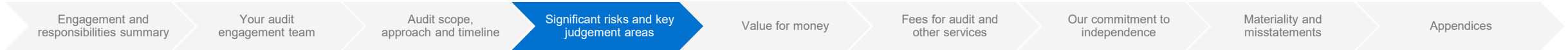
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls (Corporation and Group) This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique 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>	●	○	○	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.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation (Corporation and Group)</p> <p>The 2020/21 financial statements are expected to 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>	○	●	●	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.



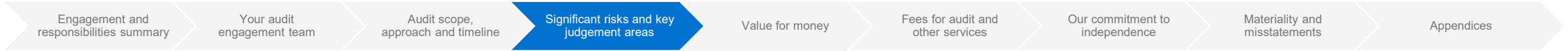
4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment (Group)</p> <p>The 2020/21 group financial statements are expected to contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group's holding of property, plant and equipment (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, or if not revalued in year management will need to gain assurance that asset values are not materially misstated. 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>

Consolidation of new subsidiaries

We are currently liaising with officers on the accounting treatment adopted in relation to the consolidation of South Tees Site Company and Tees Works Ltd.



05

Section 05: **Value for Money**

6. Value for Money

The framework for Value for Money work

We are required to form a view 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 in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Corporation has proper arrangements in place, we will now report by exception in our auditor’s report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Corporation’s arrangements as part of our auditor’s report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor’s Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Corporation’s arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Corporation and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Corporation’s arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none">• NAO guidance and supporting information• Information from internal and external sources including regulators• Knowledge from previous audits and other audit work undertaken in the year• Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor’s Annual Report. Our commentary will also highlight: <ul style="list-style-type: none">• Significant weaknesses identified and our recommendations for improvement• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Corporation.

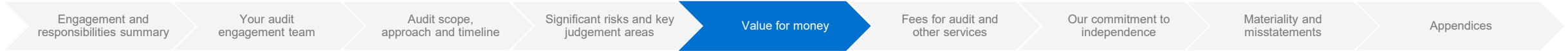


5. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO’s Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. We will report the results of our planning and risk assessment work to the Audit and Risk Committee at a later date.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Corporation's/Group's appointed auditor

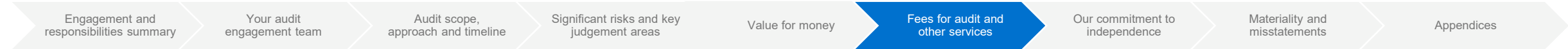
At this stage of the audit, we are planning the following adjustments to the scale fees set by PSAA.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work; PSAA scale fee	£13,860	£13,860
Fee in respect of group consolidation work	To be confirmed	£6,038
Recurring increases in the base audit fee arising from regulatory pressures (relating to PPE and related valuations, and pensions)	£1,813	£1,813
One-off fee increases for 2019/20 specific issues	~	£3,955
Additional fees in relation to new value for money arrangements	To be confirmed	~
Total audit fees	To be confirmed	£25,666

All fees shown above are subject to VAT.

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.



07

Section 07:

Our commitment to independence

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 FRC'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:

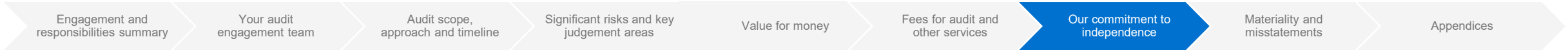
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- 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, 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.

No threats to our independence have been identified.

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



08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	Corporation £816 Group £568
Performance materiality	Corporation £653 Group £454
Specific materiality	
We did not identify any areas where we considered that a specific materiality level should apply.	
Trivial threshold for errors to be reported to Audit and Risk Committee	Corporation £24 Group £17

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.

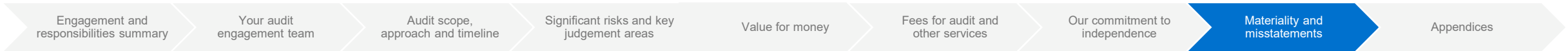
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and 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 design 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 the gross revenue expenditure at the surplus or deficit on provision of services level for the Corporation and total assets for the Group remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus or deficit on provision of services level for the Corporation and 2% of total assets for the Group. Based on the prior year we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £0.816m for the Corporation, and £0.568m for the Group (£0.105m for the Corporation and £0.557m 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.

Misstatements

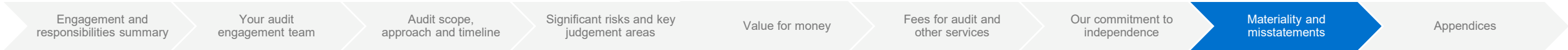
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Audit and Risk Committee that is consistent with the level of triviality that we consider would not need 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 £24,000 for the Corporation and £17,000 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 Audit and Risk Committee

The following three types of audit differences will be presented to Audit and Risk Committee:

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





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

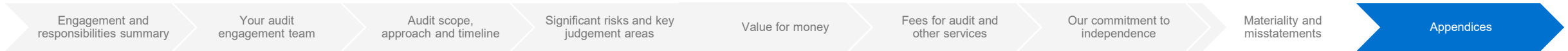
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The 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; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- 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; and
- Independence.



Appendix: 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	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">• Uncorrected misstatements and their effect on our audit opinion;• The effect of uncorrected misstatements related to prior periods;• A request that any uncorrected misstatement is corrected; and• In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">• Enquiries of Audit and Risk Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and• A discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit and Risk Committee Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Audit and Risk Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit and Risk Committee may be aware of.	Audit Completion Report and Audit and Risk Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty; Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

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

*where permitted under applicable country laws.



SOUTH TEES DEVELOPMENT CORPORATION

Project / Programme Management

FINAL internal audit report 4.20/21

24 May 2021

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

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

1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test, or complete full population testing using data analytics tools where applicable.

Why we completed this audit

A project / programme internal audit was conducted during March and April of 2021 as part of the approved internal audit plan for 2020/21.

This audit followed an initial audit conducted in March 2020 which resulted in 14 agreed management actions. This audit has reviewed progress against these management actions including; reviewing the PMO (project management office) provision, the performance and control platform, the management of risk and performance, project controls and how the information from the project level is rolled up into the programme level. One of the concerns raised in the 2020 audit was the capacity of South Tees Development Corporation (STDC) to undertake the management actions made in the audit. The programme was primarily controlled by the Engineering and Programme Director who was supported by project managers; however, STDC resources are very lean. To support the development of some of the management actions, external project management consultants Faithfull and Gould (F & G) were engaged in 2021 to support the development of the PMO and the tools to be utilised through the PMO, including a performance platform. It is anticipated the PMO will go live in mid-July 2021.

Conclusion

It was pleasing to note that progress has been made against all management actions raised in the 2020 audit. It was apparent during the review that a great deal of activity has begun in the design and development of the elements required to create a PMO; ensuring accurate and timely reporting through a platform and increase controls. The work is being undertaken by Faithful and Gould (F & G) who have been retained to ensure the PMO is developed under the supervision of the Engineering and Programme Director.

Whilst the design and development work are clearly visible through the evidence provided, the next stage is to embed these elements. STDC intentionally adopted a twin-track approach, to ensure that while the PMO was being developed, project controls were being developed and applied to existing and new projects.

There are **seven** outstanding management actions from last year's review consisting of one high, five medium and one low priority actions. However, it is worth noting that there is an expectation that the PMO will be operational very shortly, by the mid-July 2021, which is a significant contributing factor in our assurance opinion given in this report.

As a result of these findings, a further **three medium** priority and **one low** priority management actions have been raised in this report to supplement the work undertaken as part of this review.

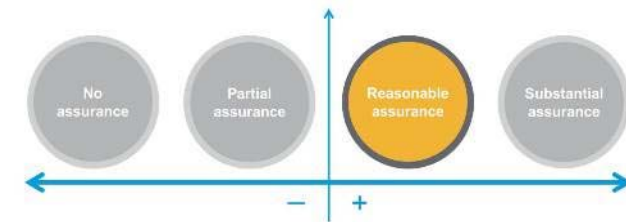
Under normal circumstances, the internal audit grade for this review would be partial assurance (negative opinion), on the basis of the number of actions left to fully implement and the classification of those actions. However, given the fact that all actions have had some form of progress made against them and there is a clearly defined action plan to have the remaining activities described in STDC's action tracker completed, these actions are inextricably linked to the overall roll-out of the PMO, we feel that given the amount of work that has gone into this area a reasonable (positive) grading is more suitable and a testament to the achievements made.

We would also recommend that those outstanding actions, and the new management actions agreed are followed up in a timely manner to confirm that the implementation has occurred.

Internal audit opinion:

Taking account of the issues identified, the Board can take **reasonable assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

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



Key findings

Our audit identified the following exceptions resulting in three medium priority and one low priority management actions:



As part of our Project Management review performed in 2019/2020, we raised 14 management actions. Through testing and discussions with key stakeholders we confirmed seven actions had not been fully implemented and were due to be completed by the end of August 2021.



Further work is required to ensure that activities to meet management actions are embedded with project managers, designers, suppliers with all having a clear understanding of the processes. Whilst developments have been made, there is a requirement for all to have a clear understanding of the processes that surround these. This will be achieved through the establishment of the PMO.



Further work is required to ensure that supplier contracts administration controls through CEMAR (an online programme for contract administration) are in place. It was acknowledged that certain documentation from projects that started during an accelerated phase are outstanding. This is now being addressed through additional work being conducted by F & G.

The low priority management action can be found in section two of this review.

Our audit review identified that the following controls are suitably designed, consistently applied and are operating effectively:



Performance Templates and Platform

The performance templates were reviewed, and the reviewer was given a presentation on the online performance platform and the development work that has been completed to date. The STDC technical specialists confirmed they had been consulted to ensure that the solution developed was fit for purpose.



Vision for PMO

There is a well-defined vision for the PMO which is documented. There is a clear plan of what responsibilities the PMO will have. The tools to enable visibility across the organisation (that will be managed by the PMO) have been identified and are being populated ready for launch.



Regular face-to-face performance management between STDC project managers and external project managers

Designers interviewed complimented the STDC project managers for their accessibility and stated they had regular informal meetings along with regular contract management meetings. The responsibilities of all parties are documented in the bespoke project execution plans which have been shared with project managers and designers.



Follow Up Management Actions

Clearly documented progress on the 2020 management actions and planned activity to embed was available for review. Whilst seven of the management actions from 2020 have not been completed to date, the activities planned, and the progress already undertaken has been clearly documented giving the reviewer confidence that STDC are clear on what activities are required to meet the management actions.



Lessons Learned

Lessons learned from projects are recorded with actions, resulting in lessons learned agreed and incorporated into future projects. The reviewer was shown a record of lessons learned from each project. This will be looked at thematically to identify any recommendations or learning that can be implemented.

2. DETAILED FINDINGS AND ACTIONS

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.

Risk: Failure to deliver the required programme outputs and outcomes in the desired timescales			
Control	An effective project management office (PMO) is in place as is the programme delivery platform – focussing on risk management, performance management and scheduling with a clear roll up from project to programme level.	Assessment:	
		Design	✓
		Compliance	×
Findings / Implications	<p>A firm of external project management consultants, Faithfull and Gould (F & G), have been contracted to develop all elements linked to the establishment of the PMO and its responsibilities that were detailed in last year's management actions. The reviewer was shown evidence of design and planning around the establishment of the PMO, development of the performance reporting tool and its associated report templates to be completed by the projects. The reviewer spoke with risk and finance leads from South Tees Development Corporation (STDC) who had been included in the development of the PMO and were confident that the plans in place would bring greater efficiency to the management of the programme.</p> <p>Whilst the development and design of the PMO and its associated elements has shown clear progress this has not yet become fully operational and embedded. There are clear plans that detail the next stages of development to meet the management actions which when completed will provide a solid PMO function.</p> <p>There were some reported issues with historic contract documentation from the project designer's perspective. It was stated designers were still awaiting contracts, despite work already having commenced. STDC are confident that the projects that have commenced since the last review have relevant documentation in place with contract management controlled through CEMAR (an online programme for contract administration). In addition, they have prioritised historic projects (commenced during an accelerated phase of the programme) and have begun to migrate these onto CEMAR, as well as addressing any gaps in documentation. STDC have appointed F & G to provide additional capacity to ensure effective contract administration is in place.</p> <p>In addition to the administration issues identified, project designers reiterated how important it was for them to be involved where possible in the scoping process when the project is designed and costed so they have a sound understanding this is only relevant where the project designers have acquired a project which was initially started by another contractor. STDC are confident that this is now in place for all new projects and these comments link to historical projects which were started during the earlier accelerated phase of the programme, this perspective was supported by project designers.</p>		

Management Action 1	<p>Designed solutions in response to the 2020 management actions will be embedded with project managers /designers / suppliers having a clear understanding of the processes.</p> <p>Management Response</p> <p>The PMO is scheduled to be fully established and operational by mid-July; however, as an interim a series of project controls have been introduced to STDC's current projects . It would be beneficial for a further check to be conducted at that point to establish whether management actions have been met.</p>	Responsible Owner: Engineering and Programme Director	Date: July 2021	Priority: Medium
Management Action 2	<p>Contract administration controls through CEMAR will be put in place for existing live projects that have been identified as having a significant period of time left to completion.</p> <p>Management Response</p> <p>New project contract administration is already beginning to be administered through CEMAR, the process of including priority historic projects in CEMAR is underway.</p>	Responsible Owner: Engineering and Programme Director	Date: July 2021	Priority: Medium

Risk: Failure to deliver the required programme outputs and outcomes in the desired timescales

Control	Appropriate controls are in place including commissions/contracts mapping and project level KPIs.	Assessment:	
		Design	✓
		Compliance	×
Findings / Implications	<p>. There are large elements of the programme which are reactionary that do not allow for the production of a whole programme schedule as would traditionally be produced in a large infrastructure programme. There is however a master schedule for the demolition programme and a master schedule and interface plan for the GE Offshore Wind base that is currently being developed. Other “near term” projects are managed through a medium-term plan/schedule which may cover up to a two-year period. STDC has produced its medium-term expenditure plan and schedule of projects that relates to this, and a master schedule is being developed in parallel to the expenditure plan. This however is subject to material change because of the reactionary nature of some of the elements of the programme which require changes in prioritisation.</p>		

The projects reported, whilst they had headline KPIs detailed in their project execution plans (PEPs), these were not specific to their projects and had no target levels set. A logic model with expected outputs and outcomes at the programme level has been developed which provides indicators for suggested specific KPIs beyond management of time, quality, cost, safety etc that evidence the achievement of the master plan outcomes.

The risk of project KPIs that are not linked to the programme level is that this could result in difficulty evidencing the overall programme successes particularly in areas such as social impact, and an inability to roll up project performance into programme performance can leave programme boards without a clear view of progress.

Project KPIs require targets rather than headings alone. These should drive performance, therefore the target levels should be based upon the requirements of the project and consider current performance levels.

Management Action 3	The programme level required outcomes/outputs will be developed into KPIs and built into the project KPIs and targets.	Responsible Owner: Engineering and Programme Director	Date: June 2021	Priority: Low
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Risk: Failure to deliver the required programme outputs and outcomes in the desired timescales

Control Management actions from the 2020 audit have been actioned and embedded.

Findings / Implications In the 2020 review 14 actions were agreed which were all due to be completed by 2021. STDC and F&G have made progress against all of the management actions, however there are still seven outstanding (one high, five medium and one low). Management have produced an action tracker which clearly shows their progress. RSM comments against activity has been included in the table in Appendix A of this report.

Management Action 4	The outstanding management actions will be completed within the required timeframe.	Responsible Owner Engineering and Programme Director	Date: August 2021	Priority: Medium
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APPENDIX A: MANAGEMENT ACTION PROGRESS

All actions that are highlighted grey can be closed.

Ref	Recommended action	Suggested priority	Progress 2021	State
1	Define and agree the requirements for a STDC project management approach.	Medium Implementation date initially agreed as 31 January 2021	This is documented in the Project Execution Plan (PEP). The PMO has drafted a programme management plan which defines the approach.	In progress (programme management plan element only outstanding, PEP complete).
2	In the absence of a defined STDC approach, define a set of principles that STDC will apply for governance and controls and the standards they require of their project management service provider(s). These should later be incorporated into the STDC project management approach.	High Implementation date initially agreed as 31 October 2020	The standards have now been detailed within the PEP template and communicated to project management service providers.	This action can be <u>closed</u> as the approach is being defined.
3	Within the STDC project management approach, formalise the handover of the mandate, business case, etc. to project managers, and consider also how project managers can contribute to the pre-handover activities.	Medium Implementation date initially agreed as 31 October 2020	This is now in place for all new projects	STDC stated that this is now in place for all new projects. This was echoed by designers. This can be <u>closed</u>
4	Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in	Medium Implementation date initially agreed as 31 January 2021	Lessons learned are now documented in a spreadsheet however it is not clear how these are applied.	Lessons learned are to be discussed and a thematic exercise will take place to identify areas for further development / rectification.

	particular, when starting up and initialising projects.			
5	Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.	Medium Implementation date initially agreed as 30 June 2021	The interfaces between STDC, F & G and project consultants is not clear. How the PMO will run needs to be clarified. This has begun to be clarified in the programme plan document and there is a high level generic PMO blueprint.	The PMO consultants are presenting their plans to the STDC executives in a few weeks where the plans are set for discussion and approval.
6	Allow the project managers control over project budgets within defined levels of authority.	Low Implementation date initially agreed as 31 October 2020	STDC has authority levels defined.	Completed This can be <u>closed</u> .
7	Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.	Medium Implementation date initially agreed as 31 January 2021	This is currently being developed.	In progress see action five.
8	Formalise an assurance model such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well-managed way. Consider a “three-lines of defence” approach: <ul style="list-style-type: none"> the 1st line is the project management team. the 2nd line is a project management office. 	Medium Implementation date initially agreed as 31 October 2020	Assurance is detailed at the programme level, PMO consultants need to ensure that the project level mirrors/complements the assurance levels that are the higher level as they currently do not reflect this.	In progress. The current description of assurance at a project level is being developed to link with assurance at a programme level.

	<ul style="list-style-type: none"> the 3rd line is internal audit and/or specialist external assurance. 			
9	Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).	High Implementation date initially agreed as 31 October 2020	There is a full approvals process in place that is utilised on projects. The step we are taking is around improving this process and making it more efficient, through the PMO development. This process needs to be documented.	Clear documentation of processes is required. The decision-making processes in the PEP that has been shared with project managers and designers requires further additions such as the change process, and some elements such as authority levels were deemed incorrect by the Engineering and Programme Director.
10	Apply HM Treasury and Infrastructure and Projects Authority (IPA)'s Project Initiation Routemap for larger projects. The Routemap (and its supporting modules) offers diagnostics and references for strategic decision-making during project initiation by addressing the most common capability gaps that sponsors and clients need to enhance for asset-rich infrastructure projects.	Low Implementation date initially agreed as 31 January 2021	Guidance has been used as a reference tool.	HM Treasury and Infrastructure and Projects Authority (IPA)'s Project Initiation Routemap is guidance, the PMO team will use to inform their approaches and processes. This can be closed .
11	Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.	Low Implementation date initially agreed as 31 January 2021	A logic model shows outcomes but KPIs have not been created to reflect this and do not flow to a project level.	KPIs and targets are required that flow from the highest level through to the projects.
12	Re-align the terms of reference of the boards and committees to best practice portfolio management (see AXELOS Limited's Management of Portfolios (MoP) for further	Low Implementation date initially		AXELOS Limited's Management of Portfolios (MoP) is guidance and been used to inform approaches and processes. This can be closed .

	guidance. The current project groupings could provide the basis of a portfolio structure, and the Planning and Infrastructure Committee could provide oversight of the portfolios in terms of providing investment/prioritisation.	agreed as 31 January 2021		
13	Ensure that senior management, board members and other executives in a decision-making role within TVCA and STDC understand their responsibilities in a project-driven environment and are suitably qualified and experience.	Medium Implementation date initially Agreed as 31 January 2021	Sample interviews were held with risk and finance leads regarding their responsibilities. There were no identified issues.	This can be <u>closed</u> as completed.
14	Assess resourcing requirements for client-side project management activities and resolve ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.	Medium Implementation date initially agreed as 31 July 2021	Resourcing has been addressed with the appointment of F & G. Dates for implementation have been however missed. It appears that the leanness of the STDC operation impacts upon the ability to move this forward quickly to provide authorisation and guidance to F & G.	Completed. This can be <u>closed</u> .

APPENDIX B: CATEGORISATION OF 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 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, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls* **		Agreed actions		
					Low	Medium	High
Failure to deliver the required programme outputs and outcomes in the desired timescales.	0	(7)	3	(7)	1	3	0
Total					1	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.

** More than one action has been raised against a particular control.

APPENDIX C: 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 risk:

Objective of the area under review	Strategic risk relevant to the scope of the review	Risk source
The PMO and Programme Delivery Platform have been set up to support the successful delivery of the capital programme and there is an appropriate level of rigour around the existing constituent projects.	Risk: Failure to deliver the required programme outputs and outcomes in the desired timescales.	Strategic risk register

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

Our review will consider the following areas:

1. The development of the PMO and the Programme Delivery Platform.

The Project Delivery Platform has been set up to support both the programme and reporting to BEIS and MHCLG. The role of the PMO has also been developed in recent months, and suppliers will be required to report into the PMO moving forward. This audit will consider how the PMO and Programme Delivery Platform are responding to the needs of the programme. In particular considering performance management, risk management, and scheduling at the programme level and how this is rolled up from project-level information.

2. Project controls rigour around existing projects.

An exercise has been undertaken to map all commissions / contracts allocated to projects and projects to different parts of the site. This enables project-level KPIs to be cut in multiple ways. The work to codify approximately 60 contracts will be complete in mid-January. This audit will therefore consider the extent to which the project controls that exist to manage project performance provide the necessary rigour for reporting at the programme-level. In particular whether PMO dashboards capture risks and issues that are being managed at the project-level.

3. A look back to see how previous audit actions have been responded to.

In the context of the recommendations made in the RSM audit report from 2019/2020, this audit will consider the extent to which the responding action plan has been implemented. This includes any work carried out by Atkins and F&G, such as health checks on existing projects.

The following limitations apply to the scope of our work:

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- This review will not comment on the status/health of any individual project or the overall programme.
- We do not endorse a particular means of project/programme management.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Debrief held	21 April 2021
Draft report issued	10 May 2021
Responses received	24 May 2021

Final report issued	24 May 2021
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Internal audit Contacts	Rob Barnett, Head of Internal Audit
	Philip Church, Client Manager
	Ellie Acton, Associate Director, Consultancy

Client sponsor	Engineering and Programme Director
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Distribution	Engineering and Programme Director
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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.

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 - Audit & Risk Committee

Forward Programme

Standing Items

Minutes from the Previous Meeting
 Group Chief Executive Update
 Risk Register
 Internal audit progress report
 Internal Audit Actions Update
 External audit progress report
 Forward Programme and Action register
 Date of the Next Meeting

Audit & Risk Committee		
Date	Venue	Item / Responsible Officer
1 st September 2021	TBC	2021/22 Group Budget – MR? Internal audit progress report Internal Audit Actions Update External audit progress report PMO Presentation Risk Register Deep Dive – Topic TBC
17 th November 2021	TBC	Internal audit progress report Internal Audit Actions Update External audit progress report Risk Register Deep Dive – Topic TBC
9 th March 2022	TBC	Internal audit progress report Internal Audit Actions Update External audit progress report Risk Management Framework Annual Review

		Risk Register Deep Dive – Topic TBC
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Proposed Items to be scheduled
Annual Accounts and Governance Statement Draft Group Assurance Framework

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

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

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

Number	Action	Person responsible	Due Date	Status
4.	Add ageing detail and planned resolution date into the Internal Audit Actions update report	MR	February meeting	Complete
5.	A Resource plan to be produced & delivered twice yearly to Committee to cover people risk perspective and how this is monitored.	GM	ASAP	

Actions from STDC Audit & Risk Committee meeting 24th February 2021

Number	Action	Person responsible	Due Date	Status
1.	Offshore wind & Freeport deep dive to be brought to the next meeting if application is successful	GM	Next Meeting	Complete
2.	Map of zones on site to be shared with members	JM	ASAP	Complete
3.	Arrange meeting for CW, GM & NR to discuss how key workstreams, projects and risk can be shared with Committee.	SJ	ASAP	Complete
4.	Table of overdue actions to be added back into Internal Audit Actions Update report	MR	Next Meeting	Complete
5.	Retrospective reporting of projects to be included in report where relevant	MR	Ongoing	Complete

6.	PMO Presentation to be added to next meeting agenda	JM	Next meeting	September meeting
7.	Document detailing risk process to be circulated	NR	ASAP	Complete
8.	Workforce plan to be circulated to Committee once signed off at STDC Delivery Group	GM	ASAP	Complete
9.	Documentation and assurance as to how SBC outsourced services are managed to be shared. PC to write to SBC and ask for this.	PC	Next Meeting	
10.	How STDC/STSC/ARC will interface with each other moving forward to be provided.	GM	ASAP	Complete