

South Tees Development Corporation Audit & Governance Committee Agenda

Date: 1st December, 2023, at 11:30am

Venue: Teesside Airport Business Suite, Teesside International Airport,
Darlington DL2 1NJ

Membership:

John Baker – (Independent Member)

Allan Armstrong – (Independent Member)

Mike Sharp - (Independent Member)

Geoff Westmoreland – (Independent Member)

Cllr Curt Pugh – (TVCA Audit and Governance Committee Representative)

AGENDA

1. **Welcome and Apologies for Absence**
Verbal
2. **Appointment of Vice Chair**
Verbal
3. **Declarations of Interest**
Attached & Verbal
4. **Minutes of Previous Meetings & Actions Tracker**
Attached
5. **Executive Update**
Attached
6. **Internal Audit Actions Update**
Attached
7. **Summary Internal Controls Assurance Update**
Attached
8. **External Audit Strategy Memorandum 2022/23**
Attached
9. **External Audit Progress Update**
Verbal

10. DRAFT Accounts Update

Verbal

11. Review & Approval of Draft STDC Annual Governance Statement 2022/23

Attached

12. Forward Programme

Attached

13. Landfill Tax on Brownfields Site

Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this Update is not for publication.

14. Health & Safety (EHS) Update

Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

15. Risk Management Report

Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.

16. Teesworks Update

Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this Update is not for publication.

17. Date of Next Meeting

23rd February 2024

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:

tvcagovernance@teesvalley-ca.gov.uk

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 & GOVERNANCE COMMITTEE

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

Date: Tuesday 1st August, 2023

Time: 12:30pm

Venue: Teesside Airport Business Suite, Teesside International Airport

| Attendees: | | Apologies: |
|------------------------------------|--|--------------------|
| Allan Armstrong (AA) | Independent Member (Chair) | Geoff Westmoreland |
| John Baker (JB) | Independent Member | Cameron Waddell |
| Mike Sharp (MS) | Independent Member | |
| Cllr Curt Pugh (CP) | RCBC Representative from TVCA Audit & Governance Committee | |
| Gary Macdonald (GM) | TVCA | |
| Victoria Smith (VS) | TVCA | |
| Emma Simson (ES) | TVCA | |
| Cath Andrew (CA) | Mazars | |
| Derek Weatherill (DW) | Teesworks | |
| Mike Gibson (via Teams) | RSM | |
| Natalie Robinson (part of meeting) | Teesworks | |
| Elaine Braham – Governance | TVCA | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|-----------------------|--|---|------------------|----------------|
| STDC-A&G 01/2023. | Welcome & introductions | Gary Macdonald, (GM) Group Director of Finance & Resources welcomed everyone to the Meeting. | | |
| STDC-A&G 02/2023 | Apologies for Absence | Apologies for absence were noted and submitted as above. | | |
| STDC-A&G 03/2023 | Nominations and Appointment of Chair and Vice Chair | <p>Alan Armstrong was proposed as Chair by John Baker and seconded by Derek Weatherill, and the motion carried.</p> <p>There were no candidates for Vice Chair, this will be considered again at a later date.</p> | | |
| STDC-A&G 04/2023 | Declarations of Interest | JB and GM both declared an interest in respect of South Tees Site Company Board. | | |
| STDC - A&G 05/2023 | Minutes of Previous Meetings & Action Tracker | <p>The minutes of the meeting held on the 3rd February 2023 were agreed as a true record and there were no questions or comments raised.</p> <p>The minutes of the meeting held on 17th March 2023 were agreed as a true record subject to the below comments:</p> <ul style="list-style-type: none"> Pg 3 – MS noted that he did not receive a satisfactory response at this meeting, however he did in the subsequent teams meeting. | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|-------------------------|--|------------------|----------------|
| | | <ul style="list-style-type: none"> Pg 6/7 – MS noted that he had not received an update in respect of the observations regarding the accounts. VS reported that a full update would be provided during today's meeting and that an email would be shared after the meeting with a summary. <p>The below clarification was made in respect of Action Tracker items:-</p> <ul style="list-style-type: none"> 19th August 2022 – Plan of Action to reduce number of changes in future It was reported that the volume of changes has significantly reduced between the financial years 21/22 and 22/23. 3rd February 2023 – Recruitment to Committee Geoff Moreland had been recruited. Geoff has a strong track record in risk within the banking sector, focusing on risk portfolios, and should be in attendance at the next meeting. GM reported that a decision had been taken to continue succession planning for this committee once recruitment to other boards was complete. 20th April 2023 – Devise a standard list of questions It was noted that all questions should come through TVCA press office. | | |
| | | | | |
| STDC-A&G 06/2023 | Executive Update | <p>The Committee were provided with an update on activity since the last meeting.</p> <ul style="list-style-type: none"> Decontamination project and COMAH Status Demolition had concluded, and removal of contaminated waste is ongoing from the site, which is working towards the removal of COMAH Status at the end of 2023. The level of E2 hazards remain in the upper tier and this needs to be reduced to below 200 tonne in order to apply for declassification. Initial notification has been submitted and once below the threshold the HSE will undertake an onsite audit. <p><u>Questions</u> – members did not have any questions.</p> | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|-----|-------------|---|---------------------------------|----------------|
| | | <ul style="list-style-type: none"> Freeport Business case activity pertaining to the distribution of funding is ongoing. Utilities Enabling work for SeAH is progressing. SeAH timescales accommodate power requirements and are on track for the target date set. NZT are working through procurement stages and enabling works are to be progressed working towards the agreed completion date. <u>Questions</u> AA asked whether there are any risks the committee needed to be aware of. GM noted that a risk register had been developed for each, they had not flagged any significant risks that would affect delivery and going forward any risks will be mitigated on an ongoing basis. Programme Development An update was provided in respect of Dorman Point, South Bank, Demolition Works Programme, Net Zero Teesside and Teesworks Park and Ride Facility. <u>Question</u> JB asked if a site tour would be available, VS to pick this up with ND when she returns from leave. AA asked if there was anything the committee should be considering. GM highlighted the need to maintain the momentum in signing tenants. Timescales are important to link Freeport benefits, and the construction and operationalisation of facilities. AA noted the hard stop date, and asked if there is anything that as a committee they needed to be looking at. GM felt that whilst they would need to be mindful of commercial sensitivity the committee could consider looking at what the pipeline looks like and how realistic it is. | Site Tour to be arranged | VS/ND |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|--|--|------------------|----------------|
| | | RESOLVED THAT: the Committee noted the update. | | |
| | | | | |
| STDC-A&G 07/2023 | Internal Audit 2022/23 Annual Opinion | <p>The Committee were provided with 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.</p> <p>It was determined that the organisation has an adequate and effective framework for risk management, governance and internal control, and further enhancements to the framework to ensure that it remains adequate and effective were identified.</p> <p>MG reported that the second highest level of assurance had been provided (see Appendix A, and summary of report at Appendix B). Opinion is based upon levels of control, taking into consideration governance and risk and control, and audits provided positive opinions and assurances.</p> <p>The Committee were invited to ask questions throughout and these are summarised as follows:-</p> <ul style="list-style-type: none"> • AA noted the comment in Appendix C, pg 46, stating 'urgent action is needed'. MG clarified that Appendix B, pg 44/45 is the actual opinion delivered, and provides positive assurance. • MS noted Pg 38, 3rd point suggests that where strong levels of control have not been effective this may in part be due to management override, highlighting that management should not be able to singlehandedly override. MG clarified that this is a standard caveat used in this type of audit as they have no way of knowing with absolute certainty this has not occurred. GM explained that the level of sampling undertaken enables them to provide an opinion at the end of the year. • JB asked to clarify if they had found any instances of management override, and MG confirmed that they had not. VS further clarified that the auditors are not in a position to test everything, | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|------------------------------|---|---|-----------------------------------|
| | | <p>however if they found evidence to suggest management override, they would increase their sampling. JB accepted the explanation.</p> <p>RESOLVED THAT: the Committee noted the update.</p> | | |
| STDC-A&G 08/2023 | External Audit Update | <p>CA from Mazars provided the Committee members with an external audit update.</p> <p>The Audit is substantially completed and sign off will occur once the pension element is completed and the ongoing review concluded.</p> <p>VS reported that the Department for Levelling Up, Housing and Communities had written to Directors on the 18th July 2023 in relation to the significant backlog of local audits in England. The letter detailed that only 27% of local audits had been completed for the financial year 2021/22 and we are therefore in the majority.</p> <p>GM had today attended a webinar re provisional dates for accounts etc and an update would be provided at the next committee.</p> <p>The Committee were invited to ask questions throughout and these are summarised as follows:-</p> <ul style="list-style-type: none"> VS responded to the questions submitted in advance of the meeting by MS: <ul style="list-style-type: none"> Q Page 8 of the Accounts, movement in reserves had 20/21 at the top and 21/22 at the bottom and elsewhere in the accounts it is the other way around. A This flows down from closing balance to opening balance. In the rest of the accounts, they are the other way around as show current before prior year in notes. We propose not to amend this as discussed at the committee as it is in line with public sector accounts protocol. Q Page 11 of the Accounts – confusing wording on cash flow statements was noted as ordinarily it starts with positive and net increase in brackets at the bottom suggests it is | <p>Letter to be shared with members</p> <p>Update</p> | <p>VS</p> <p>GM</p> |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|-----|-------------|--|--|------------------|
| | | <p>being added to a negative figure. VS advised we will check on net increase and will check the code and if it allows, will change that.</p> <p>A This is confusing but was requested by Mazars – so that it matches the statements. It is a public sector method where negative figures in CIES are income with expenditure positive. This then means an increase in cash would be negative as it is “extra income”.</p> <p>Q Page 18 & 19 of the Accounts – ‘Assets under construction’ had closing cost of £18,667, assume still there but not brought forward on the balance. Page 19 no opening balance. It was suggested there is a need to know what has happened to the original asset. GM agreed either the figures were wrong or needs a note to indicate why it is recorded in this way.</p> <p>A This is as requested by Mazars – as it has all been impaired, they said we do not show it as opening balance. We originally had the opening balance as £18,667 and opening impairment of £18,667. To be followed up with Mazars as I agree this would be a clearer approach.</p> <p>Q Page 46 of the Accounts – ‘Long Term Debtors and loans’ has a different value to the single entity balance sheet (£23,276 against £24,231). It was noted that the explanatory note gives less information than on the balance sheet. VS will need to check numbers on this.</p> <p>A This needs amending to £23,276 – it was the late adjustment where Mazars asked us to do the soft loan calculation so moved to investment in subsidiary.</p> <p>Q Page 50 of the Accounts – ‘Long term Debtors’ noted as £24,201. GM suggested could be a classification issue and would be checked and, if so, the note needs to reflect this.</p> <p>A This will be amended as per above needs to be £23,276 to Long Term Debtors £527 to investment in subsidiary.</p> <ul style="list-style-type: none"> CA Mazars confirmed that no issues in relation to value for money had been noted during the audit and that the audit work was substantially complete. AA asked, given no issues were noted during their work, why Mazars state they are unable to complete the audit until after | <p>Responses to be e-mailed to MS</p> | <p>VS</p> |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|-----|-------------|--|--|----------------|
| | | <p>the findings of the government independent review are known, given the two are independent of each other. CA confirmed Mazars were being prudent and that they may wish to review the report when issued by the independent review.</p> <p>GM noted that the substantive material that had been shared with the independent review had also been shared with Mazars previously as part of their audit process. VS noted that it is an independent review and as such there is no legislative reason why Mazars cannot sign off the accounts as a result.</p> <p>MS asked if, given that Mazars are insisting on awaiting the findings of the independent review prior to completion, they will be noting in the accounts that this had provided further assurance. CA confirmed that they would be.</p> <ul style="list-style-type: none"> • JB asked what the position would be if the outcome of the independent review remains unknown at the point that the accounts are complete. CA noted that it is a conversation that would need to be had in September if they do not provide a conclusion. MS noted that it must surely come to a point where, given Mazars have completed their work without issue, and that if any recommendations were to occur from the independent review, the findings would need to be commented on in the subsequent year's accounts rather than hold up completion of 21/22. • Committee members asked that it be noted that they remain unhappy with the suggestion that the accounts could not be completed until the outcome of the independent review is known. MS noted that had the accounts been completed on time this would have taken place in advance of the independent review occurring and AA added that at some point Mazars need to back the work they complete. • VS reported that it is hoped to have draft accounts for 22/23 up by the end of the week, with Mazars looking to timetable in October. VS highlighted that Mazars auditor capacity issues and third party pension reports mean that this will be after the statutory deadline of the end of September. CA reported that EY have been asked for their timetable for providing pension assurance but have not committed as they are still working on 21/22. <p>RESOLVED THAT: the Committee noted the update.</p> | <p>Audit Strategy Memorandum to be brought to the next meeting.</p> | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|---|--|------------------|----------------|
| | | | | |
| STDC-A&G 09/2023 | 2021/22 Audit Completion Report Follow Up Letter | <p>Committee were presented with an update on the matters which were marked “outstanding” within the Audit Completion Report dated December 2022 and the status of the outstanding matters namely:-</p> <ul style="list-style-type: none"> • Fraud, laws and regulations, responses from those charged with governance; VS noted these standard inquiries must run until the date of signing and therefore will remain until the date the accounts are signed. No issues noted to date. • Regulated party transactions; - confirmed now complete. • Property, plant and equipment and contractual commitments. • Mazars review of Group consolidation audit work. • Mazars testing of Pension assumptions. • Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of the audit. <p>RESOLVED THAT: the Committee noted the update.</p> | | |
| STDC-A&G 10/2023 | Annual Review of Committee Terms of Reference | <p>Committee were presented with the STDC Group Audit & Governance Committee Terms of reference for review.</p> <p>The Terms of Reference provide Committee with an oversight of its responsibilities in matters concerning risk by providing independent assurance of the governance arrangements and the internal control environment.</p> <p>ES sought comments from committee members pertaining to the review of the Terms of Reference that were amended last year.</p> <p>JB suggested that this be considered as part of the committee Away Day where it was hoped to have all members in attendance.</p> | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|-------------------|--------------------------------------|--|---|----------------|
| | | <p>AA noted that this is not a decision-making committee rather its role is to ensure that governance processes are in place.</p> <p>RESOLVED THAT: the Committee asked that this be reviewed in more detail as part of the away day.</p> | To be added to the Agenda for the Away Day | |
| STDC-A&G 11/2023 | Forward Programme | <p>Committee were provided with a Forward Programme for 2023/24.</p> <p>GM noted that ND had been trying to co-ordinate dates, however diaries have proved challenging. CA felt that the months would work.</p> <p>Members noted the need for a further Briefing Session for those who were unable to attend the first session. They asked that this be held in advance of the proposed away day and that both take place before the next committee meeting.</p> <p>RESOLVED THAT: the Committee noted the content of the Forward Programme</p> | Second Briefing Session to arranged | |
| STDC-A&G 12/2023. | Internal Audit Actions Update | <p>Committee were provided with a review which gave assurance that agreed recommendations had been fully implemented in respect of the following audit reports:-</p> <ul style="list-style-type: none"> • Follow-up of Previous Internal Audit Recommendations: Controls and Governance Review; • Follow-up of Previous Internal Audit Management Actions; • Scrap & Disposal of Assets; • Follow-up of Previous Internal Audit Management Actions; • Projects: Demolition Programme and South Bank Quay Project; • Logic Models; • Procurement to Pay Process. | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|-------------------------------|--|------------------|----------------|
| | | <p>Committee were advised that a total of 10 actions had been marked closed and have subsequently been reviewed during the audit.</p> <p>In conclusion the Internal Auditors opinion was that STDC had demonstrated good progress in implementing agreed recommendations. Satisfactory evidence was supplied for 8 of the 10 actions declared as complete by the respective action owner. They were also supplied evidence in respect of the remaining key actions (both low priority) but upon review found these had not been fully implemented. Auditors therefore agreed 2 low priority management actions in respect of these 2 actions.</p> <p>Going forward NR will be leading on performance actions, pg 61 of the papers provides an overview of actions to date, whilst pg 64 details overdue action, progress to date, and controls that are in place.</p> <p>RESOLVED THAT: the Committee noted the update.</p> | | |
| STDC-A&G 13/2023 | Internal Audit Reports | <p>Committee were presented with the position of current Internal Audit action plan progress as of June 2023.</p> <p>MG reported that the audit undertaken in January looked to determine whether agreed recommendations had been fully implemented, and concluded management had made good progress in implementing recommendations.</p> <p>The Audit on pg 67 considered COMAH Declassification and looked to determine if the appropriate processes are in place, concluding that the Authority could take substantial assurance that the controls upon which it relies to manage the risk are suitably designed, consistently applied and effective. DW added that they held monthly collaboration meetings with contractors, and these proved invaluable.</p> <p>RESOLVED THAT:-</p> <p>i. The Committee considered the analysis and audit progress set out in the paper;</p> | | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|--|---|--|-------------------------------------|----------------|
| | | ii. The Committee acknowledged the annual audit schedule. | | |
| <i>Under the terms of paragraph 3 of schedule 12a of the Local Government Act, the Chair passed a motion to exclude press and public at this stage of the meeting so the Board could discuss matters of a Confidential nature.</i> <i>The proposal was agreed by the committee.</i> | | | | |
| STDC-A&G 14/2023 | Health & Safety (EHS) Update | <p>Committee were provided an update on the key Environmental, Health & Safety activities undertaken during the period 1st April, 2023 to 15th July, 2023.</p> <p>RESOLVED THAT: the Committee noted the update for clarity, of performance and awareness of legislative requirements.</p> | | |
| STDC-A&G 15/2023 | Risk Management Report | <ul style="list-style-type: none"> The Risk Management Update Report was presented to the Committee. <p>RESOLVED THAT:</p> <p>i. The Committee considered the analysis and Risk progress set out in the paper; and</p> <p>ii. The Committee acknowledged the current Risk position.</p> | | |
| STDC-A&G 16/2023 | Review & Analysis of Committee Effectiveness Survey & Skills Audit | <p>Committee were provided with a report which gave an overview of the responses received about the Committee's role in ensuring good governance.</p> <p>RESOLVED THAT:- the Away Day</p> <p>i. Consider and make comment on the key findings of the Effectiveness Survey and Skills Audit and to formulate and agree an Action Plan.</p> | Add to a the Away Day Agenda | |

| No. | Agenda Item | Summary of Discussion | Actions Required | Responsibility |
|---------------------|--|---|------------------|----------------|
| STDC-A&G 17/2023 | Any Other Business | MG noted that this would be the last meeting he would be attending and thanked members for their cooperation and forbearance during the last couple of years. | | |
| | | | | |
| STDC-A&G 18/2023 | Date & Time of Next Meeting | TBC | | |

AGENDA ITEM 5

REPORT TO THE STDC A&G COMMITTEE

1ST DECEMBER 2023

GROUP UPDATE

GROUP UPDATE

SUMMARY

The purpose of this report is to provide the Committee with an activity update since the last meeting.

RECOMMENDATIONS

It is recommended that the STDC A&G Committee note the content of this report.

DETAIL

DECONTAMINATION PROJECT AND COMAH STATUS

1. The Committee will remember that a key obligation imposed on STDC in the original Business Case when the South Tees Site Company (STSC) transitioned to local control, was to deliver the Decontamination Project. The contract was procured prior to 2019 when HMG were in control of STSC, and which was responsible for decontaminating the 27km of coke oven gas main and 8km of heavy fuel oil main. This was the most significant aspect of work that had to be done to free the site from its Top Tier COMAH status and is the largest single contract delivered by STSC.
2. This contract is now complete, with the exception of 3km of heavy fuel oil main which was removed from the contract scope due to accessibility issues. It does not impact on any developable land. The COMAH substances arising from that contract have been safely disposed of and any remaining levels are now well below the COMAH threshold.
3. COMAH inventory materials quantities are now below the required thresholds of COMAH status. As of 15 November 2023 it was confirmed by the EA that the COMAH status has been removed from site.

FREEPORT

4. Two new Freeports in Wales and, in addition, eight Investment Zones have been announced.
5. HM Government announced on 21st November that the availability of tax incentives for Freeports has been extended for a further 5 years until September 2031. This is positive news, as it aligns all UK Freeports timescales.
6. Discussions with DLUHC have taken place to scope out the additional requirements of this extension; we await formal confirmation and further details following the Chancellors announcement in the Autumn Statement.

INDEPENDENT REVIEW

7. On 7 June, it was announced that Angie Ridgwell, Chief Executive of Lancashire County Council had been appointed to lead a review into Teesworks following allegations about the organisation being made by the press and in the Commons. The investigation commenced at the beginning of June, with the panel reviewing TVCA's oversight of STDC and the Teesworks Joint Venture, including consideration of specific allegations made in relation to the Joint Venture, of corruption, illegality and wrongdoing. It is also looking at governance and financial management, reflecting the Government's existing approach to external assurance reviews.
8. In total we have provided more than 700 documents to the panel and have answered more than 185 questions. We understand that the independent review panel's report has now been postponed until mid-December 2023.

TEES VALLEY INVESTMENT ZONE

9. The government published the Investment Zones (IZ) policy prospectus on 15th March 2023. Tees Valley Combined Authority has been identified as one of eight areas (in England) to work with government to co-develop proposals for a Tees Valley Investment Zone (TVIZ).
10. The TVIZ has been proposed by the Tees Valley Mayor and is being developed by TVCA. TVCA is working closely with Teesside University (as significant research institution/co-signatory) on the Tees Valley Investment Zone.
11. IZs are aimed at catalysing a small number of high potential clusters in areas in need of levelling up to boost productivity and growth. They will support the

development and growth of clusters in order to increase local innovation capacity, attract investment and strengthen the private sector.

12. The Chancellor announced an extension to Investment Zones at the Autumn Statement. The total funding available to each IZ is now £160m over 10 years (commencing April 2024), with an expectation of 60% match coming from private sector, third sector and local government. This funding can be used flexibly, including a five-year tax offer. Places can also receive 100% of the business rates growth in designated sites above an agreed baseline for 25 years.
13. TVCA and TU are currently working with the Department for Levelling Up, Homes and Communities to co-develop the Tees Valley IZ. This is structured around a series of 'gateways' broadly covering vision, sector and economic geography, interventions, governance and delivery.
14. The TVIZ is focused on digital and technology as our priority sector, with identified high growth clusters in Middlesbrough, Hartlepool and Teesside International Airport.
15. TVCA is seeking fully flexible spend of the £160m funding plus Business Rate Retention for dedicated sites. Retained Business Rates will be over and above the £160m. Interventions are being developed from the full policy menu which includes infrastructure, skills, business support, planning and R&D.
16. Co-development of the TVIZ with government continues to move at pace and we are broadly in line with other areas in terms of progress against the 'gateways'. However due to the ongoing Independent Review into Teesworks government is not in a position to make formal decisions or announcements on the TVIZ until this has concluded.

UTILITIES

17. The work continues to develop the private wire network. . Teesworks Ltd is exploring and developing commercial options for the ongoing future development of the private wire network on site.
18. Work to connect and accommodate SeAH's power requirements continues with all four transformers delivered in location. Substation buildings are erected with switchgear in place in 11kV substations. Cable installation preparation continues along with 66kV busbar and switchgear installation.

19. A power on date has been mutually agreed between STDC and SeAH and is mutually beneficial to all parties. The date is achievable based on the current plan and will allow efficient sequential build reducing the installed costs.

20. A higher capacity supply of 12 MVA for SeAH's construction supply was installed during October and energised on 30th October 2023.

Replacement of cabling to allow for clearance of NZT site has undergone a procurement process, with a contract to be awarded and work on site in plenty of time in order for us to meet our deadlines.

21. Strategy for the network, optimisation of existing assets and the ability to supply potential customers is ongoing. Development planning is ongoing to understand further requirements for additional future developments.

PROGRAMME DEVELOPMENT

22. Dorman Point

- Approximately 80 acres of land have now been remediated, amounting to around 60% of the developable area of the Dorman Point site.
- Contractual negotiations on the leasing by Circular Fuels of 24 acres of land at Dorman Point are well advanced, which, when concluded, will trigger a further phase of remediation of some 20 acres, along with the design and construction of the extension to the East-West road link through the site and the subsequent installation of various utilities, such as HV power, gas and water.

23. South Bank

- Construction of South Bank Quay Phase 1 will complete before the end of year, as planned. Work continues on the design of its onshore utilities infrastructure, with construction work due to commence early in 2024, to be complete ahead of the Quay becoming operational late Q2 2024.
- Design of the Workshop and Offices building at the Quay continues, with the structural steelwork order now placed, and construction scheduled to commence mid-January. Hanson has now vacated the site upon which the facility will be built.
- Construction of the South Bank Link Road is close to completion, with major road surfacing works scheduled for late November. The project will conclude before the end of the year, in line with our plan.
- Regarding the South Bank Watercourse, Phase 1A (adjacent to the SeAH

site), comprising 650 linear metres, is complete. Works on Phase 1B and 2A by a local firm (a further 650 linear metres) are progressing very well and remain on programme. Phase 2B (the final phase) is now scheduled to commence construction in Q1 2024, for completion in May 2024.

24. Demolition Works Programme

- The demolition programme is 99% complete. The remaining demolition works, comprising the TMO offices and neighbouring facilities, are linked to the provision of the NZT site for BP and, based on latest BP timescales, these works are now scheduled to commence towards the end of Q1 2024.

25. Net Zero Teesside

Ground remediation works to prepare the 100-acre NZT plot are progressing and remain on programme for completion by the end of April 2024.

26. Teesworks Park and Ride Facility

- Advance earthworks to prepare the site for construction of the Park and Ride project are close to completing.
- Phases 1 and 2 of the project comprise the new signalised junction on the A1085 Trunk Road and 700m of internal access road. Design works are complete and the tender for construction of these phases is to be issued very soon. The design of Phase 3, comprising the car park and supporting operational facilities, will conclude in Q4, and will be tendered for construction during January. The Park and Ride provision is linked to BP's construction schedule for the NZT project.

27. Key Risks to Delivery

- As noted, STDC is working on several significant projects all of which carry delivery risks. These are actively in mitigation through the comprehensive project management and related project controls processes being implemented by our appointed consultants, with robust project plans in place, regular project progress reviews being held, and intervention actions being taken, where necessary, to address potential impacts to cost and schedule, and ensure delivery to programme.

EQUALITY & DIVERSITY

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

Name of Contact Officer: Julie Gilhespie

Post Title: Group Chief Executive Officer

Email Address: Julie.gilhespie@teesvalley-ca.gov.uk

AGENDA ITEM 6

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

01 DECEMBER 2023

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

INTERNAL AUDIT REPORT

SUMMARY

This report presents the position of current Internal Audit action plan progress as of June 2023.

RECOMMENDATIONS

It is recommended that the Audit and Risk Committee

- i. Consider the analysis and audit progress set out in this paper.
- ii. Acknowledge the annual audit schedule.

DETAIL

- iii. This report presents STDC audit actions and their progress as of June 2023.

Process

Using a risk-based approach, the internal audit schedule is agreed with the Senior Leadership Team and the Audit and Risk Committee, this ensures the STDC are assessing the effectiveness and efficiency of controls mitigating key risks.

The process of internal audit is monitored by the Risk Management team, to ensure effective tracking of actions is in place. All actions are tracked via a spreadsheet which is shared with action owners for updates.

The Risk Management team facilitate reporting of internal audit actions and provide support to Risk Owners to drive delivery performance.

Annual Audit Plan

The annual audit plan has been agreed using a group approach which cover core risk and processes as well as programme/project specific audits.

| Audit area | Planned Quarter | Current Status |
|----------------------------------|-----------------|---|
| Governance – Strategic Control | 3 | Provisional date 16 th January 2024 |
| Key Financial Controls | 3 | Date to be confirmed |
| ICT Disaster Recovery | 4 | Fieldwork commenced 6 th November 2023 |
| Data Protection – GDPR | 4 | 20 th November 2023 |
| Risk Mitigating Controls | 4 | 5 th February 2024 |
| Control of Major Accident Hazard | 4 | To be confirmed |
| Follow up | 4 | 18 th March 2024 |

Action plan delivery since last report

Of the 4 action plans tracked in period, 2 have subsequently closed due to mitigating actions being implemented.

COMAH

- Disaster Management - speaker system across south bank operating.

Follow up 22/23

- Assurance of risk-based approach to assurance activity – annual plan scoped using strategic risk register.

Remaining action plans in progress:

| Audit Title | Action Plan Status |
|----------------------------|--------------------|
| Effectiveness of AGC 22/23 | In progress |
| Logic models 22/23 | In progress |

Action Overview

| Audit | Original Delivery Date | Revised Delivery Date | Status | Action |
|----------------------|------------------------|-----------------------|-------------|--|
| Effectiveness of AGC | 30/09/2023 | 31/12/2023 | In Progress | A succession plan will be produced detailing potential successors and how they are to be developed and mentored. Due date has been revised and changed to September. |
| Effectiveness of AGC | 30/09/2023 | N/A | Complete | A training plan will be developed for the members which details the training to be undertaken during the year, this will also include any gaps identified through the skills and experience assessment. Due date has been revised and changed to September. Skills Assessment complete. Induction activity complete. |
| Effectiveness of AGC | 30/09/2023 | 31/12/2023 | In Progress | A reporting line from the AGC to the Board will be established to help promote transparency and oversight over the duties discharged to the AGC by the Board. Due date has been revised and changed to September. |
| Logic Models 22/23 | March 2023 | N/A | Completed | Assurance Framework will be updated in a timely manner in line with its review date. Assurance Framework review completed. |
| Logic Models 22/23 | March 2023 | 31/12/2023 | In Progress | The Group will ensure that all quarterly (and annual when required) reports are appropriately validated and authorised, with documented evidence to support the validation and authorisation processes. |

TEESWORKS

| | | | | |
|-----------------------|------------|------------|-------------|--|
| Logic Models 22/23 | 31/10/2023 | 31/12/2023 | In Progress | TVCA will ensure that electricity supply upgrade works are dealt with in a timely manner and will ensure appropriate mitigating actions are taken to reduce the risk of subsequent delays. |
|-----------------------|------------|------------|-------------|--|

FINANCIAL IMPLICATIONS

- iv. There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

- v. There are no direct legal implications arising from this report.

RISK ASSESSMENT

- vi. The content of this report is categorised as low to medium risk.

CONSULTATION & COMMUNICATION

- vii. None required.

EQUALITY & DIVERSITY

- viii. No impacts.

Name of Contact Officer: Gary Macdonald
Post Title: Group Director of Finance and Resources
Email: gary.macdonald@teesvalley-ca.gov.uk
Telephone Number: 01642 527707



Internal Audit

FINAL

TVCC – South Tees Development Corporation

Summary Internal Controls Assurance (SICA) Report

2023/24

November 2023

Summary Internal Controls Assurance

Introduction

1. This summary controls assurance report provides the Audit and Governance Committee with an update on the emerging Governance, Risk and Internal Control related issues and the progress of our work at TVCA – South Tees Development Corporation as at 20th November 2023.

Whistleblowing - driving the conversation

2. **The importance of a healthy culture.**

We have seen, over the last few months, the publication of several high-profile reports such as the Metropolitan Police (Casey Review March 2023), University Hospitals Birmingham (Bewick Report March 2023) and Plaid Cymru's review (conducted by Nerys Evans May 2023) where a common theme for each organisation was reported around the treatment of whistleblowers as well as 'poor' organisational culture, failures in leadership and poor whistleblowing reporting mechanisms.

There are so many high-profile incidents that have arisen over the last few years across many sectors and industries, perhaps most notably the #METOO campaign which highlighted sexual abuse in the entertainment industry spanning decades, where, despite there being many reported incidents, the individuals were ignored, ostracised or simply closed down and the matter covered up.

There is a real drive within government to look at the Whistleblowing Laws in the UK to drive through change. It is anticipated that there will be greater onus on organisations to improve their culture and to provide greater support and protection for whistleblowers. The outcome of the government's research is due for completion by the Autumn 2023.

In anticipation of the key messages coming out from the government, we in TIAA are using our expertise and knowledge to support organisations by:

1. Working with organisations to 'health check' organisational culture in respect of whistleblowing;
2. Providing a platform for those responsible for governance, raising concerns, whistleblowing and freedom to speak up guardians to share knowledge expertise, good practice in a forum event.
3. Examining poor practice and looking at the lessons to be learnt from recent incidents in webinar events and through consultation exercises such as online surveys.
4. Sharing the information through benchmarking reports and roundtable events.

Please use this link to keep up to date with our campaign and/or to be part of the conversation and drive through real change and improvement in this important area.

<https://www.ttaa.co.uk/publications/ttaa-organisational-culture-and-whistleblowing-webinar/>

Audits completed since the last Audit and Governance Committee

3. There have been no audits finalised since the previous meeting of the Audit and Governance Committee.

Progress against the 2023/24 Annual Plan

4. Our progress against the Annual Plan for 2023/24 is set out in Appendix A.

Changes to the Annual Plan 2023/24

5. There are no proposed changes to the Annual Plan for 2023-24.

Progress in actioning priority 1 & 2 recommendations

6. We have made no Priority 1 recommendations (i.e. fundamental control issue on which action should be taken immediately) since the previous SICA.

Frauds/Irregularities

7. We have not been advised of any frauds or irregularities in the period since the last meeting of the Audit and Governance Committee report was issued.

Other Matters

8. We have issued a number of briefing notes and fraud digests shown in Appendix B, in the previous four months.


Responsibility/Disclaimer


9. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. The matters raised in this report not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.


Progress against Annual Plan


| System | Planned Quarter | Current Status | Comments |
|--|-----------------|--|----------|
| Governance – Strategic Control | 3 | To commence 16 th January 2024 | |
| Key Financial Controls | 3 | To commence 29 th February 2024 | |
| ICT Disaster Recovery | 4 | Fieldwork commenced 6 th November 2023 | |
| Data Protection - GDPR | 4 | Fieldwork commenced 20 th November 2023 | |
| Risk Mitigating Controls | 4 | To commence 5 th February 2024 | |
| Control Of Major Accident Hazard (COMAH) | 4 | To be booked following final scoping | |
| Follow-up | 4 | To commence 18 th March 2024 | |

KEY:

 To be commenced

 Site work commenced


 Draft report issued

 Final report issued



Briefings on developments in Governance, Risk and Control

TIAA produces regular briefing notes to summarise new developments in Governance, Risk, Control and Anti-crime that may have an impact on our clients. These are shared with clients and made available through our Online Client Portal. A summary list of those CBNs issued in the last four months, which may be of relevance to the Authority is given below. Copies of any CBNs are available on request from your local TIAA team.

Summary of recent Client Briefing Notes (CBNs)

| CBN Ref | Subject | Status | TIAA Comments |
|-------------|--|---|--|
| CBN - 20009 | Guidance issued by HMRC on tax avoidance schemes |  | Action Required Raise the profile of tax avoidance across networks and communication channels Support HMRC by sharing the following link with stakeholders to help raise awareness among workers in the health and social care sectors, and to warn them of the risks of getting involved in tax avoidance. Link: https://taxavoidanceexplained.campaign.gov.uk/ |

Summary of recent Anti-Crime Alerts

| Ref | Subject | Status | TIAA Comments |
|-----------|---|---|---|
| July 2023 | Insider Invoice Fraud |  | <p>Action Required</p> <p>The City of London Police were contacted by the organisation that the fraudster had targeted following their discovery that 29 fake invoices had been received and processed through their accounts department. All of the fake invoices had been received as attachments within e-mails that were purportedly sent from the PA of the CEO, and were found in the shared email inbox within the organisation's accounts department. The invoices were identified as fake as none of the companies requesting funds were legitimate. In addition, each of the invoices had what appeared to be the CEO's signature authorising payment. All of the fake invoices were processed by a member of staff and evidence was found that linked the insider to the scam.</p> <p>The member of staff, the insider, was instrumental in this fraud being carried out. Insider invoice fraud refers to cases of fraud in which an insider's access to the organisation's systems and processes are essential in committing the fraud. Examples of insider invoice frauds, which are likely to increase during this period of increased financial pressures and the rising cost of living include:</p> <ul style="list-style-type: none"> • False payment requests typically during busy periods • Overbilling a debtor and pocketing the difference • Recording false credits or refunds • Creating fictitious suppliers or shell companies for fraudulent payments • Forging signatures on payment authorisations • Submitting false invoices from fictitious or actual suppliers for payments. |
| June 2023 | Payment Systems Regulator confirms new requirements for Authorised Push Payment fraud reimbursement |  | <p>Action Required</p> <p>This alert provides information and advice to staff about fraud and economic crime, and the risks associated with it. If you think that your organisation has been a victim of APP fraud, contact your Anti-Crime Specialist immediately for advice.</p> <p>The Payment Systems Regulator (PSR) confirms new requirements for banks and payment companies that will ensure more people will get their money back if they are a victim of Authorised Push Payment (APP) fraud; prompting more action to prevent these frauds from happening in the first place.</p> <p>The Financial Services and Markets Bill, which is currently making its way through Parliament, will remove current barriers and allow the PSR to direct firms to reimburse customers. The Bill is expected to receive Royal Assent in 2023, after which the PSR will be able to enforce its requirements on payment firms.</p> <p>Full details at: https://www.psr.org.uk/news-and-updates/latest-news/news/psrconfirms-new-requirements-for-app-fraud-reimbursement/</p> |

CLIENT BRIEFING NOTE

Guidance issued by HMRC on tax avoidance schemes

TIAA Anti-Crime Specialists have had sight of a letter to the Department for Health and Social Care's Permanent Secretary from the Chief Executive and First Permanent Secretary of HMRC.

The letter is to alert counter fraud networks on the subject of tax avoidance schemes. A summary of guidance provided within the letter follows.

What is tax avoidance?

Tax avoidance involves bending the rules of the tax system to try to gain a tax advantage that was never intended by parliament.

What are the types and consequences of tax avoidance?

The most common form of tax avoidance scheme is disguised remuneration (DR). DR avoidance schemes claim to avoid the need to pay Income Tax and National Insurance contributions on income from employment. These schemes often involve paying some or all of a worker's pay in the form of a loan, or other payment claimed to be non-taxable, that is unlikely to ever be repaid. The schemes do not work and the tax remains due. DR schemes particularly target contractors and agency workers, who are often paid through an intermediary such as an 'umbrella company'. Most umbrella companies are compliant and can ease the administrative burden for freelancers however in DR schemes non-compliant umbrella companies are often used to facilitate tax avoidance.

What action is HMRC taking to address the issue?

During the pandemic HMRC identified that healthcare professionals returning to the NHS were being targeted by promoters of schemes.

This was highlighted in HMRC's Spotlight series; short publications on GOV.UK that provide information on tax avoidance schemes.

[Tax avoidance schemes currently in the spotlight - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

As an example, HMRC recently published details of a promoter of a scheme targeted predominantly at physiotherapists, radiographers, nurses and social workers. The following link takes you to this publication, plus a list of other named tax avoidance schemes, promoters, enablers and suppliers.

[Current list of named tax avoidance schemes, promoters, enablers and suppliers - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

HMRC advise that in their last annual update on the use of marketed tax avoidance schemes, 'hospital activities' is the sector which identified the most people who have used avoidance schemes.

Promoters continue to target the health and social care sector and many workers are ending up with large tax bills from their involvement in a DR tax avoidance scheme.

Action Required:

Raise the profile of tax avoidance across networks and communication channels

Support HMRC by sharing the following link with stakeholders to help raise awareness among workers in the health and social care sectors, and to warn them of the risks of getting involved in tax avoidance.

[Tax avoidance – don't get caught out – Don't get caught out by tax avoidance – learn what it is and how to spot it \(taxavoidanceexplained.campaign.gov.uk\)](https://taxavoidanceexplained.campaign.gov.uk/)

This document is only for use by clients and under no circumstances is it to be given to third parties. It is not intended as a definitive and legally binding statement of the position: all clients should seek appropriate advice from their own specialist advisers.

23009
9th August 2023

ttaa ANTI-CRIME ALERT

Jail sentence for fraudster after £660K fake invoice scam

A fraudster who submitted bogus invoices amounting to £660,000 has just been jailed for six and a half years. They were found guilty of one count of conspiracy to defraud and four counts of fraud by false representation. The fraudster submitted fraudulent invoices by faking a signature from the CEO of a foreign exchange company.

The City of London Police were contacted by the organisation that the fraudster had targeted following their discovery that 29 fake invoices had been received and processed through their accounts department. All of the fake invoices had been received as attachments within e-mails that were purportedly sent from the PA of the CEO, and were found in the shared email inbox within the organisation's accounts department.

The invoices were identified as fake as none of the companies requesting funds were legitimate. In addition, each of the invoices had what appeared to be the CEO's signature authorising payment. All of the fake invoices were processed by a member of staff and evidence was found that linked the fraudster to the scam. The member of staff had previously pleaded guilty to conspiracy to commit fraud and had already been sentenced to two and a half years imprisonment in August 2021.

Insider Invoice Fraud

The member of staff, the insider, was instrumental in this fraud being carried out. Insider invoice fraud refers to cases of fraud in which an insider's access to the organisation's systems and processes are essential in committing the fraud. Examples of insider invoice frauds, which are likely to increase during this period of increased financial pressures and the rising cost of living include:

- False payment requests typically during busy periods
- Overbilling a debtor and pocketing the difference
- Recording false credits or refunds
- Creating fictitious suppliers or shell companies for fraudulent payments
- Forging signatures on payment authorisations
- Submitting false invoices from fictitious or actual suppliers for payments

For advice on invoice fraud prevention and detection, including a review of processes and payment systems, contact:

- **Melanie Alflatt, Director - Risk and Advisory Email: fraud@ttaa.co.uk**

Disclaimer: This document is provided for guidance and awareness purposes only. This warning article is not a full record of the key matters and is not intended as a definitive and legally binding statement of the position. While every effort is made to ensure the accuracy of information contained, it is provided in good faith on the basis that Ttaa Limited accept no responsibility for the veracity or accuracy of the information provided. Should you or your organisation hold information, which corroborates, enhances, contradicts or casts doubt upon any content published in this document, please contact the Fraud Intelligence Team.

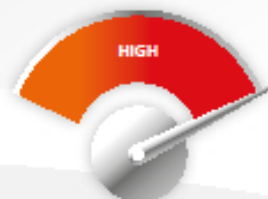
Handling & Distribution: This document must not be circulated outside of your organisation, on public facing websites or shared with third parties without written consent. onward disclosure without prior authority may be unlawful under the Data Protection Act 2018.



STATUS

Action Required

This alert provides information and advice to organisations about fraud and economic crime, and the risks associated with it. If you think that your organisation has been a victim of invoice fraud, contact a Ttaa Anti-Crime Specialist immediately for advice.



ttaa

www.ttaa.co.uk | 0845 300 3333

tiaa ANTI-CRIME ALERT

Payment Systems Regulator confirms new requirements for Authorised Push Payment fraud reimbursement

The Payment Systems Regulator (PSR) confirms new requirements for banks and payment companies that will ensure more people will get their money back if they are a victim of Authorised Push Payment (APP) fraud; prompting more action to prevent these frauds from happening in the first place.

APP scams happen when someone is tricked into sending money to a fraudster posing as a genuine payee and has quickly become one of the most significant types of fraud, both in the UK and globally. APP scams generally fall into one of the following two categories:

- 'malicious payee', for example, tricking someone into purchasing goods which don't exist or are never received.
- 'malicious redirection', for example a fraudster impersonating bank staff to get someone to transfer funds out of their bank account and into that of a fraudster.

Every year thousands of individuals and businesses fall victim to APP scams, which can have a devastating impact on people's lives.

The PSR wants people to be protected when making payments. Following consultation, it has recently set out how mandatory reimbursement will work in practice, clarifying what this means for customers and firms. The aim of the new requirements is to improve fraud prevention and focus all firms on protecting people.

- There will be new rules in Faster Payments – the payment system across which the vast majority of APP fraud currently takes place.
- All payment firms will be incentivised to take action, with both sending and receiving firms splitting the costs of reimbursement 50:50.
- Customers will be more protected under consistent minimum standards, with most APP fraud victims being reimbursed within five business days and additional protections offered for vulnerable customers.
- Industry will have clearer guidance to follow, including around the ability to apply a claim excess and maximum level of reimbursement, which the PSR will consult on later this year.

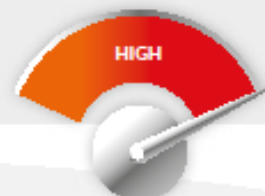
The Financial Services and Markets Bill, which is currently making its way through Parliament, will remove current barriers and allow the PSR to direct firms to reimburse customers. The Bill is expected to receive Royal Assent in 2023, after which the PSR will be able to enforce its requirements on payment firms.

Full details at: <https://www.psr.org.uk/news-and-updates/latest-news/news/psr-confirms-new-requirements-for-app-fraud-reimbursement/>



Action Required

This alert provides information and advice to staff about fraud and economic crime, and the risks associated with it. If you think that your organisation has been a victim of APP fraud, contact your Anti-Crime Specialist immediately for advice.



For further discussion and support, including fraud awareness training services, contact:

→ **Melanie Alflett, Director - Risk and Advisory Email: fraud@tiaa.co.uk**

Disclaimer: This document is provided for guidance and awareness purposes only. This summarising article is not a full record of the key matters and is not intended as a definitive and legally binding statement of the position. While every effort is made to ensure the accuracy of information contained, it is provided in good faith on the basis that TIAA Limited accept no responsibility for the validity or accuracy of the information provided. Should you or your organisation hold information, which corroborates, enhances, contradicts or casts doubt upon any content published in this document, please contact the Fraud Intelligence Team.

Handling & Distribution: This document must not be circulated outside of your organisation, on public facing websites or shared with third parties without written consent. onward disclosure without prior authority may be unlawful under the Data Protection Act 2018.

tiaa

www.tiaa.co.uk | 0845 300 3333

Audit Strategy Memorandum

South Tees Development Corporation

Year ended 31 March 2023



Contents

- 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 A Key communication points

Appendix B Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

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 Governance 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. 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 30 Old Bailey, London EC4M 7AU.

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

Dear Audit and Governance Committee Members

Audit Strategy Memorandum – Year ended 31 March 2023

We are pleased to present our Audit Strategy Memorandum for South Tees Development Corporation for the year ended 31 March 2023. 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 South Tees Development Corporation 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 and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

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

Signed: {{_es_:signer1:signature }}

Cameron Waddell

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

Tel: 0191 383 6300 – www.mazars.co.uk

01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview

We are appointed to perform the external audit of South Tees Development Corporation (the Corporation) for the year to 31 March 2023. 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 whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Director of Finance is responsible for the assessment of whether it is appropriate for the Corporation to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements.



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 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.



Value for money

We are also responsible for forming a commentary 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.



Wider reporting and 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.

02

Section 02:

Your audit engagement team

2. Your audit engagement team



Cameron Waddell

Partner

cameron.waddell@mazars.co.uk

0191 383 6300



Cath Andrew

Senior Manager

cath.andrew@mazars.co.uk

0191 383 6300



David Hurworth

Assistant Manager

david.hurworth@mazars.co.uk

0191 383 6300

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 activities 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 risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

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.

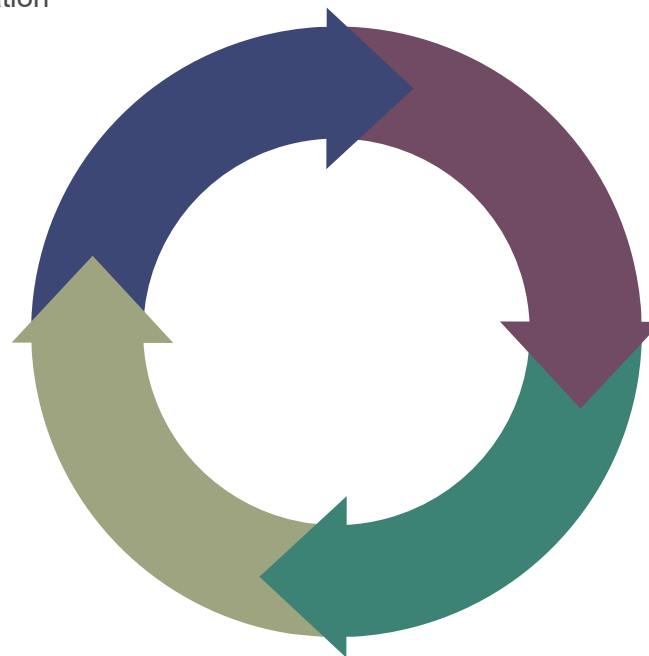
3. Audit scope, approach and timeline

Planning and Risk Assessment (November/December)

- Planning visit and developing our understanding of the Corporation
- 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
- Risk assessment analytical procedures
- Determination of materiality

Completion (March)

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



Interim (January)

- 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 (January/February)

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

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 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 (Hymans Robertson) | NAO’s consulting actuary (PWC) |
| Property, plant and equipment valuation (group) | Knight Frank, Avison Young | Internal valuer (Graham Bearman) NAO’s consulting valuer (Montagu Evans) for third party information in challenging key valuation movements |

| Item of account | Management’s expert | Our expert |
|------------------|---------------------|----------------|
| Long term debtor | Arlingclose | Not applicable |

Service organisations

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

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

3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Corporation has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

Our assessment of group materiality is set out in section 8.

Assessment of components

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the table in this section overleaf.

Nature and scope of planned work

The second table in this section sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

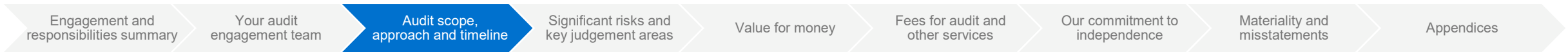
Nature of work

Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as ‘significant’ and subject to a full scope audit or specific audit procedures are:

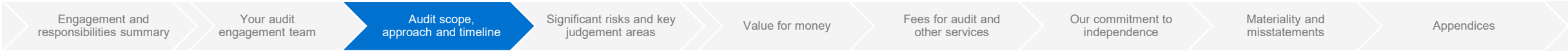
- the Corporation;
- South Tees Developments Limited; and
- South Tees Site Company.



3. Audit scope, approach and timeline

Group audit approach (continued)

| Entity | Nature of component / ownership | Auditor | Significant in terms of benchmarks? | Risks of material misstatement? | Commentary |
|------------------------------------|--|------------|-------------------------------------|---------------------------------|---|
| South Tees Development Corporation | Parent | Mazars LLP | Yes | Yes | Full – parent. |
| South Tees Developments Limited | Subsidiary 100% owned by the Corporation | Azets | Yes | Yes | Significant component. Material income and assets, therefore, classed as a significant component. |
| South Tees Site Company | Subsidiary 100% owned by the Corporation | Azets | Yes | Yes | Significant component. Material income and assets, therefore, classed as a significant component. |



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 risks relevant 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

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

Enhanced risk

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

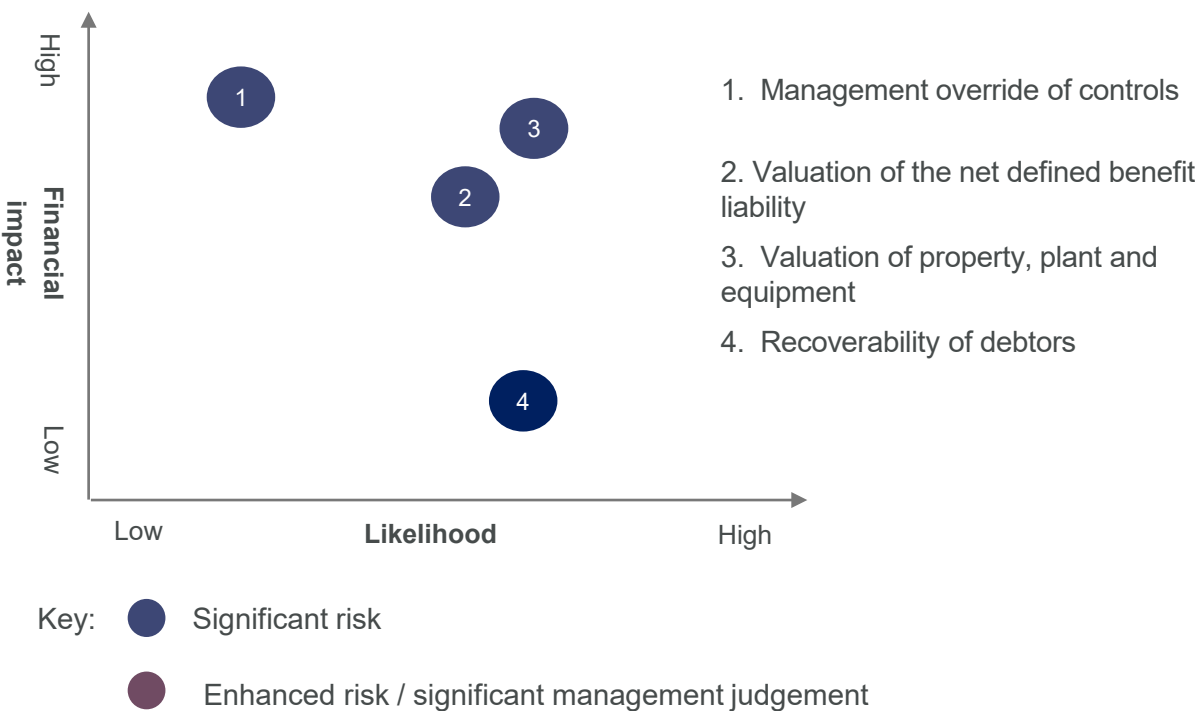
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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.

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. 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 Audit and Governance Committee.

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|---|
| 1 | <p>Management override of controls</p> <p>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 | Net defined benefit liability valuation (Corporation and Group) The 2022/23 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. | ○ | ● | ● | 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 (Corporation and Group)</p> <p>The 2022/23 group financial statements are expected to contain material entries 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> |

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|--|-------|-------|-----------|---|
| 4 | Recoverability of long-term debtors (Group) There are long-term debtors between the Group and its STDL subsidiary which are increasing year on year as further money is invested in the regeneration of land held by STDL. | ○ | ● | ● | We will discuss the nature of funding from central government and the process by which the funding is passed to the subsidiary to ensure the accounting treatment between the group and the subsidiary remains appropriate. |

05

Section 05:

Value for money

5. Value for money

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.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Corporation has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Corporation’s arrangements in 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.

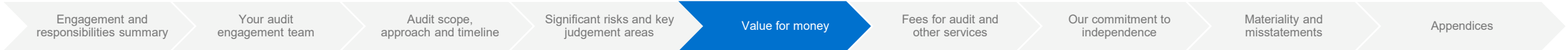


5. Value for money

Identified risks of significant weaknesses in arrangements

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

To-date we have not completed our planning and risk assessment work. DLUHC commissioned an independent review of the Teesworks Joint Venture in which the Corporation now holds a 10% interest. The review also includes the Tees Valley Combined Authority’s oversight of STDC and the Teesworks joint venture. This review followed a request from the Tees Valley Mayor for an independent review. The findings and conclusions from this review have not yet been reported. Discussions with management have highlighted that the review remains ongoing and is likely to be reported in the next couple of months. We will consider the findings and conclusions from this review as part of our planning and risk assessment work on the Corporation’s arrangements when these are available. We will report any identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Corporation’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 | 2022/23 Proposed Fee | 2021/22 Actual Fee |
|--|----------------------|--------------------|
| Code Audit Work | £24,906 | £17,080 |
| Audit fees relating to work on group audit | Nil | £10,143 |
| Additional fees in respect of recurring increases in the base audit fee arising from regulatory pressures | Nil | £2,902 |
| Additional fees in respect of new VFM approach | £7,900 | £6,321 |
| Additional testing following the implementation of ISA 540 (revised) auditing accounting estimates and related disclosures | £2,550 | £2,041 |
| One-off fee increases for in-year specific issues | Nil | £7,665 |
| Additional fees in respect of ISA 315 revised (new standard) | £TBC | Nil |
| Total fees | £35,356 | £46,152 |

Fees for non-PSAA work

We have not been separately engaged by the Corporation to carry out additional 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 Corporation 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.

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

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

| Threshold | Initial threshold £'000s |
|---|--|
| Overall materiality | Group £3,366 Corporation £2,787 STDL £538 STSC £1,159 |
| Performance materiality | Group £2,693 Corporation £2,230 STDL £403 STSC £869 |
| Specific materiality (none identified) | |
| Trivial threshold for errors to be reported to Audit and Governance Committee | Group £101 Corporation £84 STDL £26 STSC £57 |

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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.

8. Materiality and misstatements

Materiality (continued)

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

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

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus or deficit on provision of services. Based on the draft published accounts we anticipate the overall materiality for the year ended 31 March 2023 to be in the region of £2.787m for the Corporation and £3.366m for the Group (£1.905m for the Corporation and £3.551m 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 Governance 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 £84,000 for the Corporation and £101,000 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 Governance Committee

The following three types of audit differences above the trivial threshold will be presented to Audit and Governance Committee:

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



Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: 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:

- Audit Strategy Memorandum;
- 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;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- 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 A: Key communication points

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

| Required communication | 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 Governance 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 Governance Committee, Audit planning and clearance meetings |

Appendix A: 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 Governance 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 A: 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 Governance 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 Governance Committee may be aware of. | Audit Completion Report and Audit and Governance 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 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 |

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Corporation's 2022/23 audit.

The most significant changes relevant to the Corporation's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

Cameron Waddell

Mazars

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

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.

Follow us:

LinkedIn:

www.linkedin.com/company/Mazars

Twitter:

www.twitter.com/MazarsGroup

Facebook:

www.facebook.com/MazarsGroup

Instagram:

www.instagram.com/MazarsGroup

WeChat:

ID: Mazars

AGENDA ITEM 11

REPORT TO THE SOUTH TEES DEVELOPMENT CORPORATION AUDIT & GOVERNANCE COMMITTEE

1ST DECEMBER 2023

REPORT OF THE INTERIM MONITORING OFFICER

REVIEW & APPROVAL OF DRAFT SOUTH TEES DEVELOPMENT CORPORATION ANNUAL GOVERNANCE STATEMENT 2022/23

SUMMARY

This report presents to Committee Members South Tees Development Corporation's draft Annual Governance Statement for 2022/23.

RECOMMENDATIONS

It is recommended that Members note the content of the draft Annual Governance Statement for 2022/23 included at **Appendix 1** and either:

- (1) provide comments for consideration when submitted to the next meeting of the South Tees Development Corporation Board; or
- (2) recommend to the South Tees Development Corporation Board that the Statement be approved as drafted.

DETAIL

1. The Accounts and Audit Regulations 2015 require all public authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement which will be published online to accompany its Statement of Accounts.
2. The Annual Governance Statement will be presented for approval to the South Tees Development Corporation Board at its next meeting.
3. Following approval by this Committee and by the South Tees Development Corporation, the Annual Governance Statement will be signed by the Chair of the South Tees Development Corporation and the Group Chief Executive. A key objective of this signing off process is to secure corporate ownership of the Statement's contents.
4. The Annual Governance Statement acknowledges the South Tees Development Corporation's responsibility for ensuring that proper arrangements are in place around the governance of its affairs. Guidance on producing an effective Governance Statement confirms that approvers of the Statement should be aware of the process followed in order to draft it. South Tees Development Corporation's Annual Governance

Statement, includes a description of the key elements of its governance framework, how good governance is ensured in each of those elements, a description of the process applied in reviewing the effectiveness of this framework and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

5. The Annual Governance Statement for 2022/23 is attached at **Appendix 1**. At this time the Corporation has not identified any significant issues that are not being addressed within the Statement.

EQUALITY & DIVERSITY

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

Name of Contact Officer: Emma Simson
Post Title: Interim Monitoring Officer
Email Address: emma.simson@teesvalley-ca.gov.uk

South Tees Development Corporation

Annual Governance Statement 2022/23

1. Introduction

Good governance continues to be central to the delivery and assurance of our organisational objectives.

South Tees Development Corporation's (STDC) governance operations have integrated with the wider Tees Valley Combined Authority Group (the Group) governance framework and have been operating effectively since 2020.

The Group's responsibilities are reliant upon maintaining robust governance arrangements which ensure the effective delivery of our activities while ensuring an effective system of internal control, assurance and the management of risk.

Our ambition remains to oversee the creation of a world-class centre for the clean energy, offshore and innovation sectors, creating 20,000 good-quality, well-paid jobs as a result of investment at the Teesworks site (the Site). The pace and ambition for the Site remains high and the role of STDC's group Boards unchanged. Its Boards maintain robust governance and programme assurance, risk management and oversight of the discharge of health and safety responsibly whilst the group co-ordinates the competing priorities of a complex programme of works.

It is also our ambition that our governance framework continues to add genuine value to the decisions and policymaking of the organisation.

2. The Scope of Responsibility

The South Tees Development Corporation and its subsidiaries are responsible for ensuring that our operations are conducted in accordance with the law and appropriate standards. We are also responsible for making sure public money is used effectively and appropriately and is properly accounted for. We have a responsibility to ensure we have proper arrangements in place for the governance of our affairs and effective exercise of our functions, including the management of risk. We also have a duty under the Local Government Act 1999 to make continuous improvements to the way we operate.

Our Constitution sets out how we operate, how decisions are made, what our governance arrangements are and what processes must be followed to ensure these arrangements and processes are effective, transparent, and accountable.

These arrangements are designed to be consistent with the principles and best practice outlined in the Chartered Institute of Public Finance and Accountancy (CIPFA) - A guidance on good governance standards in the Public Sector.

This Annual Governance Statement details how we have complied with this framework and how we meet our responsibilities under the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

3. The Purpose of our Governance Framework

Meaningful and dynamic corporate governance establishes the conditions and culture for us to work effectively, economically, and ethically.

Our governance framework comprises the systems and procedures we believe will achieve our strategic objectives and deliver our activities in an appropriate and cost-effective way. These objectives, as laid out in our Master Plan are:

- to further the economic development and regeneration of the South Tees area, so that it becomes a major contributor to the Tees Valley economy and the delivery of the Tees Valley Strategic Economic Plan;
- to attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;
- to transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community;
- to contribute to the delivery of the UK Industrial Strategy, by supporting the growth of internationally competitive industries with access to global markets, taking a comprehensive approach to redevelopment at a scale that enables the realisation of an international-level investment opportunity.

Our governance framework enables us to monitor the achievement of these strategic objectives, and the system of internal control which derives from it allows us to manage risk at a realistic level. Although it is impossible to eliminate all risk, this structure is designed to identify and prioritise risks to the achievement of our objectives, evaluate the likelihood of those risks being realised and manage their impact should they be realised.

4. The Key Elements of our Governance Framework

The following arrangements are in place to quantify the quality of our services, ensure that they are delivering our objectives and make certain that we are providing value for money.

(a) The Constitution

The responsibilities of Development Corporation's employees and members are clearly laid out in our Constitution. This document – subject to annual review – explicitly documents how the Corporation operates, responsibilities for specific functions, delegations and how decisions are made.

The Constitution – which can only be amended with agreement of the Tees Valley Combined Authority Cabinet – also sets out expected standards of behaviour for both officers and members. The Constitution clearly sets how both the activities of the Chair, Group Chief Executive and other Senior Officers will be subject to a robust set of checks and balances, and details how this scrutiny process will be delivered. The constitution underwent a comprehensive review and representation at the end of the last financial year, with amendments proposed and accepted the STDC Board and TVCA Cabinet.

(b) Statutory and non-Statutory Committees

The South Tees Development Corporation currently operates the following statutory committees:

- A **Board**, the ultimate decision-making body of the Development Corporation with a constitutional responsibility to guide and oversee delivery of the key objectives of STDC.
- An **Audit & Governance Committee** with oversight responsibilities in matters

concerning risk, financial affairs and probity, overseeing STDC's internal audit and external audit arrangements.

(c) Referral Decisions

The STDC Constitution sets out a provision that requires STDC Board to identify any decision or issue which may result in a significant risk of:

- a. A financial liability; or
- b. A statutory liability; or
- c. An environmental or criminal liability

to the Combined Authority Group or to any or all of its Constituent Authorities, and to refer such decisions or issues to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision. There has not been a need for such a referral in the last financial year.

(d) Monitoring Officer

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Group Chief Legal Officer is the Authority's designated Monitoring Officer, who has functional responsibility for Legal, Procurement, Governance and Information Governance functions. There are monthly meetings between Statutory Officers to ensure joined up working and the management of complex issues. All Board reports are considered for legal issues before submission to members.

(e) Internal Audit

The Corporation's Internal Audit function, undertaken by RSM Limited, ensures compliance with the relevant standards and statutory requirements. The service liaises with relevant statutory and senior officers throughout the year to develop and maximise the effectiveness of the Corporation's internal control systems and delivers an annual report on the quality of our processes.

The internal audit service we receive is independent, comprehensive, and rigorous, and our provider has liaised regularly with officers to implement a number of service improvement recommendations, a process which will continue and accelerate in the coming year.

(f) External Audit

The purpose of the External Auditors is to provide an opinion on the accounts and Value for Money conclusion.

(g) Chief Financial Officer and Financial Arrangements

Under the requirements of Section 73 of the 1985 Local Government Act the Corporation has appointed a suitably qualified Chief Finance Officer, the Group Director of Finance and Resources, shared with the Combined Authority.

This officer, who is part of the Senior Management Team of both the Combined Authority and the Development Corporation, is responsible for:

- The operation of a robust system of budgetary control, including quarterly and annual financial reports indicating financial performance against forecasts.
- Ensuring that the Authority's finance function is appropriately resourced.
- Assessing the short, medium, and long-term implications of all material business decisions, and identifying and mitigating financial and organisational risks arising from them.
- Aligning the Corporation's business and financial planning processes.

- Promoting good financial management throughout the organisation.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

South Tees Site Company

South Tees Site Company was set up in 2016 with a focus on keeping the former SSI Steelworks site safe, ongoing maintenance and removing safety hazards. In October 2020, the company became a wholly owned subsidiary of South Tees Development Corporation, whose role it is to oversee site activity with a particular focus on safety. Operations of the Site Company are now being wound down as roles and responsibilities of the organisation change from a keep safe and demolition phase to a construction phase by external investors.

South Tees Developments Limited

South Tees Developments Limited was set up to hold the land acquired by STDC from Tata Steel and SSI - to realise the regeneration and redevelopment ambitions of the site. The company employs a small number of staff. STDL has now adopted the trading name, Teesworks. This company has its own Board.

Other interests: Teesworks Limited

STDC holds a minority interest (10%) in Teesworks Limited. Teesworks Limited uses the name 'Teesworks' under licence arrangements. Care has been taken to ensure legal and financial separation of duties.

Risk Management Framework

The Corporation operates a comprehensive and proactive Risk Management Framework outlining its approach to Risk Management. Central to this strategy is a Corporate Risk Register which details what risks have been identified, the probability and impact of these risks being realised, and which controls are in place to mitigate against these risks. This report is periodically reviewed by Senior Officers and scrutinised by the Audit & Governance Committee.

This Risk Framework is supported and informed by a board-level Risk Appetite Statement.

Declarations of Interest and Code of Conduct

All Development Corporation employees and members are subject to a formal Code of Conduct – forming part of the Constitution - and must complete, at least annually, a formal Declaration of Interest.

Gifts & Hospitality

The Combined Authority maintains a register of offers of Gifts and Hospitality made to members and officers of the Corporation, even if these offers are declined.

Anti-fraud and Corruption Strategy

The Corporation is committed to preventing fraud, bribery and corruption within the organisation and ensuring funds are used as they are intended and will seek the appropriate disciplinary, regulatory, civil and criminal sanctions against fraudsters and where possible attempt to recover losses.

An Anti-fraud and Corruption Strategy exists to:

- Improve the knowledge and understanding of all staff, irrespective of their position, about the risk of fraud, bribery and corruption.
- Promote an anti-crime culture and an environment where staff feel able to raise concerns.
- Set out the Corporation's responsibilities in terms of deterrence, prevention, detection and investigation of fraud, bribery and corruption.
- Ensure appropriate sanctions are considered following an investigation, which may include internal disciplinary action, civil recovery and/or criminal prosecution.

Governance Arrangements

Following the integration of Development Corporation governance functions with the wider Combined Authority group in 2020, the Corporation has access to a dedicated Governance Team to ensure that the Development Corporation is compliant with its regulatory responsibilities and to advise both members, employees and partner organisations. The team oversees number of areas including transparent decision making, Declarations of Interest, Whistle-blowing, Data Protection and Freedom of Information request handling.

A group support services arrangement has been put in place to ensure suitable support is in place for STDC at this important time as well as to avoid duplication of duties across the group structure.

STDC group has adopted the trading style 'Teesworks' however for legal purposes we are keen to ensure that the individual legal personalities remain separate.

Freedom of Information and Environmental Information Regulation Requests

STDC is subject to the Freedom of information Act 2000 and the Environmental Information Regulations 2004. The group Governance Team processes such requests for STDC. Over the last financial year STDC has received and responded to 15 such requests for information.

5. Review of effectiveness

The Development Corporation is responsible for conducting, at least annually, a review of the effectiveness of its governance arrangements. Any areas for review are overseen and co-ordinated by the Group Chief Executive and Group Director of Finance & Resources and any findings reported to the Audit and Risk Committee, where appropriate.

External Audit

Our most recent auditor's report, issued on August 25th 2022, concluded that:

In our opinion, the financial statements:

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

VFM conclusions are no longer issued, instead VFM commentary is issued as part of the Auditor's Annual Report. Mazars issued their Auditor's Annual Report in September 2022 and concluded the following in relation to value for money:

'Our work did not identify any evidence to indicate a significant weakness in the Corporation's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.'

We expect to receive our 2021/22 auditor's report in January 2024, we except the conclusion to be in line with the 2020/21 report."

Internal Audit

An Annual Internal Audit Report was presented to the Audit and Governance Committee 1st August 2023 which concluded that:

"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 our risk management, governance, and internal control to ensure that it remains adequate and effective"

The following opinions were provided in the Audit Report:

Governance

We did not perform a specific governance review at the organisation 2022/23, however we have elements of the governance frameworks in place for the following reviews and have used this work to support the governance opinion: Logic Models, Procurement to Pay Process, SeAH Plant and South Bank Quay, and Audit Committee Effectiveness.

Each of the above reviews received a positive assurance opinion.

We therefore 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 2022/23 ; 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:

- *Scrap and Disposal of Assets (Risk: GSR-R036: Fraud - Management of scrap metals) – Substantial assurance*
- *SeAH Plant and South Bank Quay (Risk: GSR-R023: Failure to meet objectives) – Substantial assurance*
- *COMAH Declassification (GSR-R001: Inability to remove COMAH status) – Substantial assurance*

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 six audits (including the three risk driven review mentioned above) of the control environment that resulted in formal assurance opinions. All six of these reviews concluded that positive assurance opinions could be taken by the Board (four substantial, two reasonable).

We identified that the organisation required further implementation and 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.

Summary of Internal Audit work completed:

| Assignment | Assurance Level | Actions agreed | | |
|---|-----------------|----------------|---|---|
| | | L | M | H |
| Logic models | Reasonable | 2 | 5 | 0 |
| Scrap and Disposal of Other Assets | Substantial | 1 | 1 | 0 |
| Procurement to Pay Process | Reasonable | 1 | 2 | 0 |
| SeAH Plant and South Bank Quay | Substantial | 0 | 0 | 0 |
| Audit Committee Effectiveness | Substantial | 2 | 1 | 0 |
| COMAH Declassification | Substantial | 0 | 0 | 0 |
| Follow up on previous Internal Audit Management Actions | Good Progress | 2 | 0 | 0 |

6. Conclusion

It is our conclusion – validated by external opinion – that the Development Corporation operates a satisfactory governance framework which supports the achievement of its policies, aims and objectives and meets all statutory requirements and ensures public money is used effectively and appropriately and is properly accounted for.

Signed

| | | | |
|-----------------|--|------------------|-------------|
| Ben Houchen | Tees Valley Mayor and Chair of South Tees Development Corporation | <i>signature</i> | <i>date</i> |
| Julie Gilhespie | Group Chief Executive, South Tees Development Corporation | <i>signature</i> | <i>date</i> |

South Tees Development Corporation - Audit & Governance Committee

Forward Programme 2023/2024

Standing Items

- Declarations of Interest
- Minutes from the Previous Meeting and Action Tracker
- Executive Update
- Internal Audit Actions Update
- Internal Audit Progress Report
- External Audit Actions Update
- External Audit Progress Report
- Risk Management Report (Confidential)
- Health & Safety (EHS) Update (Confidential)
- Forward Programme
- Date of the Next Meeting

| STDC Audit & Governance Committee | |
|---------------------------------------|--|
| <i>Proposed Items to be scheduled</i> | |
| Date | Item |
| 1 st August 2023 | Committee Self Evaluation/Skills Audit Results & Analysis Annual Review of Committee Terms of Reference Internal Audit 2022/23 Annual Opinion |
| 1 st December 2023 | Draft Accounts Update Review & Approval of Draft STDC Annual Governance Statement 2022/23 External Audit Strategy Memorandum 2022/23 Summary Internal Controls Assurance Update Landfill Tax on Brownfields Sites Teesworks Update |
| 23 rd February 2024 | Oversight of Governance Toolkit Review of Assurance Framework External Audit – VFM Conclusion 2021/22* External Auditors Final Annual Report 2021/22* External Audit – VFM Conclusion 2022/23** External Auditors Final Annual Report 2022/23** Review of Anti - Fraud Policy Review of Whistleblowing Policy |

| | |
|--------------|---|
| | <p>Review of Governance Policy and Framework Freeport Deep Dive and Compliance</p> <p><i>*Not provided at the 1st August or 1st December 2023 meetings, therefore rolled forward to the next meeting</i></p> <p><i>**Dependent on Mazars resourcing schedule and pension fund information release</i></p> |
| XX May 2024 | <p>Review of Committee Effectiveness (Self-Assessment)</p> <p>Annual Review of Terms of Reference</p> <p>Review of Risk Management Policy & Framework</p> <p>Oversight of Risk & Control Process</p> |
| XX June 2024 | <p>Annual Refresher Session on remit and function of the Committee (Teams Meeting)</p> |

Contact:

Nicola Dean – Governance & Scrutiny Officer

Nicola.dean@teesvalley-ca.gov