

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & GOVERNANCE COMMITTEE

Date: Monday 12<sup>th</sup> February 2024

Time: 14:30pm

Venue: Teesside Airport Business Suite, Teesside International Airport

Attendees:		Apologies:
Allan Armstrong (AA)	Independent Member (Chair)	Cllr Curt Pugh
John Baker (JB)	Independent Member	Cath Andrews
Mike Sharp (MS)	Independent Member	Andrew McCulloch
Geoff Westmoreland (GW)	Independent Member	
Gary Macdonald (GM)	TVCA	
Victoria Smith (VS)	TVCA	
Emma Simson (ES)	TVCA	
Mark Kirkham (MK)	Mazars	
Derek Weatherill (DW)	South Tees Development Corporation	
Natalie Robinson (NR)	TVCA	
Elaine Braham – Governance	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
STDC-A&G 19/2023.	<b>Welcome &amp; introductions</b>	Allan Armstrong, Independent Member, (AA), welcomed members to the Meeting.		
STDC-A&G 20/2023	<b>Apologies for Absence</b>	Apologies for absence were noted and submitted as above.		
STDC-A&G 21/2023	<b>Appointment of Vice Chair</b>	AA requested nominations for the role of Vice Chair. Geoff Westmoreland, Independent Member, (GW), proposed himself for the role, this was seconded by John Baker, Independent Member, (JB), and was ratified by the Committee.  <b>RESOLVED THAT: That Geoff Westmoreland, Independent Member be appointed as Vice Chair of the STDC Audit &amp; Governance Committee.</b>		
STDC-A&G 22/2023	<b>Declarations of Interest</b>	John Baker, Gary Macdonald, Group Director of Finance & Resources, (GM), and Derek Weatherill, Environmental, Health, Safety & Security Director, (DW), each declared that they are members of the STDC Site Company Board.		
STDC - A&G 23/2023	<b>Minutes of Previous Meetings &amp; Action Tracker</b>	The minutes of the meeting held on the 1 August 2023 were agreed as a true record subject to the below comments: <ul style="list-style-type: none"> <li>Mark Kirkham, Mazars, (MK) noted that the minutes state that DW had seconded AA's appointment as Chair. It was affirmed that AA's appointment had been unanimously agreed by members and DW had not been involved in this process, that this was an error in the draft minutes.</li> <li>Page 4 – Risk Register – GW asked if this had been updated, NR noted that these will be covered in the risk report that will be presented at the meeting on 23 February 2024.</li> </ul>		

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		<ul style="list-style-type: none"> <li>• Page 6 – VS advised that a further letter had been received from the Department for Levelling Up, Housing &amp; Communities, advising that consultation on their proposals which propose a backstop date of 30 September 2024 will commence shortly. The letter will be included on the external item update at the 23 February 2024 meeting.</li> <li>• Page 7 – VS confirmed that responses had been shared.</li> <li>• Page 8 – Audit Strategy Memorandum on agenda today.</li> <li>• Page 10 – Away Day, still to be organised.</li> <li>• Page 10 – Annual Refresher Briefing Session to be arranged in conjunction with the away day.</li> </ul> <p>The below clarification was made in respect of Action Tracker items:</p> <ul style="list-style-type: none"> <li>• Inductions and site visit have been completed.</li> <li>• Risk Update to be covered in private session on 23 February 2024.</li> </ul>	<p><b>Letter to be shared with Members</b></p>	<p><b>VS/Governance</b></p>
<p>STDC-A&amp;G 24/2023</p>	<p><b>Independent Review Report - Teesworks</b></p>	<p>The Committee were provided with an update report and associated appendices in respect of the Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture (Teesworks Limited).</p> <p>It recommended that the Committee:</p> <ol style="list-style-type: none"> <li>i. Notes the report and notes the work TVCA is coordinating to respond to the Secretary of State and the timescales within which TVCA is working;</li> <li>ii. Notes the recommendations for His Majesty's Government within the report;</li> <li>iii. Notes the STDC Audit and Governance Committee role in considering the Tees Valley Review report and providing its feedback in respect of the same, as detailed in paragraph 6 of this Report; and</li> <li>iv. Approves the proposed process to respond to the recommendations from the Tees Valley Review report, detailed in Paragraph 5 and 6 of this report, including the report, including the submission of recommended actions to Tees Valley Combined Authority (TVCA) Cabinet AGM in 2024.</li> </ol>		

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		<p>GM noted that members had received a copy of the Terms of Reference, Independent Review and the letter from Rt Hon Michael Gove MP, Department for Levelling Up, Housing &amp; Communities dated 29 January 2024, all of which are available in the public domain. The Tees Valley Review which was commissioned by the Secretary of State for the Department for Levelling Up, Housing &amp; Communities on 7 June 2023, concluded that they found no evidence of corruption or illegality. The report makes a series of twenty-eight recommendations which details a range of governance and transparency matters to be considered.</p> <p>The next stage requires that TVCA alongside Local Authority partners respond to the Secretary of State by the 8 March 2024 detailing how it is proposed to address the recommendations. Work is ongoing and following consultation with partners and this committee a response will be submitted before the deadline. Once the response is returned it is envisaged that this will also be published on the Government website and the implementation phase will commence.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> <li>• AA noted recommendation twenty-seven, which states <i>'Director of Finance and Resources review internal audit arrangements and provide advice to both TVCA and STDC Audit Committees as to how these can be strengthened. Consideration should be given to securing CIPFA or other external support to provide independent assessment of proposed changes'</i> and asked if the make-up of this committee will meet the recommendations of this report. GM felt that a review would be a logical piece of work to come out this work. VS added that recruitment over the previous 12 months had focused on ensuring members had the skills required for activities STDC carries out. With a focus on risk, financial and commercial recruitment for the committee.</li> <li>• JB asked if the response to the Secretary of State will cover this level of detail. GM explained that it will give an overview of how we will address the recommendations, and this will be part of the implementation phase. He further noted that the recommendations will also be discussed with both internal and external audit.</li> <li>• GW noted that the report makes reference to things not being as expected, and asked if there is 'a best-in-class level' to be able to develop our structure around. GM advised that they will consider any best practice structure that is available.</li> <li>• JB noted that this will be an extensive task and asked if the time available will allow enough time to achieve what we are expected to achieve. GM explained that TVCA</li> </ul>		

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		<p>want to ensure that they do a thorough job, taking into account best practice, noting this is a significant regeneration project. Whilst TVCA feel they are doing well, if there is a way in which they can enhance this then they are open to this.</p> <ul style="list-style-type: none"> <li>AA noted that page 2, item 6, of the Independent Review Report – Teesworks, asks that STDC A&amp;G Committee Members provide feedback to inform TVCA’s work on the response to the Secretary of State by no later than Friday 23 February 2024, and asked how TVCA would like to receive this feedback. GM asked that this be submitted via the Governance Team.</li> <li>GW asked if the inspectors had defined what liabilities and risks, they are referring to, as at times it appears to be a catch all. GM noted that we catch financial risk and liabilities as part of the risk management process. VS advised that the financial statements were complete with regards to financial liabilities.</li> <li>AA felt it would be beneficial to see statements from the O&amp;S Committee to give assurance that the right questions are being asked at the right times. GM confirmed that this could be covered as part of the implementation process.</li> </ul> <p><b>RESOLVED THAT:</b> the Committee noted the report.</p>	<p><b>Members to be provide feedback</b></p>	<p><b>Committee Members</b></p>
<p>STDC-A&amp;G 25/2023</p>	<p><b>Summary Internal Controls Assurance Update</b></p>	<p>The Committee received a report providing an update on the emerging Governance, Risk and Internal Control related issues and the progress of work at TVCA, South Tees Development Corporation as at 20 November 2023.</p> <ul style="list-style-type: none"> <li>In Andrew McCulloch’s absence Natalie Robinson, Head of Performance, Risk &amp; Assurance, (NR), provided a brief overview. A number of audits are at field work stage, whilst others have recently commenced, and they are ensuring that the framework and risks are aligned. Once reports have been received these will be shared with members.</li> </ul> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> <li>AA noted that it had been some time since the committee last met and asked if there is anything they need to be aware of. NR noted that TIAA are sharing their learning with TVCA and this in turn has been shared with our staff.</li> </ul>		

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		<p>NR updated that the two audits noted in yellow in the pack should be received in the near future, and the risk audit commenced last week.</p> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
<p>STDC- A&amp;G 26/2023</p>	<p><b>External Audit Strategy Memorandum 2022/23</b></p>	<p>The Committee had received the Audit Strategy Memorandum, South Tees Development Corporation year ended 31 March 2023 which summarised Mazars audit approach, highlighted significant audit risks and areas of key judgements.</p> <ul style="list-style-type: none"> <li>• MK explained that he had provided audit services to the organisation within the last 5-year period and asked that this be noted as a disclosure. He advised that in light of this he could not provide comment on the audit memorandum but would take questions away for the team to respond to.</li> </ul> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> <li>• MS noted that during his term Cameron Waddell, Mazars (CW) had never attended and felt that as a partner he should be in attendance at these meetings. This was echoed and supported by all other members of the committee. MK noted the comment and would take this away.</li> <li>• VS noted management overriding controls is a significant risk on all audits and this was confirmed by MR. VS noted that in the public sector significant risks on pensions and PPE valuation were commonly significant risks on all audits and MK noted that there is commonality of these two risks across a number of sectors in public sector audit.</li> <li>• VS discussed the significant risk in relation to debtors and clarified for the committee that the risk reduces as additional tenants are secured and therefore further income steams secured.</li> </ul> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		

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STDC-A&G 27/2023	<b>Draft Accounts Update</b>	<p>The Committee received a verbal update from VS in respect of the draft accounts.</p> <p>VS reported that amendments in respect of the VAT treatment between STDC, BEIS and STSC needed to be reflected in the 2021/22 accounts due to ongoing discussions with HMRC. Further guidance had been provided and PWC are representing STDC in this matter. However, the impact to the bottom line for the STDC group is nil, as it relates to the way the funding passes through TVCA to STDC/STSC. There is no additional payments or receipts due.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> <li>• MS asked if it could be a 'note to the accounts' if it is cost neutral. VS stated that PWC are involved as HMRC wanted STDC group entities to pay interest on VAT that were due from one group entity and then reclaimed by another, this has now been accepted by HMRC as not being due. There is a request that the team at HMRC consider all of the elements together and this would avoid this ongoing matter. GM noted that we have done what we can to mitigate against risk, we will update the statements to accounts and whilst frustrating it has to be done.</li> <li>• VS noted that PWC have provided advice, and we will ensure that we are compliant in all areas.</li> <li>• MK, noted the comment in relation to making a note to the accounts, and explained that given the numbers involved Mazars could not proceed to sign off without this item being resolved. The balances would be grossed up and no impact to the bottom line.</li> <li>• MS asked if the accounts had already been signed would we restate, VS confirmed that the column would state restated.</li> <li>• GW asked what needs to be completed to enable sign off of the accounts. MK noted that Mazars would wish to sign off as timely as possible, and believed that once they receive the statements, they will progress the signing off process, whilst taking into account the Independent Review report.</li> <li>• MK advised that the team at Mazars are currently working on the 22/23 accounts. VS explained that Mazars have requested a valuation for the Teesworks Skills Academy, and this has been commissioned, but it is unlikely to be a material valuation movement given the property is below materiality.</li> </ul>		

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		<ul style="list-style-type: none"> <li>• VS clarified that the audit commenced on 5 February 2024, the team had responded to every request for information within 48 hours, and based on the volume of requests coming through it would appear that they are making progress.</li> <li>• GM noted that a further STDC Audit &amp; Governance Committee is scheduled for 23 February 2024, and it would be beneficial to agree the key activities still to be completed in order to give committee members an overview.</li> <li>• MS noted that this again highlighted why CW should be in attendance at the meeting and MK was accepting of this.</li> <li>• JB asked what the penalty will be. VS explained that STDC have been fined £3k in relation to Corporation Tax (CT) and that further penalties are expected. The CT return cannot be submitted until the accounts have been signed off. MS noted that at the August meeting Mazars had advised that they could not sign off the accounts until they had received the outcome of the Independent Review. He felt that this could have been completed and asked if Mazars were going to pay the fines. MK noted the dissatisfaction and whilst taking the comments very seriously, was unable to answer this question.</li> <li>• GM acknowledged that it is unhelpful not getting the accounts signed off, as the longer they are open the more you may ultimately have to amend. It was noted that the proposed national backstop, will effectively mean any accounts that have not been signed off by the 30 September 2024, will not be completed. VS noted that STDC will still be required to pay the fees to the auditors, and they would not have a completed audit opinion. VS advised that it is unlikely the STDC will be in this position given the audit work for 21/22 is complete and 22/23 is ongoing. However, it is ultimately with Mazars to complete the sign off.</li> <li>• JB stated that his understanding from the August meeting was that once Mazars had the outcome from the Independent Review they would be in a position to sign off the accounts, yet now they require further information. AA confirmed JB's recollection, and asked MK how we get them signed off. MK noted the expressions of dissatisfaction which he advised he takes seriously, and explained it is the audit team that will be taking on board the Independent Review findings.</li> <li>• JB asked if the fees are increasing during this time, GM explained that this will be a conversation that STDC will have with audit colleagues.</li> </ul>		



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		<ul style="list-style-type: none"> <li>GM noted that it is an area of governance that needs to be resolved in order to develop the governance framework, and the audit helps provide a line in the sand from which to move forward.</li> <li>Members asked for assurance that a member of Mazars who would be able to answer their questions would be at the next meeting, MK confirmed that a member would be in attendance. The committee and GW asked that this specifically be CW.</li> </ul> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
STDC-A&G 28/2023	<b>Review &amp; Approval of Draft STDC Annual Governance Statement</b>	<p>The Committee received a report in respect of the draft Annual Governance Statement for 2022/23.</p> <p>It recommended that Members note the content of the draft Annual Governance Statement for 2022/23 included at Appendix 1 and either:</p> <ol style="list-style-type: none"> <li>Provide comments for consideration when submitted to the next meeting of the South Tees Development Corporation Board; or</li> <li>Recommend to the South Tees Development Corporation Board that the Statement be approved as draft.</li> </ol> <p>VS highlighted that this is the draft STDC Annual Governance Statement for the year end 22/23. ES noted that the Statement reflects a point in time therefore will need to be signed off for this year with the information at hand.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> <li>The committee felt it should not wait on a response and felt that the focus needed to be on 22/23, noting that March 24 will take into account of the response and whether that is sound and meets the recommendations.</li> <li>MK noted that he is not in a position to be able to advise members. However, looking back 21/22 had been signed by the Mayor and CEO, members should think closely about the statement which talks about external validation, which does not appear to tally 100% with the findings of the report. VS explained that where it references being validated by</li> </ul>		

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		<p>external opinion it is referencing the audits that had been received, and they concluded that from a value for money perspective that no significant weaknesses had occurred. VS also noted that the audit completion report for 22/23 stated while not finalised the outcome was expected to be the same per the completion report we had received. MK stated that validation is not an audit outcome, what they may have said is they did not find any area of significant weakness.</p> <ul style="list-style-type: none"> <li>• MK noted the concern raised that TVCA might need to be significantly into the implementation phase before the accounts would be signed off and noted that the headlines and work streams could be incorporated into the governance statement.</li> <li>• MS stated that he was happy with the statement, with a note to say that an Independent Review had been undertaken and would be considered in the next Annual Governance Statement (AGS).</li> <li>• GM advised that we will know how we are approaching the recommendations by the 8 March 2024, and felt there should be recognition in this AGS. MS stated that in doing so we are accounting for hindsight and there is no generally accepting accounting principle for accounting for hindsight, and felt we needed to close off and address it in the next statement.</li> <li>• Members agreed that a paragraph would be added to the conclusion to advise that an Independent Review had been undertaken and we would respond to the recommendations in due course.</li> <li>• Members affirmed that their agree to this approach, and the updated report is to be returned to the meeting on 23 February 2024.</li> <li>• VS noted that the External Audit accounts for 21/22 are on the agenda for 23 February 2024, MK believed it was unlikely that Mazars would be in a position to conclude these. GM felt that it was a realistic expectation that Mazar be in a position to provide an update to members.</li> <li>• MS asked that a full update be provided by Mazars to the next meeting.</li> <li>• GW asked what the standing liabilities look like. VS explained that the accounts are complete and include the liabilities, and that the comments pertain to whether the board are aware of the liabilities and TVCA are highlighting them appropriately to them.</li> <li>• VS explained that a significant level of work had been undertaken during the last week in terms of financial modelling and given some of the recent announcement STDC's liabilities exposure is reducing, and that the risk is reduced from 6 months ago and continues to as tenants.</li> </ul>	<p><b>Statement to be modified to reflect discussion</b></p>	<p><b>ES</b></p>

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		<ul style="list-style-type: none"> <li>• MS noted that the forward programme is rather heavy. VS advised that this was already under consideration with a view to moving some items to later meetings.</li> <li>• GW noted that we need to be compliant in terms of the constitutional requirements.</li> </ul> <p>ES took into consideration the committees' comments and agreed with their proposal that the AGS be updated to reflect the Tees Valley Review, the recommendations therein, and the proposals to address them.</p> <p><b>RESOLVED THAT:</b> the Committee noted the Annual Governance Statement and the recommendation from members to acknowledge the Independent Review within the conclusions.</p> <p><b>RESOLVED THAT:</b> the amended Annual Governance Statement to be brought to the meeting on 23 February 2024 for approval.</p>		
STDC- A&G 29/2023	<b>Date &amp; Time of Next Meeting</b>	23 February 2024		



Department for Levelling Up,  
Housing & Communities

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Chair, Levelling Up, Housing and Communities Committee  
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January 2024

*Dear Clive*

Thank you for your considered report on *Financial Reporting and Audit in Local Authorities*, published by the Levelling Up, Housing and Communities Committee on 24 November 2023.

The Government recognises the vital role played by our systems of local authority financial reporting and audit. Accurate and independently audited financial information, delivered on time, enables local bodies to effectively plan, make informed decisions and manage their services. This aids transparent and accountable local democracy which engenders public confidence and trust.

In July my predecessor, Lee Rowley MP, wrote to you providing a cross-system statement on proposals to clear the backlog of local audits. He set out that there exists a shared resolve and commitment amongst the organisations which comprise the local audit system to take action to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies. This resolve remains strong and considerable. Detailed development of the proposals, alongside engagement with stakeholders across the sector, has taken place since the Summer. I am pleased that the Committee have acknowledged that "*a resetting of the system through a limited series of statutory deadlines... represents a necessary first step...*".

I can now confirm that the Department, supported by the FRC, alongside the National Audit Office, will launch consultations on these proposals soon. Our proposals will include an initial backstop date for local authorities and auditors of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022-23. Subject to the outcome of the consultations on necessary legislative changes as well as changes to the Code of Audit Practice, we intend to bring forward legislation to implement the backstop proposals. While these consultations take place, preparers and auditors should continue undertaking existing work to produce and audit local authority financial statements to ensure the system is in the best place possible to implement any final package of measures.

The Government is carefully considering the Committee's report, and its content is helping to inform our work with key system partners to develop solutions to the challenges in the local authority financial reporting and audit system. The Committee's report makes a wide range of recommendations for both the backlog and the future of local financial reporting and audit and I agree that important questions concerning systemic challenges must be addressed.

**SIMON HOARE MP**  
Minister for Local Government