

## SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & GOVERNANCE COMMITTEE

**Date:** Tuesday 1<sup>st</sup> August, 2023

**Time:** 12:30pm

**Venue:** Teesside Airport Business Suite, Teesside International Airport

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

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		<ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>The below clarification was made in respect of Action Tracker items:-</p> <ul style="list-style-type: none"> <li>• 19<sup>th</sup> 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.</li> <li>• 3<sup>rd</sup> 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.</li> <li>• 20<sup>th</sup> April 2023 – Devise a standard list of questions It was noted that all questions should come through TVCA press office.</li> </ul>		
STDC- A&G 06/2023	<b>Executive Update</b>	<p>The Committee were provided with an update on activity since the last meeting.</p> <ul style="list-style-type: none"> <li>• <b>Decontamination project and COMAH Status</b> 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.</li> </ul> <p><u>Questions</u> – members did not have any questions.</p>		

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		<ul style="list-style-type: none"> <li>• <b>Freeport</b> Business case activity pertaining to the distribution of funding is ongoing.</li>   <li>• <b>Utilities</b> 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.</li>   <li>• <b>Programme Development</b>  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.</li> </ul>	<p><b>Site Tour to be arranged</b></p>	<p><b>VS/ND</b></p>

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		<p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
<p>STDC- A&amp;G 07/2023</p>	<p><b>Internal Audit 2022/23 Annual Opinion</b></p>	<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"> <li>• 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.</li> <li>• MS noted Pg 38, 3<sup>rd</sup> 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.</li> <li>• 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,</li> </ul>		

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		<p>however if they found evidence to suggest management override, they would increase their sampling. JB accepted the explanation.</p> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
<p>STDC- A&amp;G 08/2023</p>	<p><b>External Audit Update</b></p>	<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 18<sup>th</sup> 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"> <li>• VS responded to the questions submitted in advance of the meeting by MS: <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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</li> </ul> </li> </ul>	<p><b>Letter to be shared with members</b></p> <p><b>Update</b></p>	<p><b>VS</b></p> <p><b>GM</b></p>

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		<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 &amp; 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"> <li>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</li> </ul>	<p><b>Responses to be e-mailed to MS</b></p>	<p><b>VS</b></p>

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		<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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>	<p><b>Audit Strategy Memorandum to be brought to the next meeting.</b></p>	



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STDC- A&G 09/2023	<b>2021/22 Audit Completion Report Follow Up Letter</b>	<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"> <li>• Fraud, laws and regulations, responses from those charged with governance; VS noted these standard inquires must run until the date of signing and therefore will remain until the date the accounts are signed. No issues noted to date.</li> <li>• Regulated party transactions; - confirmed now complete.</li> <li>• Property, plant and equipment and contractual commitments.</li> <li>• Mazars review of Group consolidation audit work.</li> <li>• Mazars testing of Pension assumptions.</li> <li>• Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of the audit.</li> </ul> <p><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
STDC- A&G 10/2023	<b>Annual Review of Committee Terms of Reference</b>	<p>Committee were presented with the STDC Group Audit &amp; 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>		

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		<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><b>RESOLVED THAT:</b> the Committee asked that this be reviewed in more detail as part of the away day.</p>	<p><b>To be added to the Agenda for the Away Day</b></p>	
<p>STDC-A&amp;G 11/2023</p>	<p><b>Forward Programme</b></p>	<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><b>RESOLVED THAT:</b> the Committee noted the content of the Forward Programme</p>	<p><b>Second Briefing Session to arranged</b></p>	
<p>STDC-A&amp;G 12/2023.</p>	<p><b>Internal Audit Actions Update</b></p>	<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"> <li>• Follow-up of Previous Internal Audit Recommendations: Controls and Governance Review;</li> <li>• Follow-up of Previous Internal Audit Management Actions;</li> <li>• Scrap &amp; Disposal of Assets;</li> <li>• Follow-up of Previous Internal Audit Management Actions;</li> <li>• Projects: Demolition Programme and South Bank Quay Project;</li> <li>• Logic Models;</li> <li>• Procurement to Pay Process.</li> </ul>		

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		<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><b>RESOLVED THAT:</b> the Committee noted the update.</p>		
STDC- A&G 13/2023	<b>Internal Audit Reports</b>	<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><b>RESOLVED THAT:-</b></p> <ul style="list-style-type: none"> <li>i. The Committee considered the analysis and audit progress set out in the paper;</li> </ul>		

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		ii. The Committee acknowledged the annual audit schedule.		
<p><b><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></b></p> <p><b><i>The proposal was agreed by the committee.</i></b></p>				
STDC-A&G 14/2023	<b>Health &amp; Safety (EHS) Update</b>	<p>Committee were provided an update on the key Environmental, Health &amp; Safety activities undertaken during the period 1<sup>st</sup> April, 2023 to 15<sup>th</sup> July, 2023.</p> <p><b>RESOLVED THAT:</b> the Committee noted the update for clarity, of performance and awareness of legislative requirements.</p>		
STDC-A&G 15/2023	<b>Risk Management Report</b>	<ul style="list-style-type: none"> <li>The Risk Management Update Report was presented to the Committee.</li> </ul> <p><b>RESOLVED THAT:</b></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	<b>Review &amp; Analysis of Committee Effectiveness Survey &amp; Skills Audit</b>	<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><b>RESOLVED THAT:-</b> 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>	<b>Add to a the Away Day Agenda</b>	

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STDC-A&G 17/2023	<b>Any Other Business</b>	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	<b>Date &amp; Time of Next Meeting</b>	TBC		