

**SOUTH TEES
DEVELOPMENT
CORPORATION**

Date: Friday, 6 December 2024 at 3:30pm

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

Membership: Mike Sharp Independent Member (Chair)
Geoff Westmoreland Independent Member (Vice Chair)
Allan Armstrong Independent Member
Councillor Peter Grogan TVCA Audit and Governance Committee Representative

AGENDA

- 1. Apologies for Absence**
To receive apologies for absence.
- 2. Declarations of Interest**
To receive any declarations of interest.
- 3. Minutes of Previous Meeting**
To approve as a correct record the minutes of the meeting held on 18 November 2024.
- 4. Mazars External Audit Completion Reports 2021/202 and 2022/2023**
To receive a report from Victoria Smith, Group Financial Controller, presenting an update from Suresh Patel of Mazars in respect of the STDC Audit Completion reports for 2021/2022 and 2022/2023 financial years respectively.
(Appendices to this report are to follow)
- 5. STDC Internal Audit Plan 2024/2025**
To receive an update report from Victoria Smith, Group Financial Controller, presenting an the STDC Internal Audit Plan for 2024/2025.

6. Date and Time of Next Meeting

Thursday, 13 February 2025 at 2.00pm

**SOUTH TEES
DEVELOPMENT
CORPORATION**

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: tvagovernance@teesvalley-ca.gov.uk

TEESWORKS

The UK's largest
industrial zone

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT AND GOVERNANCE COMMITTEE

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

Date: Monday, 18 November 2024

Time: 10:00am

Venue: Teesside Airport Business Suite, Teesside International Airport

Attendees:		Apologies:
Allan Armstrong (AA)	Independent Member	
Mike Sharp (MS) (Chair)	Independent Member	
Geoff Westmoreland (GW)	Independent Member	
Councillor Peter Grogan (PG)	Elected Member for Redcar & Cleveland Borough Council and TVCA A&G Member on committee	
Gary Macdonald (GM)	Group Director of Finance and Resources, TVCA	
Victoria Smith (VS)	Group Financial Controller, TVCA	
Emma Simson (ES)	Group Chief Legal Officer and Monitoring Officer, TVCA	
Guy Close (GC)	Governance and Scrutiny Manager, TVCA	
Elaine Braham (EB)	Governance Officer, TVCA	
Claire Mellons	Ernst & Young (External Audit)	
Suresh Patel	Mazars (External Audit)	
Andrew McCulloch	TIAA (Internal Audit)	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
STDC-A&G 07/2024	Welcome and introductions	<p>Mike Sharp, Independent Member and Chair of the Committee, (MS), welcomed members.</p> <p>It was noted that the change in Chair had not been reflected on the agenda and this should read Mike Sharp, Independent Member (Chair) rather than Allan Armstrong.</p>		
STDC-A&G 08/2024	Apologies for Absence	<p>There were no apologies for absence.</p>		
STDC-A&G 09/2024	Declarations of Interest	<p>Allan Armstrong, Independent Member, (AA), declared a non-pecuniary interest as a member of the South Tees Development Corporation (STDC) Board.</p> <p>Gary Macdonald, TVCA, (GM), declared a non-pecuniary interest as a Director of the South Tees Site Company (STSC) and a member of their Board.</p>		
STDC - A&G 10/2024	Minutes of Previous Meetings and Action Tracker	<p>RESOLVED: The minutes of the meeting held on the 5 September 2024 were agreed as a true and accurate record.</p>		
STDC-A&G 11/2024	Executive Update	<p>The Committee received a report providing an activity update since the last meeting.</p> <p>GM provided a further update, and the Committee were invited to ask questions.</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<ul style="list-style-type: none"> • Progress is ongoing over various sites. • Government sign-off in respect of NZT had occurred and the final processes were progressing. • Estate Management is moving away from the Keep Safe environment, moving towards day-to-day management, providing support to tenants, and the development phase. • The joint venture with Electricity North-West had now been signed off and is in the public domain. • Ships had been docking at South Bank Quay and they are finalising the procedures for when this comes fully online. • AA asked who would be responsible for site maintenance. GM explained that estate management budgets form part of the service charge arrangements with additional risk-based capital works budgeted by the landowner as required. 		
STDC-A&G 12/2024	External Audit Update Mazars 2021/2022 and 2022/2023	<p>The Committee received a report from Victoria Smith, Group Financial Controller, (VS), outlining the areas of focus that would be provided by Mazars in relation to the External Audits for 2021/2022 and 2022/2023.</p> <p>It recommended that the Committee:</p> <ol style="list-style-type: none"> i. NOTES the update provided by Mazars on the South Tees Development Corporation Single Entity and Group Audit for the financial years 2021/2022 and 2022/2023. <p>Suresh Patel, Mazars, (SP), noted the government backstop date of 13 December 2024 for the years 2021/2022 and 2022/2023. Discussion had been ongoing with TVCA and the report and Value for Money (VfM) judgement would be shared with GM later in the week. SP advised that the 2022/2023 accounts will be disclaimed,</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>and Mazars had also determined that they did not have the time or capacity to complete the 2021/2022 accounts in full. These therefore will also be disclaimed to allow the organisation to publish its accounts by the backstop date. SP apologised on behalf of Mazars.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> • AA asked what they meant by a ‘disclaimed audit’. SP explained that Government have implemented the measures to catch up on audits across Local and Combined Authorities, and the disclaimed audit will state that there is not enough time to complete the audit in full by the 13 December 2024. Government have advised that no Local or Combined Authority who receives a disclaimed audit will be adversely impacted. SP accepted that this was not ideal, it will be a short succinct audit, hence the need for a disclaimer. • Geoff Westmoreland, Independent Member, (GW), picked up on the comment that there should be no negative consequences. VS advised that there are a number of other organisations in exactly the same position. • Councillor Peter Grogan, Elected Member for Redcar and Cleveland and representative of the TVCA Audit and Governance Committee, (PG), asked if TVCA would incur any financial penalties. VS confirmed that the accounts will be submitted by the backstop date. She explained that historically they had incurred penalties, but until further government guidance becomes available the assumption is that they will allow TVCA to submit these based on the drafts. It was hoped that more would be known next week following an away day where TVCA will have an opportunity to ask these questions. • GM advised that following a recent announcement by the Secretary of State the Government are expecting to receive a number of disclaimed audits to enable transition to more timely audit completion for current financial year accounts. • AA asked if Mazars will we be providing assurances around the work they have completed, as in September 2023 they reported that they had reached a 		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>certain stage and detailed what was outstanding. SP advised that there had been some technical accounting problems, and they were waiting on the report pertaining to the Tees Valley Review (TVR) but acknowledged that they should have been quicker at progressing this.</p> <p>RESOLVED: That the Committee noted the update provided by Mazars on the South Tees Development Corporation Single Entity and Group Audit for the financial years 2021/2022 and 2022/2023.</p>		
STDC- A&G 13/2024	External Audit Update Ernst Young 2023/2024	<p>The Committee received a report from Victoria Smith, Group Financial Controller, outlining the areas of focus that would be provided by Ernst & Young LLP (EY) in relation to the External Audits for 2023/2024.</p> <p>It recommended that the Committee:</p> <p>ii. NOTES the update provided by EY on the South Tees Development Corporation Single Entity and Group Audit for the financial years 2023/2024.</p> <p>Mark Rutter, Ernst & Young, (MR), explained that they will be assessing the VfM work from Mazars, with a view to reporting in January 2025. He advised members that the backstop date for 2023/2024 accounts is 28 February 2024. In determining whether they will be able to meet this deadline EY put in place a series of criteria, one of which was the cut-off date of 31 July 2024 by which point draft accounts must have been published. STDC and TVCA accounts went on the website at the end of September, and there are capacity issues within the TVCA Finance Team due to them having to address numerous years simultaneously. Therefore, EY will also be disclaiming the 2023/2024 audit. He explained that for 2024/2025 it will not be a clean audit opinion as assurances will need to be built back up which will be the case for other audits across the country as there have</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>been a significant number of disclaimed audit opinions nationally in respect of prior years.</p> <p>GM explained that the need to build back assurance where audits have been disclaimed will be consistent nationally. MR confirmed that there are conversations ongoing across the sector as to what this will look like.</p> <p>The Committee was invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> • MS asked if this was normal across the sector. MR stated that he could only speak for EY and explained that if auditors are unable to have the assurances for 2022/2023 this would impact 2023/2024. • MS asked about the number of organisations effected and MR advised that it was not an insignificant number. • AA asked what the impact of having three years of disclaimed accounts would be. GM explained that accounts are still produced, the public inspection of the accounts still takes place and processes are still followed. The whole reason for the backstop dates are to allow the auditors to catch up and reach parity. MR acknowledged that it is a sector wide problem and solution, and it is not specific to TVCA. • VS explained that if TVCA were a private sector organisation or they had loans, there would be an increased element of risk, but as TVCA have public loans the risk is reduced. • MS felt that as 2021/2022 and 2022/2023 are so historical they were no longer important at this stage. • GW believed that from a stakeholder perspective the committee and Governance had both done everything they could, this had been well documented and it is an external market problem. 		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<ul style="list-style-type: none"> GM noted that the Annual Governance Statement and other internal controls had been ongoing throughout this time period, and we have produced, reviewed and acted on these. <p>RESOLVED: the Committee noted the update provided by Ernst & Young on the South Tees Development Corporation Single Entity and Group Audit for the financial years 2023/2024.</p> <p><i>(Suresh Patel of Mazars left the meeting at the conclusion of this item.)</i></p>		
STDC-A&G 14/2024	Group Draft Financial Statements 2023/2024	<p>The Committee received a report from Victoria Smith, Group Financial Controller in respect of the Group Draft Financial Statements for 2023/2024.</p> <p>It recommended that the Committee:</p> <p>i. CONSIDERS and COMMENTS on the unaudited South Tees Development Corporation unaudited Single Entity and Group Statement of Accounts for 2023/2024.</p> <p>VS explained that there had been no one-off transactions reported in the accounts. They contained standard entries that had been seen over a number of years, and related to the demolition programmes that had been ongoing for 4 years, and the South Tees Site Company.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> MS noted that there are a number of sub-totals within the accounts that are not clear. VS explained that there is a National Code detailing the requirements for the accounts, and number of the amendments had been received from SP. 		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<ul style="list-style-type: none"> • It was highlighted that Note 24, 'Cash Flow Statement – Reconciliation of liabilities arising from financing activities' (pg 34), second table, the date needed amendment. • It was noted that the narrative at the beginning of the report looked at risks, and the Tees Valley Review, VS explained that they had aimed to be balanced in their view, but asked members to let them know if they did not feel that the statement was. • AA highlighted Note 8, 'Non Current Assets Plant, Property and Equipment' (pg 18) table, and asked for further context in respect of the line detailing 'impairments'. VS explained that when they took over the site it required a lot of public investment and was valued significantly below zero, any monies spent are impaired as they are not adding value and the site is still of negative value. • AA asked how this figure compares to the previous year, and asked if the figure was reducing. VS explained that demolition works are now around 90% complete. GM advised that as public sector expenditure is almost completed future additions and subsequent impairments to the balance sheet will reduce accordingly. • AA noted that the accounts tell you how the year played out and asked how it compared to the plan. GM stated that if you take demolition as a programme, they were initially looking at a 7-10 year programme, a strategic decision was taken that the risk was in the contaminated land, and a further decision was taken to clear it, add to that the Freeport incentives available, it became about having the land ready. The programmes were accelerated, and the outcome is that we are further ahead than when we initially produced the business case. In this sense it has been very positive, for example the quay was needed for a number of tenants, and the timeline has been met, and similarly with power. Timelines have been very positive as noted by the Government Representative on STDC Board, and by de-risking the power situation the last milestone has been achieved. As we get to the tail end of the public sector elements the costs going in and the level of risk will both reduce. 	<p>Date to be amended</p>	<p>VS</p>

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<ul style="list-style-type: none"> • GW asked in terms of the costs for the TVR, consultants, auditors and people being seconded in, do TVCA know what a normal business as usual is going to look like. GM explained that the STDC management team have been working towards updating the financial model, looking at costs and income streams and identifying targets for management to achieve. This was reported on as part of the TVR, showed graphical analysis and tried to show what business as usual looks like. Funding sources for specific projects will be identified. VS explained that a paper goes to Board quarterly and this pulls out any variances in detail. • GW asked if TVCA are comfortable with the level of resource that sits within the company. GM noted that as the site is changing there have been some changes within the level of resource needed, for example the need for “keep safe” programme staff is reducing. John Barnes, Chief Operating Officer, STDC, (JB), will be at future meetings, and he will look at what balance of staffing is needed. There may be some strategic elements around whether we use internal staff or outside resources, but this will be articulated. GW stated that they needed to be comfortable that they have the right people and the right level of resources in place as the need changes and the site evolves. GM advised that JB would be able to discuss in more detail around this at subsequent meeting. • MS noted that within the accounts they will have accrued for audit fees. As 2021/2022 audit is not finished, and Mazars probably have not started work on 2022/2023 he asked if there will be an amendment to the figures accrued. VS explained that Mazars employed specialists in respect of 2021/2022 so will likely bill for this, but 2022/2023 may be less. MR advised that EY have not billed for any work undertaken so far in respect of 2023/2024 as they are waiting on Public Sector Audit (PSA) advising on fees. VS stated that as Mazars have not produced what they were supposed to TVCA will be pushing for a discount. • MS asked how much we can push back on the bill. GM advised that the PSAA will set out how much we need to pay, and VS explained that they will also 		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>provide guidance on how we can push back if we are not happy with the figures charged.</p> <ul style="list-style-type: none"> It was noted that page 26 of the report states that STDC are not currently liable for Corporation Tax, but there could be a requirement to back date to the date of incorporation. VS explained that TVCA are not, but the development corporations may be, advice had been sought and a response was awaited. PG asked if the £1m is set aside in case there is a need to pay this. VS stated it is a national review that the HMRC are undertaking but there is no update as yet. <p>RESOLVED: the Committee considered and provided the above comments on the unaudited South Tees Development Corporation unaudited Single Entity and Group Statement of Accounts for 2023/2024.</p> <p>Amendment to be made to Note 24, 'Cash Flow Statement – Reconciliation of liabilities arising from financing activities' (pg 34), in respect of the date in the second table.</p>		
STDC- A&G 15/2024	Internal Audit Report	<p>The Committee received a report from Victoria Smith, Group Financial Controller giving the position in respect of the current Internal Audit Action Plan progress as of October 2024.</p> <p>It recommended that the Committee:</p> <ol style="list-style-type: none"> CONSIDER the analysis and audit progress set out in the paper. ACKNOWLEDGE the annual audit schedule. <p>VS explained that one of the recommendations from TVR was that TVCA have independent internal audit action plans for TVCA and STDC, and TIAA are in the progress of developing these.</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>Update on progress against the 2023-2024 Plan was detailed within the paper circulated to members.</p> <p>VS explained that there were a number of historic actions from previous audits, work is ongoing to get these closed off as shown on page 111/113 of the documents, and a detailed list will be brought to the next meeting providing an update on where we are against each.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> • MS noted the revised dates. VS explained that the report was written for the October meeting which was adjourned due to not being quorate. VS accepted that these should have been closed down quicker, however focus had been concentrated on addressing the findings of the TVR, and TVCA are now working through the historic recommendations and closing these off. • GW noted that in terms of internal audit it is a three lines of defence model, and he did not feel this had been articulated, and asked if people within the organisation know where they sit. VS explained that they are looking to roll out risk management training, this will be done through IHasco, and actions had been reallocated to the right owner. GM explained that TVCA follow the HMT Orange Book, and felt it was fair to say that notwithstanding dealing with the TVR actions, there had been a good piece of work completed by VS around regular reporting and the ownership of the Heads of Service, and the capacity within the teams is there. • AA noted that this report pertains to the 2023/2024 Audit Plan and asked about the 2024/2025 Audit Plan. It was advised that Andrew McCulloch from TIAA would report next on this. <p>RESOLVED THAT: the Committee noted the update.</p>	<p>Detailed update report to be brought to the next meeting</p>	<p>VS</p>

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>A report detailing outstanding actions to be brought to the next meeting providing a status update for each.</p>		
<p>STDC- A&G 16/2024</p>	<p>Summary Internal Controls Assurance Update and Internal Audit Reports</p>	<p>The Committee received a Summary Controls Assurance Report, (SICA), from Andrew McCulloch, TIAA, (AM), presenting an update on the emerging governance, risk and internal control related issues and the progress of TIAA’s work at South Tees Development Corporation Group as at 1 October 2024.</p> <p>It recommended that the Committee:</p> <ul style="list-style-type: none"> • <u>CONSIDERS</u> and <u>COMMENTS</u> on the findings within the SICA report. <p>AM advised that TIAA had separated out the Audit Plans, and STDC’s will be brought to the next meeting for approval.</p> <p>He explained that as it stood they were expecting 2024/2025 audits to be completed by the second week in April, and the 2025/2026 plan would be brought for consultation to the next meeting.</p> <p>AM felt it had been a perfect storm due to the TVR and changes in staff, he noted that since VS had stepped in this had improved and TIAA are confident that they will be able to complete by March/April 2025, and 2025/2026 audits had all been scheduled in.</p> <p>AM explained the requirement for Internal Auditors to adopt the Global Internal Audit Standards by January 2025. As part of these changes’ committees need to be formally involved in putting the internal audit plans together and the committee will be consulted on this. He advised that outside of this requirement there will be very</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<p>little impact on TVCA as TIAA had been working to this standard for a number of years.</p> <p>AA advised that two reports had been finalised in respect of COMAH and Key Financial Controls. The COMAH assessment had been undertaken by a NEBOSH auditor, they found the documentation provided to be very detailed and there was good stakeholder engagement. The Key Financial Controls audit looked at all entities within the group and found that in respect of the creditor payment samples tested, the process was well directed with appropriate policies and procedures shared with everyone, good controls were in place, and there were robust controls on changes in supplier details.</p> <p>There are two pieces of work still to be completed. All of the entities will have a governance review in February 2025, and they will meet shortly with regards to the IT audit.</p> <p>In respect of the audits that have been signed off, the auditor is 60% of the way through validating these.</p> <p>GM explained that as part of the TVR the Local Government Association are undertaking a review, and this will be dovetail into the work TIAA is undertaking providing assurances.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> MS advised that some of the hyperlinks in the report are not working, Andrew to follow up on this. <p>RESOLVED: the Committee considered the SICA report and provided the above comments on the SICA Update and Internal Audit Reports.</p>	<p>AM to review hyperlinks</p>	<p>TIAA</p>

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		TIAA to review the hyperlinks in the hyperlinks within their report.		
STDC- A&G 17/2024	Draft STDC Annual Governance Statement 2023/2024	<p>The Committee received a report from Emma Simson, Group Chief Legal Officer and Monitoring Officer presenting the draft Annual Governance Statement for 2023/2024.</p> <p>It recommended that the Committee:</p> <ol style="list-style-type: none"> i. Provide COMMENTS for consideration when submitted to the next meeting of the South Tees Development Corporation Board; or ii. RECOMMEND to the South Tees Development Corporation Board that the Statement be approved as drafted. <p>ES explained that the report was being brought to the committee for comments prior to it being taken to the STDC Board on 5 December 2024. This report will include any comments raised by this committee.</p> <p>The Committee were invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> • Members did not raise any comments. • GM advised that a lot of the documentation had already been brought to committee as part of the TVR pack. <p>RESOLVED: the Committee recommended to the South Tees Development Corporation Board that the Statement be approved as drafted.</p>		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
STDC-A&G 18/2024	Data Protection Review Update	<p>The Committee received a report from Emma Simson, Group Chief Legal Officer and Monitoring Officer providing the Committee with an update on the Development Corporation's progress in addressing the recommendations of the Data Protection Internal Audit and giving them a position status and next steps from which to enable oversight.</p> <p>It recommended that the Committee:</p> <p>i. NOTES the current status of the TVCA Group's Data Protection Review against the Data Protection Audit, and that a further update will be brought to the next meeting of this Committee.</p> <p>ES explained that an internal audit had been undertaken in respect of Data Protection and it was hoped to bring the final report to the January committee.</p> <p>The Committee was invited to ask questions, and these are summarised as follows:</p> <ul style="list-style-type: none"> • AA noted the following action, 'Audit Committee Terms of Reference will be reviewed and a proposal made for Audit & Governance Committee to be the responsible committee for GDPR matters'. ES advised that there are a number of actions that need to happen, the hope had been to address these at an away day, but as it had proved difficult to align diary commitments, she suggested bringing this to Committee. • ES further advised that going forward the proposal is to bring a Regulatory report to each Committee, this will update on Freedom of Information requests, Complaints and Data Protection. • AA asked if this was the right Committee to be the regulatory body for GDPR. ES explained that it is not about being responsible it is about keeping the Committee informed and up to date. 	<p>Committee to review Terms of Reference at their next meeting</p>	<p>Governance/ Committee</p>

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
		<ul style="list-style-type: none"> PG noted the revised date of December 2024 and asked if this target was realistic. ES felt that the targets were, and explained that they needed to be completed before it comes to the next committee. <p>RESOLVED: The Committee noted the current status of the TVCA Group’s Data Protection Review against the Data Protection Audit, and that a further update will be brought to the next meeting of this Committee.</p> <p>Terms of Reference to be reviewed as part of the next meeting.</p>		
<p>IT WAS PROPOSED AND AGREED TO PASS A RESOLUTION TO EXCLUDE THE PRESS AND PUBLIC FROM THE FOLLOWING CONFIDENTIAL ITEMS</p> <p><i>(The reports are exempt from publication under the terms of paragraph 3 of schedule 12a Local Government Act 19072, (information relating to the financial or business affairs of any particular person (including the authority holding that information))</i></p>				
STDC-A&G 19/2024	Risk Management Report	The Committee received a report from Victoria Smith, Group Financial Controller, presenting the risk portfolio as of September 2024.		
STDC-A&G 20/2024	Update on Environmental, Health and Safety (EHS) Report	The Committee received a report from Victoria Smith, Group Financial Controller providing an activity update since the last meeting.		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
STDC-A&G 59/2024	Pre-Meeting Arrangements Involving External Audit and Committee Members	<p>VS explained to the Committee that CIPFA had recommended that TVCA give External Auditors and the Chair of the Committee the opportunity to go into private session with members should they wish to do so, and that this opportunity should be given as part of each audit committee.</p> <p>It was agreed that a 10-minute meeting would be scheduled directly prior to each STDC Audit and Governance Committee meeting to allow this to take place.</p>		
STDC-A&G 60/2024	Date and Time of Next Meeting	Friday, 6 December 2024 at 15:30.		

REPORT TO THE STDC
AUDIT AND GOVERNANCE COMMITTEE

6 DECEMBER 2024

REPORT OF GROUP FINANCIAL CONTROLLER

MAZARS EXTERNAL AUDIT COMPLETION REPORTS 2021/2022 AND
2022/2023

SUMMARY

This report provides STDC committee members with Mazars External Audit reporting for the years ended 31 March 2022 and 31 March 2023. This reporting covers the Audit Strategy and Completion report including the draft audit report for the year ending 31 March 2023 and the value for money reporting for the years ending 31 March 2022 and 2023.

RECOMMENDATIONS

It is recommended that the STDC Board:

- i. **Notes** the audit Strategy and Completion report for the year ended 31 March 2023.
- ii. **Notes** the draft audit reports for years ended 31 March 2022 and 31 March 2023.
- iii. **Notes** the Value for Money reporting for the years ended 31 March 2022 and 31 March 2023.

DETAIL

1. As reported and discussed at previous Audit and Governance committees, there is a significant backlog of outstanding external audits across the public sector. Last year, just one per cent of councils and other local bodies published audited accounts on time.
2. The Government is committed to overhauling the local audit system to enable taxpayers to get better value for money. A growing backlog will severely hamper necessary fundamental reforms to repair the system and will continue to undermine

SOUTH TEES DEVELOPMENT CORPORATION

local accountability and governance.

3. The Government, together with the Financial Reporting Council (FRC), the National Audit Office (NAO), and organisations in the wider system has taken a number of actions, which are designed to address the backlog and put local audit on a sustainable footing.
4. The term “audit backstop” refers to a deadline set by authorities to ensure that all outstanding local government audits in England are completed by a specific date.
5. For financial years up to and including 2022/23 the back stop date has been set as 13 December 2024.
6. At the STDC Audit & Governance Committee on the 18 November 2024, Suresh Patel, Mazars External Audit Partner, highlighted to the committee that the Tees Valley Combined Authority Single Entity and Group Statement of Accounts for the years 2021/22 and 2022/23 would be impacted by the audit back stop date.
7. Mazars has determined that there is insufficient time to complete its audit procedures to obtain sufficient appropriate evidence, and, in its view, the effects of the resulting lack of evidence is pervasive to the financial statements as a whole. As a result, it intends to issue a disclaimer of opinion on the Authority’s financial statements.
8. This approach is consistent across the sector and it is expected there will be a significant number of disclaimed opinions nationally.
9. Appended to this report is the Audit Strategy and Completion report including the draft audit report for the year ended 31 March 2023 and the value for money reporting for the years ending 31 March 2022 and 2023.

FINANCIAL IMPLICATIONS

10. The financial implications are covered in the body of the report.
11. Further delays in publishing audited accounts hinder transparency and accountability, which can affect public trust.

LEGAL IMPLICATIONS

12. The Statutory Instrument, laid alongside revised Code of Audit Practice from the National Audit Office (NAO), will introduce backstop dates for local bodies and their auditors to publish audited accounts, starting the process of repairing the foundations of local audit. This is led by the Government, together with the Financial Reporting Council (FRC), the National Audit Office (NAO).

TEESWORKS

The UK's largest
industrial zone

**SOUTH TEES
DEVELOPMENT
CORPORATION**

RISK ASSESSMENT

13. This document is categorised as medium risk.

CONSULTATION AND COMMUNICATION

14. Consultation has taken place by relevant government departments.

EQUALITY AND DIVERSITY

15. There are no equality and diversity implications arising from the subject matter in this document.

Name of Contact Officer: Victoria Smith
Post Title: Group Financial Controller
Telephone Number: 01325 792600
Email Address: victoria.smith@teesvalley-ca.gov.uk

TEESWORKS

The UK's largest
industrial zone

**REPORT TO THE STDC
AUDIT AND GOVERNANCE COMMITTEE**

6 DECEMBER 2024

REPORT OF GROUP FINANCIAL CONTROLLER

STDC INTERNAL AUDIT PLAN 2024/25

SUMMARY

This report covers the TIAA indicative Audit Strategy for 2024 - 2027 and Annual Audit Plan 2024/25 for South Tees Development Corporation. The plan allows for sufficient coverage for a robust annual Head of Internal Audit Opinion to be provided for STDC. Summary controls assurance reports will be provided to the Audit and Governance Committee by TIAA covering Governance, Risk and Internal Control.

RECOMMENDATIONS

It is recommended that the STDC Board:

- i. **APPROVES:** the TIAA indicative Audit Strategy for 2024 - 2027 and Annual Audit Plan 2024/25 for South Tees Development Corporation.

DETAIL

1. The TIAA indicative Audit Strategy for 2024 - 2027 and Annual Audit Plan 2024/25 for South Tees Development Corporation were previously incorporated into the Tees Valley Combined Authority Group Strategy and Plan. This was approved by the TVCA Audit and Governance committee on the 12 July 2024.
2. The Tees Valley Review recommended that an independent review of TVCA Group's internal audit function be completed. This review was completed by CIPFA in August 2024.
3. The CIPFA report recommended '*We would suggest that the organisation may find that it is more effective to have an audit plan for each of the Development*

SOUTH TEES DEVELOPMENT CORPORATION

Corporations, particularly STDC, as well as the TVCA from 2024-25 onwards.'

4. TIAA and STDC management have addressed this recommendation, and this report brings the standalone STDC indicative Audit Strategy for 2024 - 27 and Annual Audit Plan 2024/25.
5. The indicative Audit Strategy for 2024 - 27 and Annual Audit Plan 2024/25 sets out details of the key risk considerations, the audit strategy methodology, the Audit Plan for 2024/25 and the Internal Audit Charter.

FINANCIAL IMPLICATIONS

6. Financial implications are included in the body of the report. The Key Financial Controls audit received substantial assurance with no control recommendations.

LEGAL IMPLICATIONS

7. There are no legal implications in this report.

RISK ASSESSMENT

8. This document is categorised as low risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION AND COMMUNICATION

9. No further consultation required. Consultation is with the Audit Committee.

EQUALITY AND DIVERSITY

10. There are no equality or diversity implications arising from the subject matter in this document.

Name of Contact Officer: Victoria Smith
Post Title: Group Financial Controller
Telephone Number: 01325 792600
Email Address: victoria.smith@teesvalley-ca.gov.uk

TEESWORKS

The UK's largest
industrial zone



South Tees Development Corporation

Indicative Audit Strategy 2024/27 and Annual Plan 2024/25

October 2024

Draft



Executive Summary

Introduction

The Audit Plan for 2024/25 has been informed by a risk assessment carried out across our clients in the sector and by an updated audit risk assessment to ensure that planned coverage for the year is focussed on the key audit risks. This coverage will enable a robust annual Head of Internal Audit Opinion to be provided.

Key Risk Considerations

We have identified a number of key areas which require consideration when planning internal audit coverage.

Financial Management: Five local authorities since 2021 have declared themselves effectively bankrupt, with a number warning they may have to do the same. The LGA has identified a funding gap of three billion pounds over the next two years. This raises the importance of maintaining adequate financial controls.

Cyber Security: This continues to be one of the highest ranked risks for organisations and shows no sign of going away. Increased online service delivery and continued remote working has made organisations more vulnerable to phishing, malware, and ransomware attacks, particularly where there has been a lack of investment in infrastructure.

Project Management: Implementing collaboration between Councils, local authorities and other partners continues to be a significant challenge, Birmingham Council reported a £100 million hole in the EPR upgrade. As well as adding to financial pressures, project failure can impact services or residents' lives and result in significant reputational damage.

Audit Strategy Methodology

In producing this audit strategy and annual plan, we have sought to build on our understanding of South Tees Development Corporation's operating environment and risk profile through a review of key documentation and discussions with key staff. We have taken into account:

- The Corporation's business strategy and corporate objectives
- The regulatory and legislative framework
- The Corporation's and Group's risk register
- External Audit recommendations
- Previous Internal Audit coverage

We take in to account any emerging or heightened risks that are facing the sector, to ensure that the work of internal audit remains appropriately prioritised and focused.

Our approach complies with the International Standards for the Professional Practice of Internal Auditing which have been developed by the Institute of Internal Auditors (IIA) and the Public Sector Internal Audit Standards (PSIAS).

Internal Audit Strategy and Plan

The Audit Strategy at Appendix A incorporates the proposed annual plan for 2024/25 and the indicative coverage for the following two years.

The Annual Plan at Appendix B sets out the assignments that will be carried out in 2024/25, the planned times and the high-level scopes for each of these assignments.

The Annual Plan will be subject to ongoing review and could change as the risks change for the organisation; this will be formally reviewed with senior management and the Audit and Governance Committee mid-way through the financial year or should a significant issue arise.

The overall agreed time for the delivery of each assignment within the Annual Plan includes: research; preparation and issue of terms of reference; site work; production and review of working papers; and reporting.

The Annual Plan has been prepared on the assumption that the expected controls will be in place.

The total number of days required to deliver the Audit Plan is as agreed in the contract between TIAA and Tees Valley Combined Authority Group. This number of days is fixed and it is TIAA's responsibility to deliver the Audit Plan for this number of days. Where the Group agrees additional work the required number of days and the aggregate day rate will be agreed in advance with the Group Financial Controller and will be clearly set out in the terms of reference for the additional review(s).

Adequacy of the planned audit coverage

The reviews identified in the audit plan for 2024/25 support the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of South Tees Development Corporation's framework of governance, risk management and control as required by TIAA's charter. The reviews have been identified from your assurance framework, risk registers and key emerging themes.

Disclaimer

This document 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.

No responsibility to any third party is accepted as the document 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 document and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our document.

Release of Report

The table below sets out the history of this plan.

Draft Strategy and Plan:	14 th October 2024
Final Strategy and Plan:	

Appendix A: Rolling Strategic Plan

Review Area	Type	2024/25	2025/26	2026/27
Governance				
Governance – Strategic Control	Assurance	✓		
CIPFA Review Implementation	Assurance	✓		
Performance Management and Management Information	Assurance		✓	
Procurement	Assurance			✓
Data Protection (GDPR)	Assurance			✓
Risk				
Risk Management Framework	Assurance		✓	
Risk Management Mitigating Controls	Assurance			✓
ICT				
Cyber Security	Assurance	✓		
ICT Network Controls	Assurance		✓	
Finance				
Key Financial Controls (Rolling programme)	Assurance	✓	✓	✓
Operational Performance and Infrastructure				
Project Management	Assurance	✓	✓	✓
Management and Planning				
Annual Planning	Management	✓	✓	✓
Annual Report	Management	✓	✓	✓
Audit Management	Management	✓	✓	✓
Total Days		39	39	39

Appendix B: Annual Plan – 2024/25

Quarter	Review	Type	Days	High-level Scope
3	Governance – Strategic Control	Assurance	5	<p><u>Scope</u></p> <p>The review considers the role and operation of the STDC Board and Committees, and senior management groups; standing orders and financial regulations; and delegated authorities.</p>
3	Cyber Security	Assurance	7	<p><u>Scope</u></p> <p>The scope of the review will assess the management processes in place to reduce the likelihood and impact of a cyber-incident. The review will consider the following:</p> <ul style="list-style-type: none"> • Cyber Risk Management; • Engagement and Training; • Vulnerability Management; • Data Security; • Incident Management; and • Asset Management; • Architecture and Configuration; • Identity and access management; • Logging and Monitoring; • Supply Chain security.
4	Project Management	Assurance	7	<p><u>Scope</u></p> <p>The review will focus on the organisation’s project management approach and will review one project, with emphasis on:</p> <ul style="list-style-type: none"> • Project management methodology in use; • Structure of the project teams including roles and responsibilities; • Financial planning and identification of project risks; • Project documentation; <p>Controls over costs associated with the project; monitoring and reporting.</p>

Quarter	Review	Type	Days	High-level Scope
4	Key Financial Controls - Payroll	Assurance	4	<p><u>Scope</u></p> <p>The review will consider the arrangements for:</p> <ul style="list-style-type: none"> • The creation, amendment and deletion of payroll records; • The payment of allowances and pay awards; • The payment of salaries; • Month and year end disciplines; and • Reimbursement of travel and subsistence expenses. <p>The scope of the review does not include determination of salary scales, appointment and removal of staff or the pension arrangements.</p>
4	CIPFA Review Implementation	Assurance	5	<p><u>Scope</u></p> <p>The audit will review the action taken to implement the recommendations made in the CIPFA review of audit provision at the Authority.</p>
1	Annual Planning	Management	2	Assessing the Group's annual audit needs.
4	Annual Report	Management	1	Reporting on the overall conclusions and opinion based on the year's audits and other information and providing input to the Annual Governance Statement.
1 – 4	Audit Management	Management	8	This time includes: meeting client management, overseeing the audit plan, reporting and supporting the Audit and Governance Committee, liaising with External Audit and Client briefings (including fraud alerts, fraud digests and committee briefings).
Total days			39	

Internal Audit Charter

The Need for a Charter

The Audit Charter formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within South Tees Development Corporation and defines the scope of internal audit activities. The establishment of the Audit Charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Governance Committee.

The Role of Internal Audit

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control. TIAA is responsible for providing assurance to South Tees Development Corporation's governing body (being the body with overall responsibility for the organisation) on the adequacy and effectiveness of the risk management, control and governance processes.

Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS and the IIA standards which are articulated in the International Professional Practices Framework (IPPF).

Scope

All South Tees Development Corporation's activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that South Tees Development Corporation's management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions; however, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by the board, Audit and Governance Committee or the nominated officer (being the post responsible for the day-to-day liaison with TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of South Tees Development Corporation and is authorised to obtain such information and explanations as they consider necessary to form their opinion. The collection of data for this purpose will be carried out in a manner prescribed by TIAA's professional standards, Information Security and Information Governance policies.

Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems; however, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day-to-day administrative purposes only, TIAA reports to a nominated officer within South Tees Development Corporation and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the Authority board, the chair of the STDC board, the chair of the STDC Audit and Governance Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with South Tees Development Corporation's management.

Conflict of Interest

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to.

We are not aware of any conflicts of interest and should any arise we will manage them in line with TIAA's audit charter and internal policies, the PSIAS/IIA standards and South Tees Development Corporation's requirements.

Irregularities, Including Fraud and Corruption

TIAA will without delay report to the appropriate regulator, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2002.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that TIAA can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

Limitations and Responsibility

Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of South Tees Development Corporation and additional time will be required to carry out such testing. South Tees Development Corporation is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

Liaison with the External Auditor

We will liaise with South Tees Development Corporation's External Auditor. Any matters in the areas included in the Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

Reporting

Assignment Reports: A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of TIAA's audit charter and PSIAS/IIA standards.

Progress Reports: Progress reports will be prepared for each Audit and Governance Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

Follow-Up Reports: We will provide an independent assessment as to the extent that priority 1 and 2 recommendations have been implemented. Priority 3 recommendations are low-level/housekeeping in nature and it is expected that management will monitor and report on implementation as considered appropriate.

Annual Report: An Annual Report will be prepared for each year in accordance with the requirements set out in TIAA's audit charter and PSIAS/IIA standards. The Annual Report will include a summary opinion of the effectiveness of South Tees Development Corporation's governance, risk management and operational control processes based on the work completed during the year.

Other Briefings: During the year Client Briefing Notes, Benchmarking and lessons learned digests will be provided. These are designed to keep the organisation abreast of in-year developments which may impact on the governance, risk and control assurance framework.

Assurance Assessment Gradings

We use four levels of assurance assessments as set out below.

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Data Protection

TIAA has policies, procedures and processes in place to comply with all associated regulation and legislation on information security, which is underpinned by mandatory annual awareness training for all staff. To carry out our role effectively, we need to obtain information that is reliable, relevant and sufficient to support our findings and recommendations. The collection of data, particularly sensitive personal data, is minimised and is not shared with unauthorised persons unless there is a valid and legal requirement to do so. We have clear policies on the retention of data and its appropriate, controlled disposal. TIAA has a fully robust Information Security Management System that meets all the requirements of ISO27001:2013.

Quality Assurance

TIAA recognises the importance of Internal Audit being controlled at each stage to ensure that we deliver a consistent and efficient Internal Audit service that is fully compliant with professional standards and also the conditions of contract. We operate a comprehensive internal operational quality review process to ensure that all Internal Audit work is carried out in accordance with these standards. These quarterly reviews are part of our quality management system which has ISO 9001:2015 accreditation.

Audit and Governance Committee Responsibility

It is the responsibility of South Tees Development Corporation to determine that the number of audit days to be provided and the planned audit coverage are sufficient to meet the Committee's requirements and the areas selected for review are appropriate to provide assurance against the key risks within the organisation.

By approving this document, the Audit and Governance Committee is also approving the Internal Audit Charter.

Disclaimer

The matters raised in this planning report, along with those raised in our audit and annual reports, are only those that came to the attention of the auditor during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. 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. 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.

Performance Standards

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Performance Measure	Target
Completion of planned audits.	100%
Audits completed in time allocation.	100%
Draft report issued within 10 working days of exit meeting.	100%
Final report issued within 10 working days of receipt of responses.	100%
Compliance with TIAA's audit charter and PSIAS/IIA Standards.	100%