

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT AND GOVERNANCE COMMITTEE

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	There were no apologies for absence.		
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	RESOLVED: The minutes of the meeting held on the 5 September 2024 were agreed as a true and accurate record.		
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>		

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		<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>		

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		<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 		

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		<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 2025. 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>		

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		<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. 		

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		<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> <ol style="list-style-type: none"> CONSIDERS and COMMENTS on the unaudited South Tees Development Corporation unaudited Single Entity and Group Statement of Accounts for 2023/2024. <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. 		

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		<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>

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		<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 		

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		<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>		

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		<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>

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		<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>		

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		<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>

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		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>		

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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>

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		<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.		
STDC-A&G 21/2024	Pre-Meeting Arrangements Involving	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		

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	External Audit and Committee Members	<p>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 22/2024	Date and Time of Next Meeting	Friday, 6 December 2024 at 15:30.		