

## AUDIT COMMITTEE

<b>Date:</b> Thursday 17th April, 2025
<b>Time:</b> 1.30 pm
<b>Venue:</b> Mandela Room, Town Hall

## AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest  
To receive any declarations of interest.
4. Minutes - Audit Committee - 20 February 2025 3 - 8
5. Minutes - Audit Committee - 13 March 2025 9 - 16
6. Update on the Review of the Constitution and Committee Terms of Reference 17 - 28
7. External Audit Progress Report - April 2025 29 - 46
8. Analysis of Staffing Costs - 2023/24 47 - 50
9. Any other urgent items which in the opinion of the Chair, may be considered.

Charlotte Benjamin  
Director of Legal and Governance Services

Town Hall  
Middlesbrough  
Wednesday 9 April 2025

## MEMBERSHIP

Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young

**Assistance in accessing information**

**Should you have any queries on accessing the Agenda and associated information please contact Chris Lunn, 01642 729742, [chris\\_lunn@middlesbrough.gov.uk](mailto:chris_lunn@middlesbrough.gov.uk)**

**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on Thursday, 20 February 2025.

**PRESENT:** Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young.

**ALSO IN ATTENDANCE:** C Andrew - External Auditor, Forvis Mazars  
T Backhouse - External Auditor, Forvis Mazars  
M Kirkham - External Auditor, Forvis Mazars.

**OFFICERS:** A Humble, A Johnstone, C Lunn and J Weston.

**APOLOGIES FOR ABSENCE:** None.

24/71 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/72 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor Blades	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund
Councillor Branson	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund
Councillor Coupe	Non-Pecuniary	Member of the Board of Directors of Border to Coast
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Hubbard	Non-Pecuniary	Member of Teesside Pension Fund

24/73 **RISK MANAGEMENT: BI-ANNUAL STRATEGIC RISK REGISTER REVIEW**

The Head of Policy, Governance and Information presented a report, the purpose of which was to provide a mid-year update to the Committee on the current content of the Council's Strategic Risk Register (SRR). Provision of the report supported the Committee to fulfil its governance and oversight responsibilities.

Risk Management was a critical element of corporate governance and was a statutory requirement for public sector organisations. The Council was required to provide for the health and safety of its Elected Members, employees, and those that it served. It had a duty to ensure effective planning for civil emergencies and was required to protect its assets and to take steps to minimise losses and liabilities. The purpose of Risk Management was to identify and manage risks to reduce their likelihood of occurring and also reduce their impact, should they occur.

Risk Management was the collective responsibility of all Elected Members and officers of the Council. The Council's approach to Risk Management was articulated by the Risk Management Framework and Policy, which was reviewed by Executive in July 2023.

The Council used risk registers to manage the various risks it identified; the SRR was the overarching risk register. This register captured the most significant risks the organisation was exposed to that could impact on its ability to deliver its strategic priorities, which were outlined in the Strategic Plan.

The SRR was underpinned by directorate level risk registers which were monitored by directors. Within projects and programmes, risks were captured using standardised project documentation, which included risk registers. There were processes in place to ensure risks

were considered either as they were managed during business-as-usual processes or throughout the life of a project, and that they were escalated and deescalated, as appropriate.

In addition to bi-annually reporting the Council's overall approach on Strategic Risk Management to this Committee, a summary of the SRR was monitored monthly in performance deck and reviewed every three-months by the Leadership Management Team.

A summary of the current SRR was shown at Appendix 1 of the report.

During consideration of the report, the following points were raised:

- A Member referred to SR15d - 'Develop an early tension warning system that monitors and alerts the local authority and other key local partners about growing tensions' - and queried whether this had been completed. The Head of Policy, Governance and Information would refer this to an appropriate officer for response.
- A Member referred to SR15 actions and a planned action with PREVENT. It was queried how confident officers were that issues with failures in PREVENT would be addressed during planned action. The Head of Policy, Governance and Information would refer this to an appropriate officer for response.
- A Member referred to SR15g - 'Repair relationships and engagement between local communities where they have broken down following serious conflict and flashpoint incidents' - and requested more information on the steps that would be taken to deliver that action. The Head of Policy, Governance and Information would refer this to an appropriate officer for response.
- A Member requested an overview of the Risk Management approach that was applied to Emergency Planning. The Head of Policy, Governance and Information would refer this to an appropriate officer for response.
- In relation to the six-month update on the Council's SRR, a Member queried the legal advice that the TVCA Scrutiny Committee had recently received from Bevan Brittain, which the Member advised set out that the TVCA scrutiny functions did not have jurisdiction over the three corporations that were in place. The Head of Policy, Governance and Information would refer this to an appropriate officer for response.
- A Member referred to sr02 and queried the potential impact that a sudden increase in Children's Social Care cases could have. In response, the Committee heard of the rigorous mitigation schedule that was currently in place to help plan for this, which included significant investment in data analytical models and contingency planning.
- A Member referred to the Local Government Association (LGA) review report and queried when this would be provided. In response, the Committee was advised that the report was due for fact checking this week. It was intended that the report would be presented to full Council on 26 March 2025, though this was dependent upon timely receipt and review of it.

The Chair thanked the officer for the report and information provided.

**AGREED that:**

- 1. The Head of Policy, Governance and Information would refer the enquiries raised by Members to appropriate officers, for response.**
- 2. The arrangements in place to manage risk and provide assurance that strategic risks were being effectively managed within the risk management framework across the Council were adequate.**
- 3. The information, as presented, was noted.**

24/74

**LETTER FROM MINISTER - VERBAL UPDATE**

The Head of Finance and Investment provided a verbal update in relation to a letter that had been received from the Ministry of Housing, Communities and Local Government (MHCLG).

It was explained that following the 5 December 2024 Audit Committee meeting, where Members had considered and approved the Statement of Accounts for 2021/22 and 2022/23, the audit process had been completed and signed off in preparation for the 13 December 2024 backstop date. To that end, officers were of the view that work had been completed within timescale. However, a subsequent letter received from the office of Jim McMahon, Minister of State at the MHCLG, indicated that the Council had not been compliant with the

backstop for those two sets of accounts, as the accounts had not been published by the end of 13 December 2024. Members were informed that following a series of issues and delays arising with the previous auditors after the 5 December 2024 meeting, the accounts were published on the morning of 16 December 2024.

Officers had worked with the Mayor to produce a written response to this letter, a copy of which would be provided to Members for information. Members would also receive a copy of the response letter sent to the MHCLG. The officers' view was that the audit had been completed and the backstop met and were therefore disappointed that this correspondence had been received and that Middlesbrough Council would appear on a list of non-compliant Councils. In terms of penalties, it was explained that there would not be any of a financial nature, but negative publicity may arise. The position had been noted and lessons learnt.

During discussion, Members expressed disappointment with the correspondence received from the MHCLG but thanked the officers for bringing it to their attention.

**AGREED that:**

- 1. Copies of the correspondence with the MHCLG would be forwarded to the Committee Members, for information.**
- 2. The information, as presented, was noted.**

24/75

**MIDDLESBROUGH COUNCIL AUDIT COMPLETION REPORT - 2023/24**

The auditor from Forvis Mazars presented the Middlesbrough Council Audit Completion Report for the year ended 31 March 2024, which summarised their audit conclusions.

It was explained that due to the legislative backstop arrangements introduced by the amendments to the Accounts and Audit Regulations 2015, the auditors had been unable to complete the audit as originally planned, in advance of the backstop date of 28 February 2025. Members were referred to section 01 of the report, which provided further information on the legislative backstop arrangements and its implications for the audit and audit report.

The Committee was advised that the auditors would continue to work closely with stakeholders to take the necessary steps to rebuild assurance over future accounting periods.

It was explained that, in line with the guidance issued by the National Audit Office, as endorsed by the Financial Reporting Council, the auditors' intention was to allow the Council to return to a standard audit cycle where the auditors were able to obtain sufficient, appropriate evidence to issue an unmodified audit opinion in as short a period as practicable.

During discussion, a Member referred to the summary of statements and queried whether the number of misstatements identified was either typical or atypical. In response, the auditor explained that this was typical in this first year of audit activity because the technical view employed had been different to that of the previous auditors. The volume of misstatements did not cause any concern for the next audit.

A Member referred to page 19 of the report and the section entitled 'Identified significant weaknesses in arrangements and recommendations for improvement'. In terms of the 'Recommendations for improvement', it was suggested that reference to the Mayor's priorities being clearly linked to the strategic workplan ought to be switched around, as the strategic workplan came as a result of the Mayor's priorities. The auditor indicated that these comments would be taken onboard.

The Chair thanked the auditors for their attendance and contributions to the meeting.

**NOTED**

24/76

**TEESSIDE PENSION FUND AUDIT COMPLETION REPORT - 2023/24**

The auditor from Forvis Mazars presented the Teesside Pension Fund Audit Completion Report for the year ended 31 March 2024, which summarised their audit conclusions.

The Committee was advised that the 2023/24 accounts would be signed off on 28 February 2025, the statutory backstop date, with a disclaimer of opinion. Work on the audit continued to take place, however, it was hoped that an area of exception for reporting had been identified. This related to level 3 investments and the associated change in the market value of investments. The Committee would be updated accordingly on this matter.

Members heard that there was a high number of disclosure misstatements, and it was emphasised that this had been due to the timing of the different sets of accounts received by the auditors. Reference was made to the timescales, changes and crossover involved in completing the previous two years' accounts, which had been particularly complex and highly unusual.

The Teesside Pension Fund was both a complex and specialised field. It was hoped that sufficient progress would be made to proceed towards an unqualified opinion over the next couple of years.

The auditors expressed their thanks to the Council's officers for working with them, and to Members of the Audit Committee for their challenge, questions and patience during this time.

A Member commented on the efforts made by the auditors in commencing from a position of two previous years of unaudited accounts, and successfully recognising the area within Teesside Pension Fund where concerns were held.

A Member referred to other organisations whose employees were Teesside Pension Fund Members, such as Cleveland Fire Authority and Cleveland Police. Concerns were expressed that a valuation for this year, for contribution purposes, needed to be provided. The potential impact that this could have, and the importance of achieving a quick resolution, was highlighted by the Member. Officers advised the Committee that, at the present time, unfortunately nothing more than the assurances provided so far could be given; this was an ongoing problem, but was receiving attention.

The Chair referred to Internal Audit and requested that a meeting be arranged for the Vice Chair, Internal Audit and herself to discuss the audit programme, in particular the timeliness and outcomes of Internal Audit reviews. The Director of Finance and Transformation would look into this. Reference was made to Internal Audit provisions and associated recommendations from the LGA. A contract for Internal Audit was currently in place for 2020-2030; the terms of this contract would be shared with the Committee, for information.

A discussion ensued regarding declarations of interest, during which the following points were made:

- It was the responsibility of individual Councillors to declare any interests.
- Internal Audit would soon be commencing an audit in respect of declarations of interest.
- A Member referred to the Teesside Pension Fund Committee and suggested that training in relation to declarations of interest could be undertaken. The Head of Finance and Investment/ Director of Finance and Transformation would raise this with the Chair/ Vice Chair of the Committee.
- A Member commented that the TVCA had offered a full day of training in respect of declarations of interest, which demonstrated the complexities of this area.

A Member referred to the availability of resources in providing assistance to the auditors and queried whether this had been sufficient. In response, officers made reference to reviews carried out by CIPFA and MHCLG, which had identified that additional resources were required within the finance directorate. It was indicated that, following approval of the Council's budget, money had been made available for a revised structure to be implemented and recruitment activity would commence in the near future. It was indicated, however, that the skillset associated with this work was specific and, owing to the lack of qualified people within the market place and training taking a long time to complete, potentially difficult to obtain. This was a nationwide issue and not applicable only to Middlesbrough. Members heard that an advert for the Head of Pensions position was now live.

The Chair thanked the auditors and officers for their attendance and contributions to the meeting.

**AGREED that:**

1. **The request for a meeting between the Chair, Vice Chair and Internal Audit would be raised with appropriate personnel by the Director of Finance and Transformation.**
2. **The Head of Finance and Investment would circulate a copy of the terms of the Internal Audit contract for Members' information.**
3. **The Head of Finance and Investment / Director of Finance and Transformation would discuss the suggestion regarding Teesside Pension Fund Committee/ Members' declarations of interest training with the Chair/ Vice Chair of that Committee.**
4. **The information, as presented, was noted.**

24/77

**MIDDLESBROUGH COUNCIL LETTER OF REPRESENTATION - 2023/24**

**\*\*Owing to similarities in the reports for agenda items 8 and 9, the Committee agreed to consider those items simultaneously.\*\***

The Head of Finance and Investment noted the following points:

- As part of the process for closing audits down, management views/ Letters of Representation needed to be provided to the external auditors.
- Various matters had to be considered as part of submitting views/ representations, which included: the accuracy of records, including ensuring that all liabilities had been disclosed; professional standards and the work of specialists, such as considering the auditors' work and their compliance with codes of practice; ensuring that all information had been passed to auditors; the appropriateness of the systems in place for dealing with matters such as fraud, risk and misstatements; and the availability of all information.

The Director of Finance and Transformation indicated that minor tweaks to the draft letters accompanying the agenda pack, to change the tense of some of the sentences from present to past, would be undertaken. At the point of finalisation, the Chair of the Audit Committee and the Director would provide signatures and the representations forwarded to Forvis Mazars to complete the audit process.

**NOTED**

24/78

**TEESSIDE PENSION FUND LETTER OF REPRESENTATION - 2023/24**

As per Minute Number 24/77.

24/79

**APPROVAL OF THE STATEMENT OF ACCOUNTS FOR 2023/24**

The Head of Finance and Investment presented a report of the Director of Finance and Transformation, the purpose of which was to seek approval from the Committee for the Audited Statement of Accounts for the Council for the 2023/24 financial year, prior to the statutory date of 28 February 2025, following external audit. Members were also asked to note:

- the disclaimed audit opinions given by Forvis Mazars on both the Council and Pension Fund financial statements at the 31 March 2024; and
- the work of Forvis Mazars in relation to the value for money arrangements and commentary around the Council's activities during this financial year, which had already been reported to the Committee.

The Audited Statement of Accounts for the financial year 2023/24, for Middlesbrough Council and Teesside Pension Fund, was attached at Appendix 1 of the submitted report.

The Committee discussed the progress that had been made in terms of the audit process, and considered the work required over the coming years. A Member also referred to the Council's current budget position and the importance of continuing to achieve increased revenue and savings.

**AGREED that:**

1. **The Audited Statement of Accounts for the financial year 2023/24, as set out at Appendix 1, taking in the external auditor's audit completion report on the audit process and management representations on the financial statements presented, was approved.**
2. **It was noted that this was the end of the accounting and financial processes for the financial year 2023/24, and these accounts were now closed. The latest open audit would now be for the current 2024/25 financial year for the Council; progress on this audit had already been discussed with Members and was on track/ ongoing. The back stop date for this audit was 27 February 2026.**

24/80

**WORK PROGRAMME (STANDARD ITEM)**

The Head of Policy, Governance and Information advised that the Audit Committee Work Programme for the 2025/26 Municipal Year was currently being devised.

A Member queried whether the additional meeting provisionally scheduled for 17 April 2025 would be required. In response, the Head of Policy, Governance and Information advised that this would be determined; the calendar invitation would be cancelled if no longer required.

**AGREED that:**

1. **The Head of Policy, Governance and Information would ascertain whether the 17 April 2025 Audit Committee was required. If not, diary entries would be cancelled.**
2. **The information, as presented, was noted.**

24/81

**ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.



**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on Thursday, 13 March 2025.

**PRESENT:** Councillors J Ewan (Chair), I Blades, D Branson, D Coupe, I Morrish (as Substitute for Councillor B Hubbard), G Wilson and L Young.

**ALSO IN ATTENDANCE:** Councillor N Walker - Executive Member for Finance

C Andrew - External Auditor, Forvis Mazars  
 J Dodsworth - Internal Auditor, Veritau  
 P Jeffrey - Internal Auditor, Veritau.

**OFFICERS:** G Cooper, A Johnstone, C Lunn and J Weston.

**APOLOGIES FOR ABSENCE:** Councillor B Hubbard.

24/82 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/83 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor Blades	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund.
Councillor Coupe	Non-Pecuniary	Member of the Board of Directors of Border to Coast.
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund.

24/84 **MINUTES - AUDIT COMMITTEE - 6 FEBRUARY 2025**

The minutes of the Audit Committee meeting held on 6 February 2025 were submitted and approved as a correct record.

24/85 **PROGRAMME AND PROJECT MANAGEMENT FRAMEWORK ASSURANCE**

The Head of Strategy, Business and Customer, presented a report, the purpose of which was to outline the Council’s approach to Programme and Project Management (PPM), to summarise 2024/25 activity and planned developments for 2025 and beyond, and to provide the Committee with assurance that the Council had robust PPM arrangements in place which supported delivery of the Council’s priorities and ambitions.

The Committee was appraised of the Corporate and Transformation project portfolios that made up the PPM framework, and the progress that had been achieved to date.

Members noted the improvements that had been achieved in respect of the Transformation Programme and wished to place a note on record to congratulate the officers for this work.

During discussion, the Committee considered the role of the PPM framework in terms of both achieving financial savings and delivering improvements, the latter of which would be the next step. Members discussed reporting measures and the roles of the Audit Committee and scrutiny function in this regard.

The Chair thanked the Head of Strategy, Business and Customer, for the information provided.

**AGREED as follows:**

1. That the internal audit opinion that robust arrangements were in place to govern programme and project management within the Council was noted.
2. That the project delivery performance against Corporate and Transformation projects during 2024/25 was noted.
3. That the effective establishment of the Transformation Portfolio and associated governance arrangements in 2024/25 was noted.
4. That the improvements delivered during 2024/25 were noted.
5. That plans to further improve and strengthen programme and project management, including the implementation of a Centre of Excellence model, were noted.
6. That officers be congratulated for their work in respect of the above.
7. That the information, as presented, was noted.

24/86

**AUDIT COMMITTEE REVIEW OF EFFECTIVENESS**

The Internal Auditor from Veritau presented a report of the Director of Finance and Transformation, the purpose of which was to provide Members with information relating to the benefits of conducting a review of the Committee's effectiveness, and the options for undertaking such a review.

It was explained that the latest guidance on Audit Committees in Local Government, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, recommended that Committees should complete a periodic self-assessment of their effectiveness. Alternatively, an independent review could be undertaken. The guidance included a checklist to support the self-assessment, enabling the Committee to highlight the areas where it had made an impact on the Council's governance, risk management, control and audit arrangements. This Committee had not undertaken any assessment against this guidance.

It was recommended that the Committee complete an assessment against the guidance, either through a facilitated self-assessment that would be led by Veritau, or through an independent commissioned review.

The outcomes of this exercise would help to support the preparation of the Audit Committee's future work programme, training plans and the annual report. The exercise may also identify areas requiring changes or improvements in the Committee's method of working, or in how it communicated its activities to the Council's leadership and wider public.

Members' support was sought for completion of a review of the Committee's effectiveness, and direction on the form and timing of the review. Options for the method for undertaking the review were:

- Self-assessment (whole Committee);
- Self-assessment (Member working group); or
- External review.

The Committee discussed the proposals and the pros and cons associated with the different methods for undertaking the review. Consideration was given to the public availability/copyright status of the CIPFA guidance document(s); closed versus open session review work; small group versus larger group activity; and whether any support could be provided by the Local Government Association (LGA).

The Chair requested that the CIPFA guidance document(s) be circulated to the Committee Members for information; the Head of Corporate Finance would action this.

Following discussion, the Committee approved the principles of conducting a self-assessment, but officers would need to undertake a further options appraisal as to how the review would be conducted. It was agreed that this matter would be deferred to the next scheduled meeting, 17 April 2025, for final consideration and approval.

The Chair thanked the Internal Auditor and the officers for the information provided.

**AGREED as follows:**

1. That the Head of Corporate Finance would circulate the CIPFA guidance document(s) to the Committee Members.
2. That the principles of conducting a self-assessment were approved.
3. That this matter be deferred to the 17 April 2025 meeting for final consideration and approval. In the interim, officers would undertake a further options appraisal as to how the review could be conducted, for consideration at that meeting.
4. That the information, as presented, was noted.

24/87

**PROGRESS REPORT - FORVIS MAZARS - VERBAL UPDATE**

The Auditor from Forvis Mazars provided Members with the following progress update:

Middlesbrough Council

- The 2023/24 accounts were signed off on 28 February 2025 (statutory backstop date), with a disclaimer of opinion.
- A copy of the auditor's annual report had been shared with officers, which included the auditors' VFM commentary.
- The auditors were currently awaiting guidance on the procedures for the rebuilding of assurance and would communicate what this meant for the Council's future audits once they had received it.

Teesside Pension Fund

- The 2023/24 accounts were signed off on 28 February 2025 (statutory backstop date), with a disclaimer of opinion. The wording for this explained this was due to assurance needed on level 3 investments and the (associated) change in market value of investments.
- Due to the 2022/23 accounts being signed off and the work the auditors had completed on the 2023/24 accounts, they were better placed to rebuild assurance on the outstanding areas in 2024/25 to gain assurance over opening balances. The auditors were currently coordinating their delivery plan and would communicate this to officers once it had been finalised.

The Committee discussed the work that had been undertaken in concluding the audit work, together with the procedures involved in formally publishing the outcomes. Reference was made to the number of disclaimed authorities, 216, across the country, together with Middlesbrough's performance in relation to other Local Authorities in the Tees Valley. Although Middlesbrough was the only authority with a disclaimed opinion for year ended 2022/23, all were in the same position for 2023/24. The Head of Corporate Finance would circulate further statistics in relation to other Local Authorities, together with other previously requested information, i.e. correspondence to/from MHCLG, to the Committee Members.

The Chair thanked the Auditor and officer for the information provided.

**AGREED as follows:**

1. That the Head of Corporate Finance would circulate further statistics in relation to other Local Authorities, together with the other previously requested information, i.e. correspondence to/from MHCLG, to the Committee Members.
2. That the information, as presented, was noted.

24/88

**PRUDENTIAL INDICATORS AND ANNUAL TREASURY MANAGEMENT STRATEGY - 2025/26**

The Head of Corporate Finance presented a report of the Director of Finance and Transformation, the purpose of which was to:

- Provide an update on the strategic approach in relation to the Council's borrowing, investments, and cash-flow for the 2025/26 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act

2003. It was to be read in conjunction with the Treasury Management mid-year review 2024/25, reported to Members on 12 December 2024.

- Provide the Prudential Indicators approved by Council for the 2025/26 financial year in accordance with the CIPFA Code of Capital Finance, which was best practice in terms of governance in this area.
- Provide information on the Treasury Management Strategy; the position on Capital Financing and Prudential Indicators, and whether these were contributing to the effective management of the Capital Programme and the resources allocated to pay for these, as part of the revenue budget process.

The report detailed:

- Capital expenditure and financing for 2025/26.
- The Council's overall borrowing requirement.
- Treasury position at the start of 2025/26.
- Summary of the Treasury Management Strategy agreed for 2025/26.

A copy of the Prudential Indicators and Annual Treasury Management Strategy 2025/26 were shown at Appendix 1 of the report.

During discussion, the following points were raised:

- This activity was concerned with building the knowledge and experience of Committee Members in a complex, but important area. It was key for Members to contribute to the draft set of Prudential Indicators and provide commentary associated with that.
- In response to a query regarding a training session for Members, it was explained that this would be offered post-AGM in June 2025, at the start of the budget process.
- A Member referred to the Public Works Loan Board (PWLB) and queried the 85% of total debt that the Council had in respect of this. In response, it was explained that most Local Authorities borrowed long-term from the PWLB because it was more stable than a bank or building society, and interest rates were generally lower. There was a period in the early 2000s when banks offered lower interest rates, but this was no longer the case – mainly after the financial crash of 2008.
- In relation to the cost of capital financing and the 10% threshold, Members were advised that a number of Local Authorities had exceeded that amount. Some were around 20-25% and there was no restriction placed on it, other than from an affordability perspective. It was explained that as the authority approached the 10% limit, this was not something that would be surpassed without endorsement from the Chief Finance Officer. Consideration was given to different example amounts and what this could potentially look like for the authority if the 10% threshold was passed. The Executive Member for Finance reassured the Committee that, at the present time, there had been no discussion to extend beyond the 10% threshold, but that level was being approached.
- In response to a query regarding short term borrowing, Members were advised that this would only be pursued if rates were considerably lower than those of longer term borrowing; banks would not be a good credit risk.
- A Member queried whether the Council borrowed on a short term basis from reserves. In response, it was explained that this was not the case because the Council invested money into those. As an overall net borrower, net income needed to be spent at certain time periods. Reference was made to the CIPFA code and the importance of the security of investments over the interest rate offered.

The Chair thanked the Head of Corporate Finance for the information provided.

## **NOTED**

24/89

## **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Internal Auditors from Veritau presented a report, the purpose of which was to:

- Provide Members with an update on the delivery of internal audit and counter fraud work, and on reports issued and other work completed since the last update to the Committee.

- Provide Members with an update on the new Global Internal Audit Standards and the approach to adopting them.

The Internal Audit Progress Report was shown at Appendix 1. This included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

It was explained that from 1 April 2025, internal audit teams in the public sector would be working to new internal audit standards. These would be a combination of the new Global Internal Audit Standards (GIAS) and the "Application Note, Global Internal Audit Standards in the UK Public Sector" published by CIPFA. Whilst 1 April 2025 was the effective date for the new standards, internal audit teams would not be expected to demonstrate full conformance on this date. Moreover, teams were to start working in accordance with the new standards from this date and, by doing so, build up their conformance over time.

To conform with the new standards, the audit charter and audit manual were being updated, and training would be provided to staff. Working practices would also be reviewed to ensure that they complied with the standards. It was anticipated that an updated audit charter would be presented at the July 2025 Audit Committee meeting, along with an update on actions to achieve conformance.

The Counter Fraud Progress Report was shown at Appendix 2. A range of work was detailed, which included activity to promote awareness of fraud, work with external agencies, and the result of investigative work undertaken for the Council.

The Committee was appraised of the work and progress being achieved, with particular attention being drawn to Appendices A-E of the submitted report.

During discussion, Members raised several points, as follows:

- A Member referred to Annex B and queried the schools audit detailed on page 10. In response, it was explained that this referred to budget management and supply teachers.
- A Member referred to the misuse of blue badges and felt that this matter should be reviewed annually. It was queried how many instances of this had occurred. In response, it was indicated that on the inspection date, 38 badges were checked, with one being investigated further.
- A Member referred to the audit of buses and queried what this referred to. In response, it was explained that the audit focused on bus service operators/department for transport, and the assurance of Council expenditure in relation to those.
- A Member referred to page 73 and the action outstanding for over three-months in respect of the Transporter Bridge. The Member commented that this had been raised at the Corporate Health and Safety Committee. In response, the Head of Policy, Governance and Information explained that this matter should be explored via the Council's scrutiny function; the Member would raise this at a future Place Scrutiny Panel meeting.
- The Chair referred to the four reports that were to be finalised this quarter, prior to March 2025, and queried whether the reports could be circulated to the Chair and Vice-Chair. The Auditor agreed that these could be supplied.
- The Chair referred to page 66 of the report and the Treasury Management audit. It was queried whether the expected reporting date of July 2025 was correct. In response, it was explained that it was – the report had been finalised on 7 March 2025 and would come to the July Audit Committee meeting. The Chair requested that this report be forwarded to the Chair and Vice-Chair, alongside the other four. The Auditor agreed that this too could be supplied.
- A Member referred to training for Audit Committee Members and queried whether further training in respect of this topic could be provided. In response, it was explained that this would be provided in July 2025.

The Chair thanked the auditors for the information provided.

**AGREED as follows:**

1. That the Internal Auditor would forward the five completed audit reports to the Chair and Vice-Chair, for information.
2. That the information, as presented, was noted.

24/90

**2025/26 COUNTER FRAUD PLAN**

The Head of Internal Audit from Veritau presented a report, the purpose of which was to provide Members with an update on planned counter fraud activity in 2025/26.

It was indicated that fraud was a significant risk to the public sector, with annual losses estimated to be as high as £59 billion in the United Kingdom. Veritau was engaged to deliver a counter fraud service for the Council, which helped mitigate fraud risk, investigate suspected fraud, and take appropriate action when it was detected.

Members heard that:

- The Council's fraud risk and compliance with national counter fraud strategy should be evaluated regularly.
- Resources allocated should be in line with the threat the Council faced.
- Council policies should help mitigate fraud risk and reflect current best practice.
- Veritau and the Council should regularly undertake developmental work to strengthen counter fraud work.

All of these elements were considered annually in preparing the Counter Fraud Plan.

The 2025/26 Counter Fraud Plan was shown at Appendix 1 of the report.

During discussion, the following points were raised:

- Members noted that the funding amount to undertake this work had been increased from a total of 150 days to 250 days.
- Key priorities for next year included the areas of staff training, assessing new legislation, and expenditure of the Council's budget.
- A Member referred to corporate liability and fraud and queried whether any further information was available regarding this. In response, reference was made to the Economic Crime and Corporate Transparency Act, which would come into effect in September 2025. However, it was unclear at the present time as to whether Local Authorities would be affected by this. If it transpired that they would be, the Council would need to consider policies and reporting measures in order to ensure effective compliance with it.
- A Member referred to the Fraud Risk Assessment shown at paragraph 10 of Annex A and queried whether these were specific risks identified by the Council. In response, it was explained that some risks, such as those related to social care and benefits, were of high risk to Local Authorities in general and not specific only to Middlesbrough Council.

The Chair thanked the auditor for the information provided.

**NOTED**

24/91

**INTERNAL AUDIT WORK PROGRAMME 2025/26**

The Head of Internal Audit for Veritau presented a report, the purpose of which was to seek Members' approval for the 2025/26 planned programme for internal audit work.

Appendix 1 set out the proposed internal audit work for 2025/26. The planned work was based on an initial assessment of risk undertaken. The identification of risks included in the assessment had been informed in a number of ways, which included:

- Review of the organisational risk management processes.
- Sector-wide risk information.

- Understanding the Council's strategies and objectives.
- Other known risk areas (for example: areas of concern highlighted by management).
- The results of recent audit work.
- Other changes in Council services and systems.

The proposed areas of coverage had been subject to consultation with the Audit Committee in December 2024, and senior officers including Directorate Management Teams.

To meet professional aims and objectives, good practice for internal audit required the auditors to adopt flexible planning processes. This helped to ensure that internal audit work undertaken during the year was adapted on an ongoing basis to reflect changing and emerging risks within the Council.

The auditors would regularly discuss the scope and timings of work with officers and management to help ensure that assurance was provided in the right areas and at the right time. Further meetings would be held throughout the year to plan and confirm the scope and timings of audit work. Regular updates would also be provided to the Audit Committee on the coverage, scope and findings of the auditors' work.

It was highlighted that the total days allocated to internal audit assurance in 2025/26 was 555.

During discussion, Members raised several points, as follows:

- A Member referred to the Transformation Programme and queried the view that transformation focused on an 8:1 saving retention. In response, the auditor advised that the Transformation Programme underpinned all work undertaken, and that activities were to align with the aims of it.
- A Member commented that work activities should be discussed with the Audit Committee in advance of preparing the programme. In response, it was explained that internal audit had several different prioritisation factors, but essentially it was based against their own knowledge and that of other areas, such as the Audit Committee.
- The Chair referred to a recent meeting that had been held between the Chair, Vice-Chair and the internal auditors. Reference was made to the Audit Universe and it was commented that this could be shared with the Audit Committee. In response, the auditor advised that the Audit Universe was quite high level and further thought would need to be given as to how the Committee could look at that. It was suggested that if any programme suggestions were missing from the list, Members could advise the auditors accordingly.

The Chair thanked the auditor for the information provided.

#### **NOTED**

#### **24/92 AUDIT COMMITTEE FUTURE FORWARD WORK PROGRAMME FOR 2025/26**

The Head of Policy, Governance and Information presented a draft/indicative work programme for the 2025/26 Municipal Year.

Members noted the contents and would await further updates in due course.

#### **NOTED**

#### **24/93 ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.

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**MIDDLESBROUGH COUNCIL**

<b>Report of:</b>	Director of Legal & Governance Services
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	17 April 2025
<b>Title:</b>	Update on the Review of the Constitution and Committee Terms of Reference
<b>Report for:</b>	Discussion
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value
<b>Key decision:</b>	No
<b>Why:</b>	Not applicable
<b>Subject to call in?:</b>	Not applicable
<b>Why:</b>	Non-executive decision

### Executive summary

The Council is continuing to deliver its governance improvement programme, which included reviewing its constitution and scheme of delegations. This work is being led by the Constitution and Member Development Committee (“CMDC”) in respect of the Non-executive functions and the Executive in respect of the Executive Functions.

Officers and Members each have a key role to play in this process to ensure the constitution and delegations reflect the law and local custom and practice. CMDC has set up a working group to ensure that the review of the constitution is delivered in a timely fashion and hits the timeline set out for the review. It is intended that the refreshed constitution is presented to Annual Council on 21 May 2025 for adoption. This report invites the Audit Committee to consider the proposed changes to the Constitution.

As part of the review process, the CMDC is reviewing the terms of reference for its committees. The Chair of the Audit Committee suggested that the Audit Committee terms of reference should reflect the standard terms of reference for local government audit committees, as proposed by CIPFA, and remove irrelevant functions attributed to the committee by mistake.

## 1. Purpose

- 1.1 The Constitution and Member Development Committee ('CMDC') has been reviewing the provisions of the Constitution to remove duplication and improve its usability as far as possible. It now presents to the Audit Committee, being the committee charged with responsibility for the good governance of the Council, draft proposals to date for comment.
- 1.2 Part of the review has focused upon the Terms of Reference of committees, therefore comments are sought from the Audit Committee in respect of the proposal to adopt the CIPFA recommended terms of reference for the Audit Committee.

## 2. Recommendations

- 2.1 That the Audit Committee :
  - 2.1.1 consider and discuss the proposed refreshed Constitution;
  - 2.1.2 confirm whether the revised terms of reference, to reflect the CIPFA standard terms of reference, are accepted; and,
  - 2.1.3 provide any comments in respect of refresh of the constitution to the Constitution and Member Development Working Group forthwith.

## 3. Rationale for the recommended decision(s)

- 3.1 It is good practice for the Council to follow CIPFA recommendations,

## 4. Background and relevant information

- 4.1 The Council has recognised that improvements can be made to its governance processes, as set out in the corporate governance improvement plan, with particular reference to the refresh of the Constitution to ensure that it is accurate and current.

### Constitution

- 4.2 The Council adopted a revised constitution format in May 2023, intended to make the constitution more accessible and user friendly. The Constitution is a living document that evolves continuously to reflect the ever changing environment in which the Council operates – nationally, regionally and locally. The Monitoring Officer therefore has ongoing responsibility for ensuring that the Constitution remains accurate and lawful, and has delegated authority to make some changes, which are then reported to the next meeting of Council. More fundamental changes are approved by full Council.
- 4.3 Since the updated Constitution was adopted issues of duplication and inconsistency have been identified, which is usual given the dynamic and complex

environment in which the Council operates. The whole Constitution is therefore being reviewed as one coherent document with a view to ironing out any duplication or inconsistency and ensuring that the Constitution appropriately reflects the Council's governance and operating arrangements.

- 4.4 Most of the work on the constitution refresh is being reviewed through the Constitution and Member Development working group (CMDWG) however, where appropriate, views are also being sought from Officers and Members to ensure that any revisions are appropriate.
- 4.5 The views of Members will also be sought throughout the process to ensure they are comfortable with the proposals – this will be achieved via a member briefing before the Annual Council and the last CMDC, and by reports going to relevant committees in respect of proposed amendments.
- 4.6 To date, the CMDWG has considered, and accepted in principle, proposals in respect of the following sections of the Constitution:
- (a) Section 1 – Introduction
  - (b) Section 2 – Constitution
  - (c) Section 3 – Citizens and the Council
  - (d) Section 4 – Council (including Council Procedure Rules)
  - (e) Section 7 – Overview & Scrutiny
  - (f) Section 8 – Standards

#### Section 9 – Part B

- 4.7 Part B of section 9 of the constitution addresses the terms of reference of all of the Councils committees, including the Audit Committee.
- 4.8 At the last revision of the constitution, there was included in the Audit Committee terms of reference a reference to clean air. This appears to have been included in error. It is proposed that this provision is removed from the Audit Committee terms of reference.
- 4.9 As part of the review of the terms of reference, the Chair of the Audit Committee has suggested that the Council should adopt the standard terms of reference championed by the Chartered Institute of Public Finance and Accountancy ('CIPFA'). A copy of the recommended standard terms of reference is attached as Appendix 1 to this report.
- 4.10 The proposed changes do not materially alter the structure, role or function of the Audit Committee. The views of the Audit Committee on amended proposed terms of reference (as set out at Appendix 2) are sought.

#### **5. Other potential alternative(s) and why these have not been recommended**

No alternative proposals have been identified by the CMDWG, other than retaining the existing terms of reference while deleting the legacy environmental functions.

**6. Impact(s) of the recommended decision(s)**

<b>Topic</b>	<b>Impact</b>
Financial (including procurement and Social Value)	None
Legal	Ensures the constitution is more robust
Risk	None
Human Rights, Public Sector Equality Duty and Community Cohesion	None – save for presenting the document in a more streamlined and accessible format
Climate Change / Environmental	None
Children and Young People Cared for by the Authority and Care Leavers	None
Data Protection	None

**Appendices**

1	CIPFA recommended Terms of Reference
2	Audit Committee proposed Terms of Reference
3	

**Background papers**

<b>Body</b>	<b>Report title</b>	<b>Date</b>

**Contact:** Governance Solicitor, Clare Pattinson  
**Email:** [clare\\_pattinson@middlesbrough.gov.uk](mailto:clare_pattinson@middlesbrough.gov.uk)

# Suggested terms of reference – local authority

## INTRODUCTION

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This appendix contains suggested terms of reference for local authorities.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. Additional functions should be included where required.

Where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. The audit committee's terms of reference and the audit charter should align.

## SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

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### Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

### Statement of purpose

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance [or *insert appropriate governing body*] that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

### Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
- To monitor the effective development and operation of risk management in the council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

## Financial and governance reporting

### Governance reporting

- To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

### Financial reporting

- To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## Arrangements for audit and assurance

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

### External audit

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To consider additional commissions of work from external audit.

- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
- To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

### **Internal audit**

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP
  - reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- To consider the head of internal audit's annual report, including:
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  - the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A).

- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### Accountability arrangements

- To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.



## **9.1 Audit Committee**

- 9.7.1 The Audit Committee is an advisory committee providing the Full Council with an independent and high-level focus on the adequacy of governance, risk and control arrangements within the Council in accordance with CIPFA guidance<sup>1</sup>.
- 9.7.2 The committee consists of 7 Members. Executive Members may not be members of the Audit Committee. The Council may co-opt up to two independent non-voting members to the Audit Committee.
- 9.7.3 The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance of the Council that those arrangements are effective. The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.
- 9.7.4 The following CIPFA terms of reference for the committee have been adopted and it will:

### **Governance, risk and control**

- (a) review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance;
- (b) monitor the effective development and operation of risk management in the council;
- (c) monitor progress in addressing risk-related issues reported to the committee;
- (d) consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
- (e) consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code;
- (f) consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements;
- (g) review the assessment of fraud risks and potential harm to the council from fraud and corruption;

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<sup>1</sup> Audit Committees: Practical guidance for local authorities and police, 2022 edition Cipfa.org

- (h) monitor the counter fraud strategy, actions and resources;
- (i) review the governance and assurance arrangements for significant partnerships or collaborations.

## **Financial and governance reporting**

### Governance reporting

- (j) review the Annual Governance Statement ('AGS') prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion;
- (k) consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives;

### Financial reporting

- (l) monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met;
- (m) review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council;
- (n) consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts;

### Arrangements for audit and assurance

- (o) consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council;

### External audit

- (p) support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate;
- (q) consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- (r) consider specific reports as agreed with the external auditor;
- (s) comment on the scope and depth of external audit work and to ensure it gives value for money;
- (t) consider additional commissions of work from external audit;

- (u) advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies;
- (v) provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee;

#### Internal audit

- (w) approve the internal audit charter;
- (x) review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations;
- (y) approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources;
- (z) approve significant interim changes to the risk-based internal audit plan and resource requirements;
- (aa) make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations;
- (bb) consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments;
- (cc) consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - (i) updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work;
  - (ii) regular reports on the results of the QAIP;
  - (iii) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS;
- (dd) To consider the head of internal audit's annual report, including:
  - (i) the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the

- statement (these will indicate the reliability of the conclusions of internal audit);
- (ii) the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS);
  - (ee) consider summaries of specific internal audit reports as requested. receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions;
  - (ff) contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years;
  - (gg) consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations (see Appendix A);
  - (hh) provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee;

#### Accountability arrangements

- (ii) report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions;
- (jj) report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose;
- (kk) publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.



Progress report  
Middlesbrough Council

April 2025

# 1. Audit Progress

This report sets out progress on the external audit for 2024/25.

## **2024/25 Audit**

### **Status of the audit**

We are about to start our planning work for the 2024/25 audit period. As part of our planning, we have met with finance officers to discuss the timetable and key identified risks. We will continue to have regular catch-up meetings with the finance team as the audit progresses.

We intended to issue our Audit Strategy Memorandum to the Audit Committee in April 2025, but the rebuilding assurance guidance is not yet available. An early view of the draft timeline and our current risk assessment for the 2024/25 audit is set out in this document.

We will agree a more detailed timetable for our work with your team when the guidance is available.

# Engagement and responsibilities summary

We are appointed to perform the external audit of Middlesbrough Council (the Council) for the year to 31 March 2025. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24](#). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

## Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting.

Our audit does not relieve management or Audit Committee, as Those Charged With Governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of Middlesbrough Council's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

- a) Whether a material uncertainty related to going concern exists, and
- b) The appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

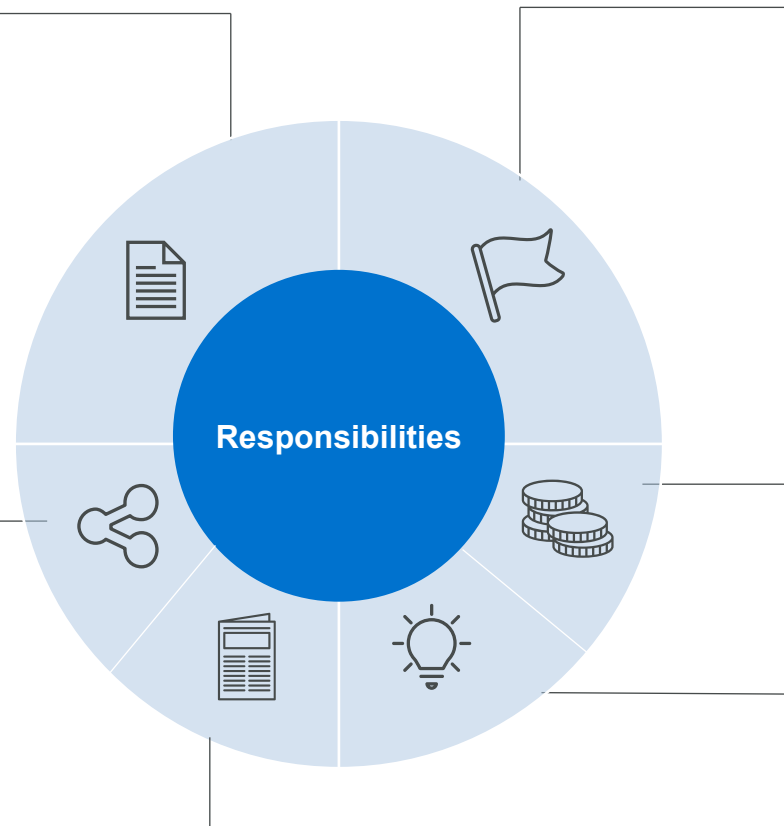
## Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Middlesbrough Council's internal control framework.

## Whole of Government Accounts

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.



## Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you and key management, internal audit and other key individuals, where relevant, on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

## Value for money arrangements

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in the 'Value for money' section of this report.

## Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

# 2. Your audit engagement team

Your external audit service will be led by Mark Kirkham.

Who	Role	Contact
Mark Kirkham	Engagement Partner	<a href="mailto:mark.kirkham@mazars.co.uk">mark.kirkham@mazars.co.uk</a> 07747 764 529
Cath Andrew	Engagement Manager	<a href="mailto:cath.andrew@mazars.co.uk">cath.andrew@mazars.co.uk</a> 07815 878 116
Rebecca Dearden	Engagement Team Leader	<a href="mailto:rebecca.dearden@mazars.co.uk">rebecca.dearden@mazars.co.uk</a> 07881 283 351

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# Materiality and misstatements

## Definitions

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

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

## Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to Audit Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities, and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented, and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

# Significant risks and other key judgement areas

Following the risk assessment approach set out in the *'Audit scope, approach, and timeline'* section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

## Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. As required by auditing standards, a fraud risk is always assessed as a significant risk.

## Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- risks relating to other assertions and arising from significant events or transactions that occurred during the period.

## Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

# Significant risks and other key judgement areas

## Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged With Governance*, we would like to seek your views/ knowledge of the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between Middlesbrough Council and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Audit Committee which we will obtain prior to completing our audit

## Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged With Governance*, we are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- significant delays in management providing information that we require to perform our audit;
- an unnecessarily brief time within which to complete our audit;
- extensive and unexpected effort to obtain sufficient appropriate audit evidence;
- unavailability of expected information;
- restrictions imposed on us by management; and
- unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

# Value for money arrangements

## The framework our work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

This will be the first audit year where we are undertaking our value for money (VFM) work under the full 2024 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

A key change in the 2024 Code of Audit Practice is the requirement for us to issue our Auditor's Annual Report for the year ended 31st March 2025 to you in draft by the 30th November 2025. This is required whether our audits are complete or not. Should our work not be complete, we will report the status of our work and any findings to up to that point (and since the issue of our previous Auditor's Annual Report). Further information will be provided in Appendix A.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Our approach

Our work falls into three primary phases as outlined opposite. We gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle, and we are not expected to wait until issuing our overall commentary to do so.

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none"><li>• NAO guidance and supporting information;</li><li>• information from internal and external sources including regulators;</li><li>• knowledge from previous audits and other audit work undertaken in the year; and</li><li>• interviews and discussions.</li></ul>
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report. Our commentary will also highlight: <ul style="list-style-type: none"><li>• significant weaknesses identified and our recommendations for improvement; and</li><li>• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>

# Value for money arrangements

## Identified risks of significant weaknesses in arrangements

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

Although we have not fully completed our planning and risk assessment work.

As part of our prior year audit, we identified significant weaknesses in the Council's arrangements. We will assess progress against the significant weaknesses identified as part of our 2024/25 audit.

We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

# Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

# Appendix A: Key communication points

We value communication with Audit Committee, as a two-way feedback process is at the heart of our client service commitment. The Code of Audit Practice as well as ISA (UK) 260 *Communication with Those Charged With Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of matters with you. We meet these requirements, principally, through presenting the following documents to you:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Our Auditor's Annual Report.

These documents will be discussed with management prior to being presented to you and their comments will be incorporated as appropriate.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Significant difficulties, if any, encountered during the audit.
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our conclusions on the significant audit risks and areas of management judgement.
- Summary of misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

## Changes introduced by the 2024 Code of Audit Practice

The 2024 Code now requires the auditor to issue the draft Auditor's Annual Report by 30<sup>th</sup> November following each year end. For the 2024/25 audit, this means that we must issue our draft Auditor's Annual Report by 30 November 2025, whether our audit is complete or not.

In instances where our audit work is not complete by 30 November for any given year, the 2024 Code requires us to provide a summary of the status of the audit at the time of issuance and should reflect the work completed to date since we issued our previous Auditor's Annual Report. In such instances, we will issue an Interim Auditor's Annual Report to meet the 30 November deadline. On completion of any outstanding financial statement audit work or Value for Money arrangements work, we will re-issue the Auditor's Annual Report which will include an updated commentary on Value for Money arrangements.

# Appendix A: Key communication points

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

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged With Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• inquiries with Audit Committee to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the Council;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)

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# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Council or Audit Committee in the context of fulfilling your responsibilities.</li> </ul>	<p>Audit Completion Report</p>

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## Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to the Council to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and inquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that Audit Committee may be aware of.	Audit Completion Report and Audit Committee meeting(s)
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
<p>Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our System of Quality Management:</p> <ul style="list-style-type: none"> <li>• ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership;</li> <li>• establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities;</li> <li>• identify, review, and update quality risks each quarter, taking into consideration the number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.);</li> <li>• identify, design, and implement responses as part of the process to strengthen our internal control environment and overall quality; and</li> <li>• evaluate responses and remediate control gaps or deficiencies.</li> </ul> <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion were set out in our 2022/2023 Transparency Report and our latest is set out in our 2023/24 Transparency Report, which is available here: <a href="#">Transparency reports - Forvis Mazars - United Kingdom</a>.</p>	Audit Strategy Memorandum

# Appendix B: Current year updates, forthcoming accounting & other issues

## Current and forthcoming accounting issues

### New standards and amendments

#### Effective for accounting periods beginning on or after 1 January 2019

##### *IFRS 16 Leases (Issued January 2016)*

- IFRS 16 Leases (IFRS 16) will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise right of use assets and associated lease liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. Subsequent to initial recognition, a service concession arrangement liability will subsequently be measured following the principles set out in IFRS 16. The introduction of this standard is likely to lead to significant work being required in order to identify all leases and service concession arrangements to which the Council (and its schools) are party to. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed. IFRS 16 was adopted by the Code of Practice on Local Authority Accounting in 2024/25.

#### Effective for accounting periods beginning on or after 1 January 2023

##### *IFRS 18 Presentation and Disclosure in Financial Statements (Issued April 2024)*

- IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements. As IFRS 18 was only issued in April 2024 it has yet to be adopted by the Code of Practice on Local Authority Accounting in 2024/25 therefore the applicability to local government is to be determined.

# Appendix B: Current year updates, forthcoming accounting & other issues

## International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (Including the work of component auditors)

ISA (UK) 600 deals with the special considerations that apply to audits of group financial statements, including those circumstances when component auditors are involved. The auditing standard has been revised. The revised standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023. The revisions made to ISA (UK) 600 impact how we perform audits of group financial statements, and how we communicate our audit strategy and audit findings arising from audits of group financial statements, going forward. This page sets out the key changes made to ISA (UK) 600 and how Forvis Mazars will apply the requirements of the revised standard in practice.

### Key changes

The previous ISA (UK) 600 included prescriptive requirements in respect of the audit procedures required over 'significant components' of a group, i.e., a 'full scope' audit of a significant component's financial information relevant to the group financial statements was required. Forvis Mazars defined a 'significant component' as one that contributed to the group financial statements more than 15% of the materiality benchmark selected to determine group materiality, e.g., if we had determined materiality using a profit before tax benchmark, any component that contributed more than 15% of the group's reported profit before tax would be classified as a significant component and a 'full scope' audit would be performed over that component's financial information.

ISA (UK) 600 Revised eliminates the 'significant component' concept, opting instead for consideration of risks of material misstatement at the assertion level of the group financial statements that are associated with components. This results in a group audit that is better focused on the risks of material misstatement of the group financial statements and affords greater flexibility in how we classify components and how we may design the nature and extent of audit procedures to be performed over a component's financial information, i.e., we can determine the nature and extent of the audit procedures to be performed over a component's financial information based on the specific risks relevant to the group financial statements.

ISA (UK) 600 also, however, removed the option to limit the procedures performed over a 'non-significant' component's financial information to desktop analytical procedures. We are now required to perform substantive audit procedures (or a combination of substantive audit procedures and tests of controls) over the group financial statements, including the financial information relating to components in the group, until the residual, untested balances, classes of transaction and disclosures in the group financial statements are below our group materiality. This is to ensure that aggregation risk (the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole) is addressed appropriately.

In combination, these changes may result in a change to the nature and extent of the audit procedures we perform over the financial information of components on a group audit compared to previous years and may result in components that were not previously in scope of our group audit being brought into scope going forward to ensure that we address aggregation risk appropriately.

To ensure consistency of approach, Forvis Mazars will apply the definitions set out below when performing audits of group financial statements going forward:

Key component	Material component	Non-material component
Any component:  i. Which is greater or equal to 15% of the benchmark chosen for calculating group materiality (key by size); or  ii. Where the specific nature or circumstance of its financial information make it likely to include significant risks of misstatement of the group financial statements (key by risk).	Any component, other than a key component, that contributes to one or more group financial statement areas an amount that is above group financial statement materiality.	A component, that is not a key component or a material component, that is scoped into a group audit to reduce the risk of material misstatement of the group financial statements to an acceptably low level (based on size or risk) in situations when, after assessing which components are key components and material components, the aggregate amount of a financial statement area related to un-scoped components is still above group financial statement materiality.

# Appendix B: Current year updates, forthcoming accounting & other issues

## International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (including the work of component auditors)

### Key changes (continued)

**Definition of 'component'** - The definition of 'component' has been revised to "an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit".

This provides clarity on how components may be identified in a group audit and may result in a change to how we identify components on a group audit compared to previous years. For example, we may group separate legal entities (e.g., subsidiaries) in a group based on common characteristics (such as common management, common information systems, and common geographical locations) and treat those components as a single component, when appropriate to do so.

**Common controls** - The definition of 'group-wide' controls has been removed and we are instead required to consider 'common controls', being controls that operate in a common manner for multiple entities or business units.

This may assist us in grouping separate legal entities, business units, functions, or business activities in a group into a single component for the purposes of a group audit; or it may result in us grouping specific account balances or classes of transaction recorded by individual legal entities, business units, functions, or business activities into a single population for the purposes of our audit procedures.

For audits where we are adopting a controls-based audit strategy, this may result in efficiencies, as we can rely on a single control for the purposes of the audits of more than one component where that control is common to those components.

**Definition of 'engagement team'** - The definition of 'engagement team' has been revised to include component auditors. While this change may seem inconsequential, it forms part of the overall changes intended by ISA (UK) 600 Revised to enhance two-way communication between the group auditor and component auditors during a group audit. This will result in enhanced direction and supervision of component auditors by the group auditor during a group audit.

**Calculation of component materiality** - The requirement to set overall materiality for a component has been removed. We are now only required to determine component performance materiality.

**Other changes** - ISA (UK) 600 Revised includes new and revised requirements and application material that better aligns the standard with recently revised standards such as ISQM (UK) 1, ISA (UK) 220, and ISA (UK) 315. The new and revised requirements also strengthen our responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and audit documentation. These changes are to encourage proactive management of quality at the group engagement level and the component level; reinforce the need for robust communication and interactions during a group audit; and foster an appropriately independent and challenging sceptical mindset.

**Scope of audit work to be performed over a component's financial information** - Forvis Mazars will, going forward, determine the scope of work to be performed over a component's financial information on a group audit using the definitions set out below:

Full scope	Specific scope	Group Engagement Team Instructed Procedures
Designing and performing audit procedures on the entire financial information of a component.	Designing and performing audit procedures on one or more specified account balances, classes of transaction, and/ or disclosures of a component.	Performing specified audit procedures, as designed and instructed by the group engagement team.

# Contact

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To: Audit Committee

From: Justin Weston, Head of Corporate Finance

Date: 17 April 2025

### **Analysis of Staffing Costs – 2023/24**

The Committee has received two reports from Officers on the 2023/24 Statement of Accounts. The draft version was received on 3 October 2024 and the audited accounts were finalised on 20 February 2025.

An area of concern that was raised by Members at both meetings to consider the accounts for the financial year was the increase in officers receiving remuneration (salary and employee benefits) over £50,000. This is part of the disclosure arrangements required in the accounts as part of the Transparency Act but has subsequently been incorporated into the CIPFA Accounting Code of Practice.

The current note to the Financial Statements for 2023/24 includes the number of officers receiving remuneration above £50,000 in bands of £5,000 up to the highest paid officer within the employment of the Council. The information disclosed in both the draft and audited accounts for the year was as follows:

#### **Other Employees' Remuneration**

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeding £50,000 is shown below in bands of £5,000. Those officers already shown in the Senior Officers note above are already disclosed and therefore not included in the table below:

2022-23			Remuneration	2023-24		
Number of Employees at 31 March				Number of Employees at 31 March		
MBC	Schools	Total		MBC	Schools	Total
53	17	70	£50,000 - £54,999	120	18	138
19	10	29	£55,000 - £59,999	46	14	60
13	6	19	£60,000 - £64,999	17	4	21
8	2	10	£65,000 - £69,999	16	5	21
7	5	12	£70,000 - £74,999	6	2	8
4	3	7	£75,000 - £79,999	7	3	10
2	2	4	£80,000 - £84,999	2	2	4
-	3	3	£85,000 - £89,999	-	2	2
-	-	-	£90,000 - £94,999	-	1	1
-	-	-	£95,000 - £99,999	-	2	2
-	-	-	£115,000 - £119,999	1	-	1
1	-	1	£135,000 - £139,999 *	-	-	-
-	-	-	£145,000 - £149,999 *	1	-	1
<b>107</b>	<b>48</b>	<b>155</b>	<b>Total</b>	<b>216</b>	<b>53</b>	<b>269</b>

\* This post is the Senior Coroner, who is appointed by, and the salary is set by central Government. This is the gross cost. A joint arrangement is in place and this post is therefore funded by the four local authorities.

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

Remuneration bands are prescribed and have not been updated in line with pay awards therefore more employees are captured in this note.

As mentioned in the note above, the parameters for this disclosure do not change each year (numbers of officers paid over £50,000 in bands of £5,000). However, the council's pay grades, and spinal points, do increase each year by the national pay award. Also, officers who are not at the top spinal point for their current grade also receive an increment from 1<sup>st</sup> April each year. As a result, there is a gradual drift of numbers upwards on an annual basis as nominal salary levels increase.

During the 2023/24 FY for the Council, two of the grades with a significant number of officers attached: (Grade O – team manager) rose above a salary of £50,000 for the first time and Grade Q – senior manager) rose above a salary of £60,000. As a result of the distribution of employees across these pay scales, an additional 99 employees on these grades have had to be disclosed under the regulations, solely due to the impact of the pay award. This is vast majority of the overall increase of 114 between the two years.

The increase occurring within the 2023/24 financial year can be illustrated further in the table below which compares the number of employees disclosed in the £5,000 bandings for the last six years, between 2017/18 to 2023/24. This does confirm the details above relating to Grade O and Grade Q staff within the Council.

Number of Employees above £50,000 in bandings of £5,000 Middlebrough Council & Schools							
Remuneration	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Total	Total	Total	Total	Total	Total	Total
£50,000 - £54,999	34	31	41	38	52	70	138
£55,000 - £59,999	19	14	19	22	28	29	60
£60,000 - £64,999	11	13	10	14	14	19	21
£65,000 - £69,999	13	8	9	3	6	10	21
£70,000 - £74,999	2	9	7	6	12	12	8
£75,000 - £79,999	4	3	1	8	6	7	10
£80,000 - £84,999	2	0	1	1	4	4	4
£85,000 - £89,999	0	4	3	1	0	3	2
£90,000 - £94,999	0	0	0	0	0	0	1
£95,000 - £99,999	0	0	0	0	1	0	2
£100,000 - £104,999	1	0	0	0	0	0	0
£105,000 - £109,999	0	0	0	0	0	0	0
£110,000 - £114,999	1	0	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0	1
£120,000 - £124,999	0	0	1	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0	0
£130,000 - £134,999	0	1	1	0	0	0	0
£135,000 - £139,999	0	0	0	1	1	1	0
£140,000 - £144,999	0	0	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0	1
£150,000 - £154,999	0	0	0	0	0	0	0
£155,000 - £159,999	0	0	0	0	0	0	0
£160,000 - £164,999	0	0	0	0	0	0	0
£165,000 - £169,999	0	0	0	0	0	0	0
£170,000 - £174,999	0	1	0	0	0	0	0
<b>Total</b>	<b>87</b>	<b>84</b>	<b>93</b>	<b>94</b>	<b>124</b>	<b>155</b>	<b>269</b>
<b>Year on Year increase</b>		<b>3</b>	<b>9</b>	<b>1</b>	<b>30</b>	<b>31</b>	<b>114</b>

As can be seen, the changes at other banding levels are marginal, and large rises only occur when specific pay grades (with significant numbers employed at these levels) breach each threshold for the disclosure.



To put this increase into further context, a comparison has been made for the period 2020/21 to 2023/24 for the five Tees Valley local authorities. The totals disclosed within in their audited Statement of accounts for the relevant financial years are set out below.

**Number of Employees above £50,000  
Council & Schools - Tees Valley Comparison**

<b>Council</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
Middlesbrough	94	124	155	269
Redcar & Cleveland	176	164	182	245
Stockton	158	176	197	273
Hartlepool	76	88	106	152
Darlington	76	78	110	162

Three conclusions can be drawn from the table above:

- 1) All five councils have larger than average increases between the 2022/23 and 2023/24 financial years than in previous years. This will reflect similar pay structure banding issues as highlighted above, breaching the £50,000 and £60,000 thresholds for each financial year.
- 2) The % rise for Middlesbrough for 2023/24 is the most significant, at 73.5% and may just reflect larger staff numbers at Grade O and Grade Q than comparator authorities.
- 3) Middlesbrough was relatively low in total numbers in the earlier years but has caught up with Redcar and Cleveland and Stockton Council's (which are of similar size). Further research would be needed to exactly why this change has happened but may reflect some of the recruitment issues experienced in recent years.

Members also requested more details relating to expenditure on pay within the Council, in relation to total budgets held, number of FTE's employed and for this to be broken down at directorate level. This is summarised in the table below.

<b>Payroll analysis : % Variance Actuals vs Budget.</b>	<b>2023-24</b>			<b>Full Time Employees</b>		
	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>
<b>Adult Social Care Total</b>	18,324,907	17,341,929	(982,978)	500.98	474.00	-27.0
<b>Chief Executive Total</b>	195,300	195,300	0	1	0	-1.0
<b>Children's Care Total</b>	25,024,160	19,302,864	(5,721,296)	548.78	423.10	-125.7
<b>Education &amp; Partnerships Total</b>	11,705,200	11,668,355	(36,845)	264.05	260.50	-3.6
<b>Environment &amp; Community Services Total</b>	25,946,415	24,354,726	(1,591,689)	688.42	646.20	-42.2
<b>Finance Total</b>	8,491,900	7,888,888	(603,012)	205.29	176.50	-28.8
<b>General Fund &amp; Centrally Held Budgets Total</b>	1,674,293	1,539,938	(134,355)	0	0	0.0
<b>Legal &amp; Governance Services Total</b>	10,201,255	9,770,986	(430,269)	213.31	204.32	-9.0
<b>Public Health Total</b>	7,032,450	6,116,510	(915,940)	164.56	143.20	-21.4
<b>Regeneration Total</b>	9,317,254	8,097,976	(1,219,278)	239.69	208.00	-31.7
<b>Directorate Total</b>	<b>117,913,134</b>	<b>106,277,473</b>	<b>(11,635,661)</b>	<b>2826.08</b>	<b>2535.82</b>	<b>-290.26</b>
<b>Agency Education</b>	0	931,940	931,940			
<b>Agency Children's Care</b>	2,414,700	5,680,985	3,266,285			
<b>Agency Other</b>	0	1,734,259	1,734,259			
<b>Council Total</b>	<b>120,327,834</b>	<b>114,624,657</b>	<b>(5,703,177)</b>			

For the financial year 2023/24, the Council held total salary budgets (including agency staff) of £120.3m covering just over 2,800 full time employees. Due to issues around recruitment to specific posts and the need to offset other budget pressures on non-pay budgets or savings non-delivery, only around 2,500 staff were employed, with agency staff covering some of the vacancies. The actual total spend on pay (including agency staff) was £114.6m, leading to a saving of £5.7m, which was used to alleviate the significant overspend which occurred at the start of the financial year on non-pay budgets and put the Council into a difficult financial position with critically low reserves.

At directorate level, each director used less staff than budgeted within their resource allocation, particularly in children's care, where there was a known reliance on agency workers to deliver services at the appropriate level and quality. It is difficult to analyse these variances further without getting into a substantial amount of detail. However, the reasons given in the preceding paragraph around having vacancies due to recruitment challenges and holding the subsequent vacancies for savings reasons, will be the most common reason (per directorate) as to why the full establishment has not been used during the financial year.

### Conclusion

The tables above illustrate that even though there was a large increase in the total number of higher paid staff within the Council during the 2023/24 financial year. This did not translate into additional budget related pressures on staffing as these staff numbers at 269, are only just over 10% of the total number of staff employed at around 2,800.

In addition, the main driver for the increased staff numbers between the two financial years will only have been the pay award and additional oncosts, which is only a small proportion of total cost for an employee (around 3%) for the grades in question. In total these increases will have been around £0.7m on a budget of £120.3m.

Any impact of these increased numbers on the Council's overall financial position during 2023/24 would have been minor and was managed by an overall staffing underspend of £5.7m. This was part of the financial control measures implemented by the Director of Finance to manage the overall budget position.

Further research would need to be done into the specific reasons why Middlesbrough's increase was larger during 2023/24 than neighbouring authorities, but it could be simply down to staff numbers employed at specific levels captured by the disclosure requirements in the Statement of Accounts.