

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 11 December 2025.

PRESENT: Councillors J Ewan (Chair), D Coupe (Vice-Chair), D Branson, I Morrish, G Wilson and L Young

PRESENT BY INVITATION: Councillors

ALSO IN ATTENDANCE: Andrew (Mazars), Kirkham (Mazars), T Backhouse (Mazars), J Dodsworth (Veritau), Stuart Cutts (Assistant Director - Audit Assurance) (Veritau) and Ed Lambert-Martin (Internal Audit Manager) (Veritau)

OFFICERS: A Johnstone, J Weston, A Humble and R Johansson

APOLOGIES FOR ABSENCE: Councillors M Nugent

25/1 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the building evacuation procedure.

25/3 **DECLARATIONS OF INTEREST**

Pension fund D.Coupe and J.Ewan. Beneficiary D.Branson

25/4 **MINUTES - AUDIT COMMITTEE - 25 SEPTEMBER 2025**

The minutes of the Audit Committee meeting held on 25 September 2025 were submitted and approved as a correct record.

25/5 **PARTNERSHIP GOVERNANCE - ANNUAL ASSURANCE REPORT**

The Committee considered a report of the Director of Legal and Governance Services providing the annual assurance of the Council's partnership governance arrangements. The report outlines the results of the annual assessment of key partnerships against Council's Partnership Governance Policy and minimum standards.

The Head of Policy, Governance and Information presented the report and highlighted that the Partnership Governance Policy had been in place since February 2020 and had been refreshed following a planned three-year review, with the revised policy approved in December 2024. The policy set out clear requirements for partnership governance, including lead Officer accountability, approval of business cases, minimum standards for governance and performance management, maintenance of a partnership register, and annual health assessments.

Members were advised that an annual review of the health of key partnerships had been completed by lead Officers. The assessment considered governance, performance, risk management, transparency and financial management. The report confirmed that there were no changes to the performance or governance ratings for existing partnerships following the latest review.

The report highlighted that the Tees Valley Combined Authority (TVCA) continued to be subject to a Best Value Improvement Notice issued by Government. It was noted that this remained in place and that TVCA had established an Independent Advisory Board and published a detailed improvement plan, with progress reports being shared publicly. Council Officers were supporting the improvement journey.

It was further noted that a new partnership, the Place Leadership Partnership, had been

added to the partnership register. The partnership was reported to be in development and involved public, private and voluntary sector representation. Once fully operational, it was intended to support delivery of recommendations from the Local Government Association Corporate Peer Challenge.

In response to a Member question regarding the partnership assessment table at paragraph 3.8, it was clarified that partnership performance and governance were assessed using a red and green rating system only, and that amber ratings were not part of the agreed scoring methodology. It was confirmed that should circumstances change, updates to partnership assessments could be brought forward for consideration as appropriate.

A Member also sought clarification on the role of the Place Leadership Partnership and its potential link to Middlesbrough Council's Place Scrutiny Panel. It was advised that engagement on this matter could be progressed through the Chief Executive, the Head of Growth and Assets, and the Director of Regeneration.

AGREED that:

1. The current position of the Council in relation to compliance with the Partnerships Governance Policy was noted, and that consideration was given as to whether the information provided had given the Committee sufficient assurance that appropriate partnership arrangements were in place.

25/6

AUDIT COMMITTEE SKILLS AND KNOWLEDGE AUDIT PROCESS

The Head of Policy Governance and Information and the Head of Finance and Investment presented the Audit Committee Skills and Knowledge Audit Process report, which set out a proposed skills and knowledge audit framework for Audit Committee Members. The report followed recommendations made by the Local Government Association Regional Advisor as part of a review of the Committee's effectiveness.

Members were advised that the framework would enable individual Members to assess their current skills and knowledge, identify development need, and inform a revised programme of mandatory and bespoke training aligned with CIPFA guidance. It was noted that the outcomes would be useful to support ongoing assurance regarding the effectiveness of the Audit Committee.

During discussion, a Member asked about the arrangements for treasury management training. The Head of Finance and Investment advised that this training would take place prior to the Committee's next meeting in February 2026, with delivery planned for January 2026.

A Member also asked whether the National Fraud Initiative publication could be circulated to Committee Members and whether any copyright restrictions applied. The Internal Auditor advised that a link to the publication could be shared with Members.

AGREED that:

1. The proposed Skills and Knowledge Audit form for Audit Committee Members was approved.
2. The Committee would proactively engage with the process to complete the Skills and Knowledge Audit for all Members over the following three months.
3. The Head of Finance and Investment would provide proposed Treasury Management training dates for January 2026 and the Democratic Services Officer to circulate these to Members as soon as they became available.
4. The Internal Auditor would circulate a link to the National Fraud Initiative publication.

25/7

TREASURY MANAGEMENT MID-YEAR REVIEW 2025/2026

The Committee considered the Treasury Management Mid-Year Review report, which set out the Council's performance against the approved Treasury Management Strategy and Prudential Indicators 2025/26.

The Head of Finance and Investment advised that the report was presented for Member scrutiny rather than assurance, noting that formal assurance was provided through the CIPFA

audit process. It was explained that the CIPFA Code of Practice focused on three key elements: treasury management practises, governance arrangements, and the management of key financial risks, including investment risk, debt risk and market risk. Members were advised that the report and its accompanying practices guidance set out how the Council managed large financial transactions and complied with regulatory requirements.

Council's approach to borrowing and capital finance was discussed, noting that borrowing was treated as a last resort and that capital investment was prioritised to support the Council Plan strategies within defined financial capacity. It was highlighted that the capital programme for 2025/26 had reduced, resulting in lower capital financing requirements, which were expected to remain below 10% of the net revenue budget line with CIPFA guidance.

The Committee considered the Council's under-borrowing position, the balance between internal and external borrowing, and the use of fixed rate borrowing to manage interest rate risk. Members noted that capital finance costs were increasing and sought clarification on the reasons, including the impact of interest rate movements and the level of headroom available should rates rise further. The Head of Finance and Investment advised that the headroom cost was within the authorised borrowing limits, with borrowing decisions managed prudently to minimise revenue impact.

Cash flow management and investments were discussed, noting that cash balances typically fluctuated to meet operational demands such as Council payroll and statutory services. It was confirmed that investments were primarily placed with central government or other local authorities to minimise credit risk, while generating interest income to offset capital financing costs.

The Committee considered issues relating to asset condition and capital investment, with the Head of Finance and Investment highlighting the importance of maintaining and repairing assets to manage long-term risk, including insurance implications. It was confirmed that capital investment included essential works to protect the Council's asset base, with financing associated with urgent asset-related expenditure.

Members sought further comparative information on the Council's capital financing position relative to other local authorities and requested additional clarity on the Council's exposure to LOBO (Lender Option Borrower Option) loans, including when these arrangements were expected to be concluded.

The Head of Finance and Investment emphasised the importance of ongoing transparency and Member understanding of treasury management arrangements, including training and access to supporting information.

AGREED that:

1. The mid-year Prudential Indicator results for 2025/26 were noted as the Council's current position in relation to capital finance activities and the overall indebtedness.
2. The performance of the Treasury Management function against Council's approved strategy for the 2025/26 financial year to date was noted.
3. The performance in the year to date was discussed and Members sought any further details or explanations required from Officers to assure themselves that appropriate governance arrangements were in place.
4. The Head of Finance and Investment would circulate the Council's Treasury Management Practices to Members.
5. A future report scheduled for February 2026 would include comparative benchmarking information against other local authorities' capital financing positions.
6. Further information on the Council's LOBO loans, including end dates, would be circulated to Members by the Head of Finance and Investment.

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Committee considered the Internal Audit Progress Report, including progress against the 2025/26 Audit Plan, audits finalised since the last report, ongoing audits, and the follow-up of agreed audit actions.

The Assistant Director - Audit Assurance and the Internal Audit Manager, had attended Council's Leadership Management Group to further develop understanding of Middlesbrough's operating context. Members were informed that the Assistant Director and the Internal Audit Manager had been allocated to the Middlesbrough account. The internal auditors provided an update on progress against quarter four activity.

Members noted that a few audit reports had been finalised, including those set out at page 59 of the report, with Annex D detailing progress on ongoing audits. The internal auditors confirmed that most audits were on track to be completed by the next meeting, with only a small number remaining outstanding.

A Member queried whether updates on audits originally due to be finalised in December or January, but scheduled for Committee consideration in April, could be provided earlier at the February Committee meeting. The internal auditors confirmed this would be possible where reports had been issued, subject to the agreed work programme. The Head of Policy, Governance and Information advised that this needed to be considered on a case-by-case basis, as some reports may contain operationally sensitive information requiring redaction prior to circulation. The Committee noted that the report provided assurance that audit activity was progressing.

In relation to the Anti-Social Behaviour Management Audit (page 59), a Member commented that additional detail would have been helpful, particularly regarding performance metrics and if these aligned with the Council's neighbourhood model. Officers confirmed that performance metrics were still being developed and that this would be addressed in the final report. It was noted that the audit opinion of reasonable assurance reflected areas for improvement, and that the report was to address the outcomes of the audit and how the recommendations had been addressed. This report was due to be presented to the Committee in February 2026.

Members also referred to information contained within Annex B, noting that greater background detail on partnership arrangements would have been useful to aid understanding. It was acknowledged that some context had not been available at the time of drafting, and that this would be clearer in future reports.

Regarding the Savings Plans and Delivery Audit (page 61), Members were advised that the report had been issued as final and could be circulated to Members. In relation to Adult Social Care financial assessments (page 60), concern was expressed that progress was difficult to assess, partly due to auditors not having access to all Council systems and competing service priorities impacting timescales. Members emphasised the importance of earlier escalation where delays occurred, and the value of engaging Officers earlier in the audit process to resolve issues more efficiently.

The Committee discussed the No Recourse to Public Funds Audit, noting that fieldwork was underway and that further updates would be provided at the February meeting.

Members also discussed rising Adult Social Care and Children's Services costs, highlighting the importance of understanding whether the Council was achieving value for money, including how costs were apportioned with partner organisations such as the NHS. The internal auditors confirmed that assessments were being undertaken to determine appropriate cost sharing and that this work would inform future planning, including the forthcoming planning cycle linked to deprivation, safeguarding and service demand. It was noted that this would form part of consultation at the February Committee meeting.

In relation to the follow-up of agreed audit actions (page 66), Members noted that four actions were overdue. The internal auditors confirmed that two related to domestic abuse monitoring, one of which had been completed, with the other progressing and responses received. Assurance was provided there were no significant concerns and that the actions were being actively managed. The internal auditors highlighted that the relatively low number of overdue actions reflected positively on the Council's overall approach to audit and governance.

The Assistant Director – Corporate Fraud, presented the Counter Fraud Progress Report for 2025/26, providing an update on counter fraud activity including fraud prevention, detection, investigative work and multi-agency collaboration.

The report outlines the significant risk that fraud presents to the public sector and confirmed

that the internal auditors continued to provide the Council's corporate counter fraud service. This included preventative work, fraud awareness activity, data matching, investigations and recovery of losses.

Members were advised that fraud awareness activity had been undertaken during the year, including targeted communications on cybercrime risks as part of Cybersecurity Awareness Month. Bespoke fraud training had also been delivered to Revenues, Benefits and Social Care assessment teams.

The Committee noted the Council's participation in the National Fraud Initiative (NFI), a large-scale data matching exercise overseen by the Public Sector Fraud Authority. It was advised that results from the 2024/24 NFI exercise were still being reviewed and that supplementary data matching relating to care home residents and direct payment recipients has resumed following changes to legislation.

In relation to investigative activity, Members were informed that between 1 April and 31 October 2025, 78 referrals of suspected fraud had been logged. Eleven investigations had been completed, with a further 33 cases under investigation. Examples of completed cases were provided, including council tax reduction scheme fraud and single person discount fraud, with appropriate sanctions applied and recovery action taken.

Members welcomed the level of investigative activity and the recovery of losses. Discussion took place around the importance of continuing fraud awareness and prevention work alongside investigation activity, particularly given financial pressures on the Council.

AGREED that:

- The latest update on the internal audit and counter fraud work was noted.

25/9

EXTERNAL AUDIT ANNUAL REPORT

The Committee considered the external auditors annual report, which provided an update on progress with the audit of the Council's financial statements for 2024/25, value for money (VFM) arrangements, and the audit of the Teesside Pension Fund.

The external auditors outlined their responsibilities under the Local Audit and Accountability Act 2014 and the Code of Audit Practice. Members were advised that audit work was ongoing and that the auditors had not yet issued their audit opinions on the Council's or the Pension Fund's financial statements, which were expected to be concluded in line with statutory backstop dates.

The report summarised progress against previously identified significant weaknesses and recommendations relating to value for money arrangements. The external auditors confirmed that Council had made progress in improving arrangements for economy, efficiency and effectiveness, including the development of a refreshed Council Plan and clearer alignment between strategic priorities, performance monitoring and delivery.

Members were informed that no statutory reporting powers had been exercised by the external auditors and that no matters had arisen requiring reporting in the public interest. It was also noted that there were no objections in respect of the Council's accounts.

In relation to the audit of the Teesside Pension Fund, the external auditors reported that work was ongoing and that no significant issues had been identified at this stage. The report also set out the key risks identified as part of the audit approach for both the Council and the Pension Fund, including management override of controls and the valuation of property, plant and equipment and investments.

In discussion, the external auditors explained that the report represented the final stage of the audit process, with the purpose of informing the public and Members of the findings arising from the audit. It was confirmed that the audit opinion had not yet been issued, as the accounts remained in draft form in line with the Code of Audit Practice. The auditors confirmed that the Council had complied with the requirement to publish draft accounts by the end of November and that the audit would be completed within the national backstop timetable.

Members discussed the Value for Money (VFM) arrangements section of the report, noting that progress had been charted under the governance theme and that relatively few new recommendations had been made. Concerns were raised regarding financial sustainability, including ongoing overspends, pressures within the Dedicated Schools Grant (DSG), the outcome of the High Needs Review, and the impact on the Council's reserves. It was noted that borrowing may be required to address deficits, and that DSG expenditure had been identified as a significant weakness.

The external auditors referred to the uncertainty surrounding the 2024/25 financial settlement and advised that it was difficult to draw firm conclusions until the settlement position became clearer. It was suggested that some of the pressures identified were based on historical data and reflected national funding challenges rather than solely local decisions.

A Member highlighted the projected increase in financial pressures over the next three years and asked what actions were being taken to address this. Officers acknowledged the concern and noted that these issues were being considered as part of ongoing financial planning. Members recognised that many of the challenges outlined in the report, including the rising demand in children's services, adult social care and the impact of an aging population, reflected national trends affecting local authorities more widely, although the data presented was specific to Middlesbrough.

In response to questions regarding the absence of new significant weaknesses for 2024/25, the external auditors confirmed that reporting was confined by the requirements of the Code of Audit Practice and reflected the position at the time.

Members also discussed the alignment between the Mayor's priorities and the Council's performance framework. The Head of Policy, Governance and Information advised that performance management arrangements for 2024/25 were being refreshed, with the next stage involving the development of departmental service plans and balance scorecards during 2026/27.

In relation to the Teesside Pension Fund, the external auditors confirmed that work on the 2024/25 accounts was ongoing and that the aim was to issue an audit opinion by February 2026, subject to the timely provision of evidence. It was noted that this was a critical period for clearing the remaining audit backlog, and the importance of providing sufficient and timely information to enable an unmodified opinion was emphasised. The external auditors advised that they were not aware of any internal delays at this stage but would raise the matter with the Director of Finance and Transformation if issues persisted.

AGREED that:

1. The latest update on the external audit annual report was noted.

25/10

AUDIT COMMITTEE WORK PROGRAMME (STANDARD ITEM)

A copy of the current work programme for the Audit Committee had been circulated for information. This was a live document that was updated after each meeting.

25/11

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

None.