

## CORPORATE AFFAIRS AND AUDIT COMMITTEE

<p><b>Date:</b> Thursday 29th June, 2023 <b>Time:</b> 3.30 pm <b>Venue:</b> Mandela Room</p>
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### AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest  
To receive any declarations of interest.
4. Minutes - Corporate Affairs and Audit Committee - 28 April 2023 3 - 6
5. Timeline for Statement of Accounts 7 - 8
6. Auditor's Annual Report - Year Ended 31 March 2021 9 - 62
7. Internal Audit and Counter Fraud Work Programmes 2023/2024 63 - 88
8. Any other urgent items which in the opinion of the Chair, may be considered

Charlotte Benjamin  
Director of Legal and Governance Services

Wednesday 21 June 2023

MEMBERSHIP

Councillors J Ewan (Chair), J Kabuye (Vice-Chair), D Coupe, P Gavigan, A High, B Hubbard and S Platt

**Assistance in accessing information**

**Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, [susan\\_lightwing@middlesbrough.gov.uk](mailto:susan_lightwing@middlesbrough.gov.uk)**

**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

A meeting of the Corporate Affairs and Audit Committee was held on Friday 28 April 2023.

**PRESENT:** Councillors B Hubbard (Chair), J Platt (Vice-Chair), C Hobson and T Mawston

**ALSO IN ATTENDANCE:** P Jeffrey (Internal Auditor) (Veritau), M Rutter (External Auditor) (Ernst Young) R Smith (Internal Auditor) (Veritau) and M Thomas (Internal Auditor) Veritau

**OFFICERS:** C Benjamin, A Humble, S Lightwing and J Weston

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillors T Higgins, D Rooney and M Storey

22/75 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

22/76 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 10 AND 16 MARCH 2023**

The minutes of the Corporate Affairs meetings held on 10 and 16 March 2023 were submitted and approved as a correct record subject to the following amendment:

10 March 2023 – M Rutter, EY, to be added to the attendance.

22/77 **STATEMENT OF ACCOUNTS 2020/2021**

A report of the Director of Finance (S151 Officer) was presented, the purpose of which was for Members of the Committee to approve the Audited Statement of Accounts for 2020/21, following completion of the external audit.

Members were asked to note the final audit results reports from EY on the Council and Teesside Pension Fund accounts, which summarised the various issues and adjustments required since the audit commenced in June 2021. Also included as appendices to the submitted report were letters of representation for both sets of accounts. These were assurances from the Chief Finance Officer and the Chair of the Committee in relation to the various matters that underpinned the accounts and the processes adopted.

The draft Statement of Accounts for 2020/21 was presented to the Corporate Affairs and Audit Committee on 5 August 2021 and provided details of the Council's financial position, performance and cash flows at 31 March 2021, as well as how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information at that point in time.

Further updates were provided to the Committee on progress during the audit, principally on the 31 March, 9 June and 22nd July 2022 when EY's audit results report and an updated Statement of Accounts were presented. These reports explained the various delays experienced so far on the audit of the accounts and why the statutory date had not been met.

At the meeting on 22 July 2022, the Committee approved the audited statement of accounts subject to; the annual governance statement being finalised and agreed by the Mayor, the Chief Executive and the Director of Finance, and the Highways Infrastructure Assets issue, which had been raised during the audit being resolved.

Since then, the Annual Governance Statement had been revised and signed by appropriate officers. CIPFA and Central Government had issued a statutory over-ride in respect of highways infrastructure, up to 2024/25, for those local authorities who could not presently comply with the local authority code of practice in this area.

Over time, several other issues had been identified. The briefing note produced for the Committee on 8 February 2023 gave more details around the considerations for changes to

the insurance provision, highways infrastructure and the going concern assessment re financial sustainability. These had either required changes to the financial statements, additional narrative disclosure, or both, to reflect the fact that the accounts were almost two years past the account's preparation date.

In recent weeks, a couple of further issues had needed to be considered as to whether they had an impact on the accounts for 2020/21. These related to the triennial revaluation of the Pension Fund at 31 March 2022, and the decision made by Executive in January to wind-up Middlesbrough Development Company. Any changes required for the items identified were included with the Audited Statement of Accounts and were also noted in the external auditors' final audit results reports.

Although the audit of the accounts was now complete for the 2020/21 financial year and these would provide a robust base for subsequent financial years accounts, the audit certificate could not yet be issued by EY. This was because work was still on-going in relation to the value for money qualification on Governance. This position was noted within the audit opinion to the Council's accounts.

The External Auditor highlighted the following issues in the updated Audit Report:

- Infrastructure – the reporting framework had been temporarily amended and the Council was in compliance. The framework would change in 2024/2025 and the Council would need to use that time to ensure future compliance.
- Going concern disclosure – the financial position of the Council had been okay and reserves relatively high. However, this had naturally unwound and in particular Children's Services had an overspend. Some levels of savings were needed. Value for Money would be a focus through the next two audits to ensure the Council was managing those areas.
- Insurance changes – these were mainly numerical changes.

The Committee would be informed once the audit certificate had been received and the audit process for the year was complete.

A query was raised in relation to the increase in audit fees which had doubled. It was clarified that the increase was due to additional work and higher cost individuals working on the governance issues at the Council as well as the challenges around infrastructure and multiple going concern assessments. All of these factors had contributed to a significant increase in the amount of audit effort.

The Chair thanked the Auditors and Officers for their work.

**AGREED** as follows that:

1. Following the completion of the external audit on the financial statements the Audited Statement of Accounts for 2020/21 was approved.
2. The final audit results report on the accounts from the external auditor and the letters of representation were noted.

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#### **INTERNAL AUDIT REPORT: SENIOR MANAGEMENT REVIEW**

A report of the Head of Financial Planning and Support (Interim S151 Officer) was presented to provide Members of the Corporate Affairs and Audit Committee with an overview of the final report of an internal audit of Senior Management Reviews undertaken by Veritau. The audit had been commissioned, following discussions with the Chair and Vice-Chair of Corporate Affairs and Audit Committee, in May 2022 by the then Director of Finance (S151 Officer).

It was agreed that the audit would look at any restructures that primarily affected members of senior management, since 2015/16. The purpose of the audit was to establish whether savings proposed as part of those restructures had been achieved, where applicable.

The audit had now been completed and a report prepared for comment by management. A copy of the confidential audit report had been provided to all Members of the Committee.

The report highlighted a number of key findings and recommendations arising from the audit. Appendix 1 to the submitted report contained a summary of the key findings and the actions proposed by management to address them. There was a focus on ensuring that in the future there was increased transparency and reporting of Senior Management Reviews, the savings arising from them and achievement of any non-financial objectives identified.

**AGREED** that the findings of the internal audit report on previous Senior Management Reviews and the proposed management response for future reviews was received and noted.

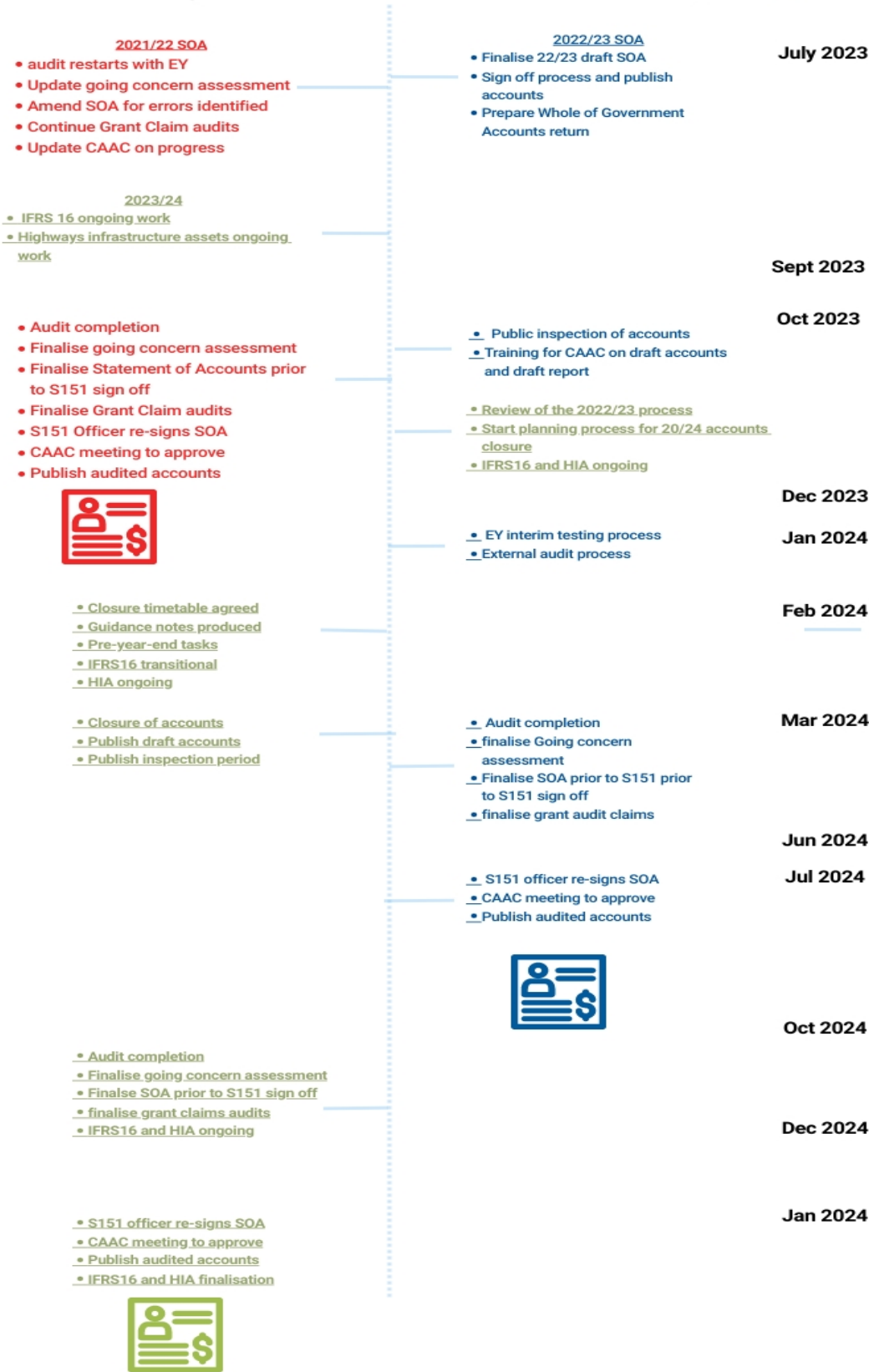
22/79

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

The Chair thanked the Vice Chair, Committee Members and Officers for their contributions during the last four years. As it was their last meeting as Middlesbrough Councillors, the Chair also thanked Councillors C Hobson and T Mawston, commenting that they had been fantastic servants to their residents and to the Council.

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## Statement of Accounts Three years of accounts - timeline for completion



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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Interim Director of Finance
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<b>Submitted to:</b>	Corporate Affairs and Audit Committee
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<b>Date:</b>	29 June 2022
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<b>Title:</b>	External Auditor Annual Report 2020/21
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<b>Report for:</b>	Information
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	All
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<b>Key decision:</b>	Not applicable
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<b>Why:</b>	Not applicable
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<b>Urgent:</b>	Not applicable
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<b>Why:</b>	
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<b>Executive summary</b>
<p>The External Auditor Ernst and Young has concluded the planned audit work in relation to the financial year 2020/21 and will present the Annual Report to the Committee for information and discussion.</p> <p>The report comprises the Auditor’s conclusions and recommendations in relation to the audit of the financial statements and in relation to the assessment of the Council’s arrangements for securing robust governance and Value For Money. The findings have been subject of previous reports to the Committee over the period July 2022 and updates through to April 2023.</p> <p>The Council provided management responses to the auditor’s 7 recommendations in relation to Value for Money in July 2022 as set out in the Annual Report. The Council has continued to progress the delivery of its Improvement Plan over the last year and the latest progress update is due to be presented to Council on 5 July 2023.</p>

## **Purpose**

1. The purpose of the report is for Ernst and Young, the Council's External Auditor to present the Annual Report relating to the 2020/21 financial year.

## **Background and relevant information**

2. The External Auditor's Annual Report is attached at Appendix 1 and includes the following sections:
  - Executive summary
  - Purpose and responsibilities
  - Financial statements audit
  - Value for Money
  - Other reporting issues
  - Appendix 1 - Fees
3. The External Auditor will present the report to the Committee.

## **What decision(s) are being recommended?**

That the Corporate Affairs and Audit Committee:

- Note the content of the External Auditor's Annual Report.

## **Rationale for the recommended decision(s)**

4. The Committee is required to receive and consider the External Auditor's report to fulfil its governance role and responsibility.

## **Other potential decision(s) and why these have not been recommended**

5. There are no other potential decisions applicable

## **Impact(s) of the recommended decision(s)**

### ***Legal***

6. There are no legal implications arising from this report

### ***Strategic priorities and risks***

7. The report addresses the adequacy of the Council's governance arrangements for securing value for money in the delivery of public and confirms an unqualified audit opinion in relation to the Council's statutory financial accounts for 2020/21.

### ***Human Rights, Equality and Data Protection***

8. Not applicable

## Financial

9. The fees for the 2020/21 external audit process are set out below. This is a copy of the table in the EY annual report and is presented in the Council report for clarity. The note references are not appropriate for the purposes of this report.

Description	Final Fee	Planned Fee	Final Fee
	2020/21	2020/21	2019/20
	£	£	£
Base scale fee – Council (note 1)	88,578	88,578	88,578
Base scale fee - Pension Fund (note 1)	21,972	21,972	21,972
Increase for changes in risk and regulatory environment – Council (notes 2,3,8)	81,850	-	53,960
Increase for changes in risk and regulatory environment – Pension Fund (notes 2,3,8)	39,359	-	14,033
<b>Revised base fee</b>	<b>231,759</b>	<b>110,550</b>	<b>178,543</b>
IAS 19 procedures (Code work) (notes 4,5)	8,500	N/A	6,000
IAS 19 procedures (non-Code work) (notes 4,5)	-	N/A	2,000
<b>Revised base fee (inc. IAS 19 procedures)</b>	<b>240,259</b>	<b>110,550</b>	<b>186,543</b>
Additional audit fee for response to specific audit findings – Council (notes 6,7,8)	184,572	-	20,745
Additional audit fee for response to specific audit findings – Pension Fund (notes 6,7,8)	5,000	-	5,202
<b>Total audit fee</b>	<b>429,831</b>	<b>110,550</b>	<b>212,490</b>
Non-audit services – Housing Benefit certification work	13,450	N/A	12,800
Non-audit services – Teachers Pension certification work	5,250	N/A	5,000
<b>Total fees</b>	<b>448,531</b>	<b>110,550</b>	<b>230,290</b>

10. The fees above are significantly higher than both the planned fee for the 2020/21 (4.5 times higher) and the final fee for the previous year's audit. This relates primarily to the length of the audit at just under two years, the increasing changes in both risk and regulation involved with the audit activity, and some of the specific governance issues which culminated in a value for money qualification for the Council. All these points have been raised previously by EY to both Officers and the Committee.
11. The increase in audit fees has been acknowledged by the Council and is being factored into the on-going medium-term financial plan. Given the level of increase in fees, a fee variation request has been submitted by EY to Public Sector Audit Appointments (the regulatory body in this area). The Council can submit its comments as to whether it accepts the fees or not and can provide further explanation or evidence if needed.

## Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Annual audit report to be published on the Council website, along with the audited Statement of Accounts for 2020/21.	Head of Finance & Investments	Early July 2023

## Appendices

1	Ernst and Young – Auditor's Annual Report – Year ending 31 March 2021.
2	
3	

## Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Draft Statement of Accounts 2020/21	5 <sup>th</sup> August 2021
Corporate Affairs & Audit Committee	Statement of Accounts (Financial Element)	31 <sup>st</sup> March 2022
Corporate Affairs & Audit Committee	Infrastructure Assets & Statement of Accounts 2020/21	9 <sup>th</sup> June 2022
Corporate Affairs & Audit Committee	Audited Statement of Accounts 2020/21	22 <sup>nd</sup> July 2022
Corporate Affairs & Audit Committee	Highways infrastructure assets update	22 <sup>nd</sup> September 2022
Corporate Affairs & Audit Committee	Finalisation of the Statement of Accounts 2020/21	8 <sup>th</sup> February 2023
Corporate Affairs & Audit Committee	Approval of the Audited Statement of Accounts 2020/21	28 <sup>th</sup> April 2023

**Contact:** Debbie Middleton – Interim Director of Finance (s151 Officer)  
**Email:** Debbie\_middleton@middlesbrough.gov.uk

# Middlesbrough Council

Auditor's Annual Report  
Year ended 31 March 2021

June 2023



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Affairs and Audit Committee and management of Middlesbrough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Middlesbrough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A close-up portrait of a woman's face, focusing on her eyes and nose. The image is partially obscured by a bright yellow rectangular overlay on the left side. The woman has light brown hair and green eyes.

Section 1

# Executive Summary

## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council and Pension Fund's:</b>	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council and of the Pension Fund as at 31 March 2021 and of their expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).</p> <p>We issued our auditor's reports on 27 April 2023.</p>
Going concern	We have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Narrative Report and other information published with the financial statements	Financial information in the Narrative Report and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund Annual Report and other information published with the financial statements	Financial information in the Pension Fund Annual Report and published with the financial statements was consistent with the audited accounts.
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We identified a significant weakness in relation to member and senior officer relationships and therefore reported by exception on the Council's VFM arrangements in the audit report on the financial statements.</p> <p>We have included our VFM commentary in Section 4.</p>
Consistency of the Annual Governance Statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers, however we highlight within our VFM commentary that we may do so in future if we are not satisfied with the Council's response to our VFM recommendations.



# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	<p>We issued a Draft Audit Results Report for our audit of the Council in July 2022 and a Final Audit Results Report in April 2023 to the Corporate Affairs and Audit Committee.</p> <p>We issued our Audit Results Report for our audit of the Pension Fund in September 2022 to the Corporate Affairs and Audit Committee.</p>
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	<p>We have not yet issued our certificate for 2020/21 as we are not yet able to confirm we have performed all of the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 was not issued until July 2022 and, whilst the procedures required to date have been performed, there remains scope for further procedures to be requested by the National Audit Office. We will issue our certificate once confirmation has been received that no further procedures will be required.</p>

## Fees

We carried out our audits of the Council's and Pension Fund's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Reports we were required to carry out significant additional audit procedures to address audit risks in relation to misstatements due to fraud or error (Council and Pension Fund), fraud in revenue and expenditure recognition (Council), the valuation of land and buildings (Council), the accounting for infrastructure assets (Council), the valuation of unquoted pooled investment vehicles (Pension Fund), the valuation of directly held property (Pension Fund), the provision of children's services (VFM, Council) and member and senior officer relationships (VFM, Council). As a result, we have requested an associated additional fee. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Stephen Reid, Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities

# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues and recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Reports that we issued in July 2021. We have complied with the National Audit Office (NAO)'s 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditor we are responsible for:

Expressing an opinion on:

- the 2020/21 financial statements;
- conclusions relating to going concern; and
- the consistency of other information published with the financial statements, including the Narrative Report and Pension Fund Annual Report.

Reporting by exception:

- if the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- if we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, the Narrative Report and Annual Governance Statement and the Pension Fund Annual Report. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Section 3

# Financial Statement Audit



# Financial Statement Audit

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 27 April 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 22 July 2022 and 28 April 2023 meetings of the Corporate Affairs and Audit Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Planning Reports.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error (Council and Pension Fund)</b></p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Within our commentary on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources, set out in section 4, we note several instances where the Council entered into transactions without following its normal procurement processes. In one case, the Council subsequently assessed these transactions as being unlawful. We are however satisfied that the value of these transactions is not material to the financial statements.</p> <p>We have not identified any other significant or unusual transactions which we consider give rise to a misstatement of the financial statements or should be brought to the attention of the Corporate Affairs and Audit Committee.</p> <p>We are therefore satisfied that the financial statements are not materially misstated as a result of fraud or error.</p>

# Financial Statement Audit

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b> <b>(Council only)</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We identified this risk as most likely to manifest within the recognition of Covid-related grant funding, the recognition of capital grants, the capitalisation of expenditure or the omission of expenditure from the financial statements.</p>	<p>Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000.</p> <p>Management corrected the financial statements for this matter, however within the correction we identified one grant for £549,000 where the income had already been recorded but the expenditure had not. This income should not therefore have been included in management's adjustment, resulting in an uncorrected overstatement of income of £549,000.</p> <p>We have no other matters to report in relation to this risk.</p> <p>We are therefore satisfied, following management's adjustment, that the financial statements are not materially misstated as a result of fraud in revenue and expenditure recognition.</p>
<p><b>Valuation of land and buildings</b> <b>(Council only)</b></p> <p>Land and buildings are the most significant assets on the Council's balance sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.</p> <p>Our assessment is that the risk of misstatement is greatest in those assets whose value is dependent to a large extent on the existence and terms of commercial tenancies.</p> <p>We consider the valuation of other land and buildings to be an area of audit focus.</p>	<p>Our testing identified a transposition error in the recording of the floor area of Centre Square 2 used by the Council's external valuer to inform their valuation of the asset. As a result, the valuation of this asset was overstated by £693,000.</p> <p>Our review of disclosures relating to land and buildings also identified a few presentational errors, including misclassification of a £3,880,000 impairment of the Transporter Bridge as depreciation and an erroneous negative £1,190,000 disposal. These matters had no impact on the valuation of land and buildings recorded on the balance sheet.</p> <p>We have no other matters to report in relation to this risk.</p> <p>We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of land and buildings.</p>

# Financial Statement Audit

Significant Risk	Conclusion
<p><b>Accounting for infrastructure assets (Council only)</b></p> <p>The Council has not maintained sufficiently detailed accounting records to enable it to identify individual infrastructure assets within the accounting records. As a result, it is unable to demonstrate that individual assets have been accounted for in accordance with the requirements of the reporting framework. In particular, the Council is unable to demonstrate that remaining asset balances have been derecognised when an asset has been replaced (for example a road re-laid).</p> <p>There is a high probability that the valuation of infrastructure assets is materially misstated, however the Council lacks the necessary accounting records to quantify the extent of misstatement and make correcting entries.</p>	<p>As this issue impacts a large number of local authorities, not just the Council, temporary amendments have been made to the Council's reporting framework to enable authorities and auditors to finalise statements of account whilst a longer term solution is sought.</p> <p>The financial statement disclosures appropriately reflect the changes which have been made to the reporting framework. Our review of the useful lives applied to infrastructure assets noted that there is considerable variability in the useful lives applied and the useful lives adopted were not always in-line with the guidance ranges published by CIPFA or reflective of the different components of an asset which may exist.</p> <p>We are content that net valuations at 31 March 2021 are materially correct, in part because of the statutory presumption that balances at 1 April 2020 were correct, however the risk of misstatement in net valuations due to inappropriate useful lives being applied will increase year-on-year.</p> <p>Longer term, the amendments to the reporting framework are temporary and will apply only until 2024/25. Whilst the detailed requirements which will apply beyond this point are still to be determined, it is highly likely that they will require the Council to develop better information on the Council's infrastructure assets than it currently holds</p>
<p><b>Valuation of unquoted pooled investment vehicles (Pension Fund only)</b></p> <p>The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.</p> <p>We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.</p>	<p>Included within the initial draft accounts presented to us for audit was the quarter three valuations rolled forward to produce a year end valuation. Upon receipt of the year end confirmations it was apparent that the valuations were higher than the amounts included in the accounts. This resulted in a net understatement of investments by £26.4m. Management chose not to adjust for this valuation movement due to it being immaterial.</p> <p>We have no other matters to report in relation to this risk.</p>

# Financial Statement Audit

Significant Risk	Conclusion
<b>Valuation of directly-held property (Pension Fund only)</b> The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.	A sample of valuations were reviewed by our EY Real Estate specialists and all found to be within an acceptable range. We have no other matters to report in relation to this risk.



# Financial Statement Audit

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Valuation of defined benefit pension liability (Council only)</b></p> <p>The defined benefit pension liability is the most significant liability on the Council's balance sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for the calculations can have a significant impact upon the financial statements.</p> <p>We focus on the appropriateness of assumptions used by the Council's actuary in valuing pension liabilities and the accuracy of pension asset valuations.</p>	<p>The Pension Fund auditor identified misstatements within the valuation of the Pension Fund's assets provided to the Council's actuary to inform the valuation of the Council's net pension liabilities.</p> <p>We quantified the impact on the Council's financial statements as an understatement of the Council's pension assets of £5,947,000, and hence an overstatement by the same amount of the Council's net pension liabilities. The financial statements were amended to correct this impact.</p> <p>In addition, we noted that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct. The financial statements were also amended to correct this matter.</p> <p>We have no other matters to report in relation to this risk.</p> <p>We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of defined benefit pension liabilities.</p>
<p><b>Going concern and associated disclosures (Council only)</b></p> <p>The Covid-19 pandemic has had a significant impact on local authority finances, with new expenditure streams being incurred, loss or reduction to existing income streams and new grant income streams arising. The Council has also seen significant cashflows passing through it where it acts as an agent.</p> <p>Management had to undertake their going concern assessment against the backdrop of ongoing uncertainty over the financial impact of the pandemic. They also needed to ensure that going concern disclosures within the financial statements appropriately presented management's assessment.</p>	<p>The Council has seen a significant increase in its level of usable reserves between 31 March 2020 and 31 March 2021, primarily due to the impact of the business rates reliefs given to businesses during the pandemic and the government decision to allow local authorities to spread the impact of these over a number of years. These amounts will naturally unwind over the next few years, and the Council's reserves have reduced since 31 March 2021.</p> <p>Management's final going concern assessment is based upon the Council's 2023/24 budget, which includes £9.4 million of required savings as a result of a significant increase in budget for Children's Services to address overspends in 2021/22 and 2022/23.</p> <p>An independent review of planned savings by CIPFA concluded that the Council is unlikely to deliver all of the planned savings. The Council has sufficient reserves to mitigate the likely impact of this over the going concern period, however the Council faces a challenging financial outlook over the medium term and further cost-saving measures are likely to be necessary.</p> <p>We are satisfied that the financial statement disclosures adequately reflect these challenges, however we made a number of recommendations to management to enhance the disclosures.</p>

# Financial Statement Audit

## Audit differences (Council)

Uncorrected misstatements would increase the deficit on provision of services by £2.9 million. The most significant of which included:

- ▶ Our testing of the Council's trade receivables identified an invoice for £1,492,000 relating to Section 106 income which had been raised in error, and the Council had issued credit notes to clear this balance after the year end. As a result, the Council's income and trade receivables were overstated by £1,492,000;
- ▶ Our testing of the valuation of Centre Square 2 identified a transposition error in the floor area recorded by the Council's external valuer and used to inform their valuation of the asset. As a result, the valuation of this asset and the gain on revaluation recorded in the CIES were overstated by £693,000; and
- ▶ Management made an adjustment to the pre-audit financial statements to correct for the incorrect classification of Covid-related grants as agency rather than principle. Within this correction, management double-counted one grant resulting in an overstatement of income, and earmarked reserves, of £549,000.

Management corrected identified misstatements with net nil impact on the deficit on provision of services. The most significant of which included:

- ▶ Our testing of pension disclosures identified that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct;
- ▶ Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000;
- ▶ The audit of the Teesside Pension Fund identified misstatements within the valuation of the pension fund's assets provided to the Council's actuary to inform their valuation of the Council's net pension liabilities. Based on this, we determined that the Council's net pension liability, and the actuarial loss for the period, was overstated by £5,947,000;
- ▶ Our testing of property, plant and equipment disclosures identified that the Council had incorrectly recorded an in-year impairment of the Transporter Bridge as accelerated depreciation rather than an impairment. As a result, depreciation for the year was overstated and impairments understated by £3,880,000;
- ▶ Our testing of creditor balances identified that amounts due to individuals in relation to Housing Benefit had been incorrectly classified as owed to local authorities, resulting in an overstatement of amounts owed to other local authorities and understatement of amounts owed to other entities and individuals of £3,252,000; and

# Financial Statement Audit

## Audit differences (Council) (continued)

- ▶ As part of our discussions around the 2021/22 audit, management highlighted their intention to recognise a provision in the 2021/22 Statement of Accounts for insurance liabilities. We challenged management as to whether these liabilities also existed at 31 March 2021 and should be recognised within the 2020/21 Statement of Accounts, resulting in the recognition of additional provisions and expenditure of £3,250,000. A contingent liability has also been disclosed for insurance liabilities for which no claim had been received by the Council at 31 March 2021 but past experience suggests claims may be submitted in future for events occurring before 31 March 2021.

During the course of the audit we also identified a number of disclosure errors and made a number of recommendations to management to improve the presentation of financial statement disclosures. The most significant of which included:

- ▶ Our testing of the disclosure of future amounts receivable by the Council under operating leases found that the amounts disclosed were overstated by £10,804,000 due to inaccurate lease information being recorded in the Council's leases register. This disclosure was also overstated by £10,282,000 in the prior year;
- ▶ Within the disclosure of senior officer remuneration, an amount of £66,454 paid to the former Executive Director of Growth and Places was incorrectly reported as strain on the pension fund rather than compensation for loss of office. In addition, the total cost of this departure of £292,555 was incorrectly reported within the exit packages note as a voluntary departure when it was in fact a compulsory redundancy. Had this been a voluntary redundancy, approval by full council would have been required under the Council's Pay Policy Statement however this is not required for compulsory redundancies;
- ▶ The accounting treatment of the Dedicated Schools Grant was changed with effect from 1 April 2020, requiring the Council to treat the accumulated balance at this date of £2,783,000 as an unusable reserve rather than a usable reserve as had previously been the case. The draft financial statements omitted disclosure of this as an adjustment to opening balances, meaning that opening balances were inconsistent with the balances reported in the prior period; and
- ▶ Within the disclosures relating to property, plant and equipment, the valuation of assets transferred to Sport & Leisure Management under a service concession arrangement had not been updated from the prior year. The valuation in the updated disclosure was higher than the prior year's disclosure by £2,591,000.

# Financial Statement Audit

## Audit differences (Pension Fund)

Uncorrected misstatements, identified as the aggregate difference between recorded amounts and those confirmed by investment managers, would increase the net assets of the Fund by £26.40m.

Management corrected identified misstatements with a net impact of increasing the net assets of the Fund by £0.04m. The most significant of which included:

- ▶ Our agreement of investment cash balances to confirmations provided by the counter-party identified an overstatement of investment cash of £8,750,000; and
- ▶ Our reconciliation of cash deposits recorded by the Fund's custodian to those recorded by the Fund identified an understatement of cash of £8,100,000 arising from erroneous posting of a journal to April 2021 rather than March 2021.

During the course of the audit we also identified a number of disclosure errors and made a number of recommendations to management to improve the presentation of financial statement disclosures. The most significant of which included:

- ▶ The valuation of the Fund's directly-held property portfolio was disclosed as being prepared on the basis of a material valuation uncertainty due to the impact of the pandemic on property valuations, however this was the case for the prior year only and should not have been stated in respect of current year's valuations; and
- ▶ The contribution rates disclosed in the schedule of contribution rates were incorrect for a small number of employers.

# Financial Statement Audit

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	<p>We determined planning materiality for the Council to be £8.2 million as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality for the Pension Fund to be £45.6m as 1% of net assets reported in the accounts. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p>
<b>Reporting threshold</b>	<p>We agreed with the Corporate Affairs and Audit Committee that we would report to the Committee all audit differences in excess of £0.4 million for the Council and £2.3 million for the Pension Fund.</p>

We also identified remuneration disclosures as an area where misstatement at a lower level than our overall materiality level might influence the reader. For this area, we applied a materiality level equal to the level of rounding used in disclosures.



Section 4

## Value for Money



## Value for Money (VFM)

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We identified two risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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### Scope and risks

We have complied with the NAO's 2020 Code (2020 Code) and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 5 August 2021 Corporate Affairs and Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of minutes from the Council's committees, enquiries of the Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had identified one risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

### *Provision of Children's Services*

We qualified our VFM opinion for the year ended 31 March 2020 in respect of the Council's provision of children's social care services following an assessment by Ofsted in December 2019 that services were inadequate. Following the Ofsted inspection, the Council put in place an Improvement Plan and subsequent reports by the appointed Commissioner for Children's Services in Middlesbrough and Ofsted supported that the Council has put in place appropriate governance structures to respond to the Ofsted findings.

Nevertheless, there remained a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during the year ended 31 March 2021.

We responded to this risk by making enquiries of management to understand the progress being made against the Improvement Plan and reviewing the findings of subsequent external assessments of the Council's Children's Services as third party evidence of the progress being made by the Council. Based on the insight gained from these procedures, we formed an assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that no significant weakness existed. Further details of our assessment are provided within the 'How the body evaluates the services it provides to assess performance and identify areas for improvement' section below.

### Scope and risks (continued)

During the course of our audit, additional matters came to our attention which indicated a further risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021. We therefore recognised a further significant risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

#### Member and Senior Officer Relationships

During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to. We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Based on identification of these matters and in accordance with the proper arrangements criteria set out in the 2020 Code, we recognised a risk that the Council did not "have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

We responded to this risk by following up on each of the individual matters brought to our attention through enquiries of management and the Council's internal auditor, review of reports and other documentation, including reports commissioned by management to investigate the more serious concerns raised and consideration of the consistency of the information obtained in the course of these enquiries with other information obtained during the course of our audit. Based on the insight gained from these procedures, we formed our assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that significant weaknesses did exist, and provide further details of these in the sections below.

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### Reporting

We reported on significant weaknesses in arrangements in the audit report.

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We completed our VFM arrangements work in July 2022 and identified a significant weakness in the Council's VFM arrangements in relation to member and senior officer relationships and the impact of these on the Council's governance processes. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendation(s) we have agreed with the Council.



# Value for Money (VFM)

Our VFM commentary highlights relevant issues for the Council and the wider public

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## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- *Financial sustainability*  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- *Governance*  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- *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.

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## Introduction and Context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

# Value for Money (VFM)

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The Council has not had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

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## Governance

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

The Council has a number of Executive and other committees, operating at both Council-wide and service level, which are responsible for approving key decisions. Committee discussions are informed by a standard reporting template which sets out the background to the decision, available alternatives to the proposed decision, the advantages and disadvantages of available options and any financial or legal implications for the Council of the proposed action.

The Council also has an Overview and Scrutiny Board whose role is to scrutinise the performance of Council functions and the decisions taken by Executive committees. The Overview and Scrutiny Board is supported by 7 Scrutiny Panels and a joint committee with Redcar and Cleveland Council, with each able to refer decisions back to the Executive for further consideration.

The Corporate Affairs and Audit Committee receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.

The Council's largest project during the year was the development of a specialist digital office space known as Boho X. The Council's Executive originally approved a 60,000 square foot design for this project in March 2019, before approving a revised 20-floor 100,000 square foot design in March 2020. Between March 2020 and August 2020, the design of Boho X changed again from the 100,000 square foot design to a revised 6-floor 60,000 square foot design. We have not sought to assess the merits of each Boho X design nor the strength of the evidence base informing them.

Under the Council's Constitution, elected members have no role in the delivery of projects, however changes in design were recorded by the external contractor as being approved by the Council's Mayor and followed meetings between the contractor and the Mayor which were held without Council officers being present. The changes in design were not submitted through the formal project change control process, as required by the Council's Programme and Project Management Framework (PPMF), and no meetings of the Internal Project Board were held during the period when changes occurred. The impact of the Covid-19 pandemic was cited by the Council as the reason for the change in design during public consultation and approval by the Executive of the revised design, however there is no documentation of the reasons for the change to support this assertion and the decision-making process remains unclear.

## Value for Money (VFM)

Whilst the Council's Mayor understood that he had been authorised to discuss changes to the design with the external contractor by a senior officer, in our view the communication on which this was based did not explicitly provide such authority and such approval would in any event have been contrary to the Council's Constitution and the PPMF. It is therefore our assessment that there have been significant weaknesses in the Council's management of the Boho X project which undermine the Council's ability to demonstrate that the project represents value for money for taxpayers.

In addition to the changes in design for the Boho X project, we have identified several other transactions entered into by the Council during the year where Council policies and procedures were not followed and where a lack of adherence to the respective roles of officers and members was a key factor. These included the purchase of Covid-19 antibody tests which were not approved for use by the Medicines and Healthcare Products Regulatory Authority and therefore could not be used as the Council had intended, and the provision of political and administrative support to the Mayor by an outside party. In both cases, concerns about the proposed transactions were raised by senior officers prior to the transactions being entered into however both subsequently proceeded without following the Council's proper procurement processes. Whilst the monetary value of these transactions was not significant in the context of the financial statements, they demonstrate that the weaknesses identified in the Boho X project were not a one-off and that there are wider weaknesses in the Council's arrangements in particular where reliant on appropriate working between officers and elected members.

We have also noted multiple further examples of difficult relationships between officers and members, and between members, across a number of areas in the course of performing our audit work. As part of our reporting on the Council's audit for the year ended 31 March 2018, we reported that:

*"We have observed that the relationship between some Councillors and senior officers is strained. This appears to be due to a mutual level of mistrust. Officers consider that the level of challenge provided by some Councillors is excessive. Officers have also noted that they are required to spend disproportionate amounts of time on issues that, in their opinion, have been previously addressed. We note that concerns about the style of communication between members and officers have also been expressed that have resulted in Standards Committee action.*

*In contrast, some members consider that the information provided by officers, in relation to their challenge, is in some cases not adequate or is deliberately withheld, and as a result they are unable to make informed decisions. This has also led to members sharing concerns directly with internal and external audit regarding ongoing matters as a way to address their concerns, rather than being confident to address matters with the responsible statutory officers and ultimately the head of paid service."*

## Value for Money (VFM)

Since 2018 there have been a number of changes to both the senior officers of the Council and to elected members. Despite these changes, our observations during the year ended 31 March 2021 are that a lack of trust is still pervasive within the organisation and is undermining the effectiveness of the Council's governance arrangements. In our view these are serious matters indicative of deep rooted cultural and relationship issues which require urgent action. This lack of trust extends beyond the relationships between officers and members to the relationships between members, in particular between the Council's Executive and other members. This in turn hinders efforts to improve the relationships between officers and all members, as officers feel they are regarded by members as 'taking sides' in areas of disagreement between members.

**1. We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.**

We consider that the Council needs to take this step as an immediate action and we will be following up on the Council's response to our recommendation over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)*

The Council's Overview and Scrutiny Board monitors the performance of the Council's services and has the power to invite expert witnesses, such as professionals or service users, to advise the Board. The Council's Constitution includes Codes of Conduct for both elected members and employed officers which set out the expected behaviour of individuals, including the management of conflicts of interest. Failure to adhere to the Codes of Conduct may result in disciplinary proceedings under the Council's HR policies.

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection.

## Value for Money (VFM)

Like many organisations, the Council is reliant on self-reporting by elected members and officers of any conflicts of interest, however we have identified a small number of instances where declarations made by elected members were either incomplete or inconsistent with previous declarations. We have also observed that there is a lack of trust between elected members that relevant interests are declared at decision making meetings, which contributes to a lack of confidence from some elected members in decisions being taken.

**2. We therefore recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.**

**3. Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.**

As a local authority with a mayoral model, the Council is entitled to utilise its resources to appoint a mayoral political assistant. A mayoral political assistant is a local government employee who undertakes research and provides administrative support to the Mayor. The mayoral political assistant post is a politically restricted post, and there are strict rules set out within The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 which govern appointments to this post. These include that the role must be performed by an employee of the Council. The Council's mayoral assistant post has remained vacant since September 2019.

Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002. The payments made to the publicity company under this arrangement were therefore also unlawful, however we note they were not material to our opinion on the Council's financial statements.

## Value for Money (VFM)

The arrangement was entered into by the Council without following either the Council's recruitment policies, which would have applied to a permanent employee of the Council, or the Council's procurement policies, which would have applied to an external supplier. Payments to the publicity company were directly approved by the Council's Chief Executive despite the Council not being able to explain the nature of services received. Notwithstanding the lawfulness of the arrangement, by making payments to a supplier without understanding the nature of services being received in exchange for those payments the Council is unable to demonstrate that the payments represented value for money for taxpayers.

**4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Council maintains a Strategic Risk Register which is used to record and monitor the most significant risks, both financial and non-financial, identified by the Council. Beneath the Strategic Risk Register, each directorate maintains its own risk register and can escalate risks up to the Strategic Risk Register when sufficiently significant.

The strategic and directorate risk registers are reviewed monthly by the Leadership Management Team and directorate management teams, respectively. The Strategic Risk Register is also reviewed quarterly by the Executive and the Overview and Scrutiny Board.

Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan. Internal audit also provide a programme of counter-fraud activity to the Council.

A number of the matters which have been brought to our attention during the course of our audit were also reported to senior officers and the Council commissioned several reviews by internal audit to respond to the matters raised. These included reports on the management of the Boho X project, the purchase of the Covid-19 tests and the completeness of member declarations of interest. In our view, the scope of this work was not always sufficient to provide assurance to management on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up on findings which indicated areas where additional risks may exist beyond the initial scope of work.

## Value for Money (VFM)

Budget limitations were cited as a reason for this, however the reports produced did not highlight these areas for consideration of follow-up work by officers or the Corporate Affairs and Audit Committee. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

**5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.**

**6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.**

### *How the body approaches and carries out its annual budget setting process*

The Council maintains a Strategic Plan which sets out the key priorities for the Council, including those of the Mayor, over a multi-year period. The Strategic Plan forms the basis for the Council's budget setting exercise, along with forecasts from individual directorates for existing plans and services. These are collated with assumptions for cost pressures and future funding levels to produce a draft budget.

The draft budget is reviewed and stress tested for different scenarios by the Council's Leadership Management Team and Executive, before being issued to key stakeholders for consultation.

Management review the responses received from stakeholder consultations and make any necessary amendments to the draft budget, before submitting the finalised budget to meeting of the full Council for approval.

### *How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed*

The Council delegates budgets to individual cost centre managers, who are responsible for ensuring delivery within the delegated budget. Financial training is provided to all budget holders, who meet regularly with finance business partners to monitor financial performance.



## Value for Money (VFM)

Financial performance against budget and updated forecasts for the remainder of the year are presented to the Council's Leadership Management Team and Executive on a quarterly basis, along with proposals for corrective actions where required.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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### **Improving economy, efficiency and effectiveness**

#### *How financial and performance information has been used to assess performance to identify areas for improvement*

Financial performance is monitored via management accounts and presented to the Executive and the Overview and Scrutiny Board on a quarterly basis. Reporting includes comparison of both performance to date and full-year forecasts against budgets, with explanations provided for significant variances. Comparison is also made to the position in previous reporting to monitor whether improvement actions have had the desired impact.

Beneath the Council's high-level reporting, budgets and performance are monitored at service line and budget holder levels, with individual budget holders responsible for ensuring delivery against delegated budgets and the accurate forecasting of future performance.

#### *How the body evaluates the services it provides to assess performance and identify areas for improvement*

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions.

In January 2020, the Council's provision of children's social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. Our value for money opinion in 2019/20, issued in accordance with the 2015 Code of Audit Practice extant at the time, was qualified in respect of this matter.

In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.



## Value for Money (VFM)

The appointed Commissioner for Children's Services in Middlesbrough issued a 12-month review of the Council's progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that "considerable progress has been made and there is evidence of real impact" and recommended that the Council be allowed to retain control of its Children's Services. The report did however note that the Council's Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children's Services can be considered as adequate in all regards.

Whilst we note that the Council's Children's Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council's actions during the year to 31 March 2021, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2021 in respect of the provision of Children's Services, however we will continue to monitor the Council's progress against the Improvement Plan.

The provision of childrens social care is a key financial pressure for the Council. Whilst the Council has invested additional resources in the delivery of the Childrens Services Improvement Plan, it is management's expectation over the medium term that the improvements in service delivery will ultimately decrease costs by more effectively meeting the needs of service users during the earlier, lower cost, stages of care.

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

The Council has a Partnership Governance Policy which governs how the Council develops and manages its partnerships. All new partnership arrangements are considered to be projects and subject to the approval processes of the Council's Programme and Project Management Policy.

Each partnership arrangement has a dedicated lead manager who is responsible for managing the partnership's performance and governance. A register is maintained of all Council partnerships and the performance of significant partnerships is included in quarterly performance reporting to the Executive and Overview and Scrutiny Board.

A number of the Council's elected members also hold positions in local and regional partner organisations to promote effective cross-working between partnership members.

## Value for Money (VFM)

Through the Multi-Agency Strategic Board and Multi-Agency Operational Board, the Council has worked particularly closely during 2020-21 with the Department for Education (DfE) and the DfE appointed Commissioner for Children's Services in Middlesbrough on the delivery of the Council's Children's Services Improvement Plan.

*Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits*

The Council uses the North East Procurement Organisation (NEPO), a regional procurement hub for North East local government authorities, for all of its tendered procurements. NEPO also maintain a public contracts register which lists all of the Council's current contracts. The Council also has a central procurement unit, which provides support to individuals within the Council overseeing procurement activity through NEPO.

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts.

The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed above.

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The Council has generally had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services, however the identified weaknesses in governance create additional risks to these arrangements.

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### **Financial sustainability**

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government. The MTFP for 2021-24 also included consideration of additional costs and funding relating to the Covid-19 pandemic.

The Council's finance team work with the heads of individual directorates to identify cost pressures, including due to changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFP.

Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which require reflecting in subsequent MTFPs.

## Value for Money (VFM)

### *How the body plans to bridge its funding gaps and identifies achievable savings*

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. For the 2021-22 budget, a budget gap of £1.626 million was identified.

Individual directorates are required to identify potential savings within their service area, which may arise from reductions to expenditure or increases to income. Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery. Where proposed savings may have a significant impact on service delivery, the Council holds a public consultation prior to incorporating the saving into financial plans.

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. For the 2021/22 budget, identified savings exceeded required savings by £0.695 million.

### *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle.

The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

During 2020/21, management undertook a self-assessment against the CIPFA Financial Management Code, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Several actions were identified to strengthen the Council's processes, however no major weaknesses were noted.

## Value for Money (VFM)

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers. We have however identified multiple instances, as detailed above, where the involvement of members strayed into operational matters. We also note that where this occurred, it was often known to officers and insufficient challenge was provided to members on the boundaries of members' and officers' respective responsibilities. A lack of adherence to the delineation between strategic and operational responsibilities increases the risk that operational decisions are taken which are not optimal for the Council or the Council is unable to demonstrate represent value for money. Examples of this noted above include the Boho X project and the purchase of Covid tests.

**7. We therefore recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.**

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The Council develops its Capital Strategy and Investment Strategy alongside the MTFP and incorporates the revenue impact of planned capital expenditure and borrowing into the MTFP.

The Council operates a finance business partner model to facilitate regular communication between finance staff and the Council's directorates to ensure that other plans being prepared by the Council are consistent with the Council's financial planning.

The Council also requires that all decisions which are deemed significant enough to warrant approval by the senior management team or elected members are approved by the Council's Director of Finance to ensure that the financial implications of significant decisions are considered and reflected in the Council's financial planning.

## Value for Money (VFM)

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures. During 2020-21, management released a previously held Investment Fund Reserve to offset the impact of the Covid-19 pandemic on the Council's finances.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal activities. During 2020/21, the Council increased this minimum level from £9.4 million to £11 million, effective from 2021/22, to reflect higher uncertainty in the Council's financial projections, including the ongoing impact of the Covid-19 pandemic. At 31 March 2021, the Council's General Fund balance was above the £9.4 million minimum level in effect for 2020/21 at £10.5 million and is forecast to increase to the revised minimum level of £11 million during 2021/22.

The Council's MTFP produced during 2020/21 included a balanced budget for 2021/22 and indicative budgets for 2022/23 and 2023/24. The MTFP forecast a budget deficit of £0.6 million in 2022/23, which the Council intends to finance from reserves, and a budget deficit of £3.1 million for 2023/24 which the Council will need to address in future MTFPs.

## Value for Money (VFM)

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The Council has agreed 7 recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

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### **Recommendations**

As a result of the VFM procedures we have carried out we have agreed seven recommendations with the Council:

#### *Recommendation 1*

We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.

#### *Management response*

The Council has proposed, within the draft Annual Governance Statement, that a Corporate Governance Improvement journey is commenced. It is intended that this will be informed by the views of external specialists, CIPFA, who have been commissioned to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration.

In order for this to be successfully delivered, it will require full buy in from all stakeholders in this process. There is a significant risk that this action cannot be achieved if this is not gained. This is reflected within the Annual Governance Statement and has been highlighted to EY.

#### *Recommendation 2*

We therefore recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.

#### *Management response*

Refresher training on the code of conduct was provided to members during 2021/22 (27/9/21). 21 members attended that training. Training also included ethics within public life. Following the event the training presentation was emailed to all Councillors.



### *Recommendation 3*

Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.

### *Management response*

Member refresher training was delivered during 2022 on the code of conduct and included information on hospitality requirements and registers of interests. A separate micro session was also delivered on members interests on 22 Sept 21. As standard materials from all training events is sent out to all councillors.

While it is an Elected Member's sole responsibility to ensure that they appropriately declare interests, the Council will undertake periodic spot checks on a risk based basis at least three times a year of one or more Members' declarations during 2022/23 to assess whether there are ongoing compliance issues.

### *Recommendation 4*

We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.

### *Management response*

The council will consider the findings of the pre-formal fact finding to date and use this to propose a scope of reviews that will test similar arrangements to those that were within the scope of the pre-formal fact-finding. This will be embedded within the Internal Audit programme for 2022/23.

### *Recommendation 5*

We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.

### *Management response*

The Council has recently refreshed its approach to Risk Management and tasked all senior officers to review existing risks. This is an ongoing exercise.

Senior Managers will consider whether risk has been fully identified as part of steps in response to recommendations and to establish whether there are additional areas of Council business that that require further governance review.

Risk register content is available to LMT on the dashboard, performance against existing risk is presented on a monthly basis and risk register content is reviewed regularly within the quarterly performance report. The Q1 process will include an assessment of risk changes as a result of the VfM judgement and the update of the Annual Governance Statement.

### *Recommendation 6*

We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.

### *Management response*

Management will work with Veritau to build the highlighting of identified wider risks into the audit reporting process. The reporting of these risks will then be built into regular Internal Audit updates to Corporate Affairs and Audit Committee.

## Value for Money (VFM)

### *Recommendation 7*

We therefore recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

### *Management response*

There is a planned action within the Annual Governance Statement to complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers during 2022/23.

This is supplemented by training already delivered during 2021/22 on roles and responsibilities in a range of corporate governance areas:

- Refresher senior leadership development work programme delivered by the Local Government Association to ensure officer and member roles continue to be understood and adhered to.

And other training planned for delivering during 2022/23:

- Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training;
- Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers;
- Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to;
- Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management;
- Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge;
- Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers.

The Council has also commissioned CIPFA to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration. As a result of this work, it is likely that further training needs will be required to drive required culture changes that are needed.

# Value for Money (VFM)

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The Council faces further challenge and change beyond 2021 which will form part of our future VFM arrangements work.

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## Forward look

### *Senior officer and member relations*

The Council faces significant challenges in addressing the deep rooted cultural and relationships issues which existed during the year ended 31 March 2021. The recommendations agreed with management to address these challenges were not agreed until July 2022, sixteen months after the end of the period under audit, therefore they were not in place during the year ended 31 March 2022 and management have acknowledged that relationships at the Council continued to deteriorate beyond March 2021.

The Council was issued with a Best Value notice by the Department for Levelling-Up, Housing and Communities (DLUHC) in January 2023 due to concerns over governance and culture at the Council.

In our view it is the responsibility of all elected members and officers to work together to address these serious matters.

### *Children's Services*

The Council will also need to ensure that addressing these matters does not distract from the Children's Services Improvement Plan. Whilst the Council has made good progress during the year ended 31 March 2021 against this plan, this was only the first year of a multi-year plan and the Council has more to do before its Children's Services can be considered as adequate in all regards.

In addition, the Council reported a significant overspend in Children's Services for the year ended 31 March 2022 of £8.3 million (prior to application of flexible capital receipts) and is forecasting an even larger overspend of £10.1 million for the year ended 31 March 2023. The Council's budget for the year ending 31 March 2024 includes additional amounts of £7.2 million for increased demand for Children's Services and £9.8 million for other additional investment, together representing an increase of over one third in the Children's Services budget, and the Council has implemented a Children's Services Financial Recovery Plan.

The scale of this additional investment has necessitated savings of £9.4 million to also be incorporated into the Council's budget for the year ending 31 March 2024, following several years with no significant savings being required. An independent review of planned savings by CIPFA concluded that the Council is unlikely to deliver all of the planned savings, as well as highlighting the low level of reserves held by the Council, and further cost-saving measures are likely to be necessary to ensure the financial sustainability of the Council.

## Value for Money (VFM)

### *Middlesbrough Development Company*

In February 2019, the Council established Middlesbrough Development Company as a subsidiary (called MHome Limited at the time). The activities of the subsidiary were limited up to 31 March 2021, however the Council has delivered or is still delivering several significant capital projects through the subsidiary since 31 March 2021.

Subsidiary companies act with a greater degree of separation from both the management and elected members of the Council, and appropriate governance arrangements are required to oversee the activities of the subsidiary and ensure that it delivers value for money with the resources provided to it by the Council.

In January 2023, the Council decided to demise the subsidiary as no longer meeting the strategic needs of the Council. This decision was taken following a draft report from internal audit highlighting that significant investment would be required to bring the Council's arrangements for overseeing the subsidiary up to the expected standard.

The Council will now need to manage the demise of the subsidiary, including transfer back to the Council of any remaining assets and settlement of the amounts loaned to the subsidiary by the Council.

### *Adherence to Council policies and procedures*

Our value for money commentary highlights several examples where the Council's internal policies and procedures were not adhered to, including in relation to procurement. Since we undertook our value for money work, further matters have been brought to our attention which indicate this has continued to be a concern after 31 March 2021. This includes the extension of a significant contract which management subsequently had concerns over and, following an internal investigation, have concluded was not undertaken in accordance with the Council's policies and procedures.

Our audit work to support our commentary on the Council's arrangements for the year ending 31 March 2022 is ongoing and includes the use of EY forensic specialists to assist with evaluating the extent to which non-adherence with policies and procedures may be pervasive within the Council.

### *Stability of senior management*

Between 31 March 2021 and the date of this report, the Council has had 4 Section 151 Officers (including a short-term internal appointment between external appointments). It has also changed its Chief Executive, Director of Children's Services and Director of Children's Care, and the current holders of all 4 posts are interim appointments whose current terms of employment expire within 12 months.

At a time when the Council has several significant improvement plans in progress, including in relation to Children's Services and the Council's overall culture and governance, a lack of stability in senior post holders increases the risks that the Council is not able to deliver against its improvement plans.

## Value for Money (VFM)

### *Exposure to commercial risks*

During the year ended 31 March 2021, the Council acquired the Cleveland Centre shopping centre and the former House of Fraser department store in Middlesbrough town centre. Since the 31 March 2021, the Council has also acquired the Captain Cook Square retail centre and has announced ambitious plans to redevelop these sites as part of its efforts to regenerate the town centre.

Combined with the purchase of the two Centre Square office buildings in the year ended 31 March 2020 and the ongoing construction of the Tees Advanced Manufacturing Park, the Council has significantly increased its exposure to commercial income streams compared to a few years ago. Such activities carry both upside and downside risks which the Council will need to manage as part of its financial planning.

### *Inflationary pressures*

All local government authorities face rising costs as a result of levels of inflation not seen in the UK economy for two decades, including significant increases in energy prices which can have a disproportionate impact on providers of public services which typically have large physical estates. Increases in interest rates will also make it more expensive for local authorities to borrow to fund capital programmes.

The impact of inflationary pressures on individuals is also likely to increase demand for council services and may reduce the income from discretionary council services. Local authorities may also seek to provide additional support to individuals.

All of which may have adverse impacts on the Council's financial position and make it more difficult for the Council to ensure it is financially stable over the medium term.





Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have performed all of the procedures required to date by the National Audit Office on the Whole of Government Accounts consolidation pack submission. We cannot however formally conclude the audit and issue our audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Middlesbrough Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

We have no matters to report from the procedures performed to date.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

We do however note that within our VFM commentary we have highlighted that if we are not satisfied with the Council's progress against our recommendations, we will consider exercising our further powers by making statutory recommendations. We reported in December 2022 to the Council's Corporate Affairs and Audit Committee that the Council has taken positive actions to respond to our recommendations (issued in draft in July 2022), however it is clear that there is significant concern amongst a number of stakeholders over the ability of the Council to deliver on these actions.

We will continue to monitor the progress of the Council against the Improvement Plan as part of our value for money assessment for future periods. Should this assessment provide evidence that the Council is not making satisfactory progress against the Improvement Plan or the actions taken are not having the necessary effect on the Council's culture, we will reconsider whether a statutory recommendation or exercise of other auditor reporting powers may be appropriate.

## Other Reporting Issues

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Recommendation
<p><b>Maintenance of infrastructure asset accounting records</b></p> <p>The Council has not maintained appropriate accounting records to allow it to account for infrastructure assets in accordance with the requirements of the reporting framework. Specifically, the Council is not able to separately identify individual assets within its accounting records and, therefore, cannot evidence that individual assets have been accounted for appropriately.</p> <p>The reporting framework has been modified for 2020/21 so that the Council does not need to separately disclose the gross cost and accumulated depreciation and impairment of infrastructure assets, only the net valuation, and can assume that the net valuation as at 1 April 2020 was correct. These modifications are however temporary, applying only until the 2024/25 financial year.</p> <p>The detailed requirements which will apply after 2024/25 are still to be determined, however it is highly likely that they will require the Council to develop better information on the Council's infrastructure assets than it currently holds.</p>	<p>The Council should review how it records its expenditure on infrastructure assets, in particular to allow it to separately identify individual assets within its accounting records.</p> <p>In addition, the Council should review what information it holds for existing assets in other forms, for example within the highways team, and how this can be used to disaggregate existing accounting records.</p>

### Application of procurement processes

Our audit procedures identified a number of instances where goods or services were procured outside of the Council's normal policies and procedures, including the provision of mayoral support activities and the purchase of unusable Covid-19 tests.

The Council's policies allow for formal exemptions to full procurement processes to be applied, as may have been appropriate during the pandemic response, however the fact an exemption was applied and the reason for doing so should be clearly documented.

The Council has been unable to evidence documentation of an exemption in the cases noted.

We recommend the Council review its procurement processes to ensure that policies and procedures are either applied in full, or clear documentation is made of the reasons why exemptions have been applied.

## Other Reporting Issues

Description	Recommendation
<p><b>Inspection of the accounts</b></p> <p>Under the Local Audit and Accountability Act 2014, the Council is required to provide a period of 30 working days after publication of the draft financial statements during which local electors may inspect the draft statements and raise any questions on them to the Council. Due to a technical issue, the Council did not identify the one query received during the inspection period and did not therefore respond to the query in a timely manner. The Council did respond to the query once the failure to respond to the original request was reported through other channels.</p>	<p>We recommend that management review the process by which electors may raise queries during the accounts inspection period to ensure that any requests received during the inspection period for the 2021/22 Statement of Accounts are identified and responded to in a timely manner.</p>
<p><b>Accuracy of leases register</b></p> <p>Our testing of lease-related disclosures found a number of issues with inaccurate information being recorded in the Council's leases register. In addition to causing a misstatement of disclosures, inaccurate information on the Council's lease arrangements may have a negative impact on the accuracy of financial forecasting and expose the council to operational risks, such as being unaware a lease has expired.</p> <p>In 2024/25, the Council will adopt IFRS 16, a new accounting standard for leases which will increase the balances recognised on the balance sheet. Accurate information on the terms of the Council's leases will be key to successful adoption of this new standard.</p>	<p>We recommend management review the process by which lease information is updated and reviewed within the Council's leases register to ensure that information recorded in the register is complete and accurate.</p>
<p><b>Response to freedom of information and subject access requests</b></p> <p>In most cases, the Council is required by the Freedom of Information Act 2000 to respond to requests for information within 20 days and by the Data Protection Act 2018 to respond to Subject Access Requests (SARs) within one month. For the 2020 calendar year, the Council has reported compliance with these targets for 73% of information requests and 58% of SARs. Response times to such requests are specified in legislation therefore the Council's failure to respond consistently within these timescales is non-compliant with these pieces of legislation.</p> <p>Management have recognised the need to address a backlog of cases and have implemented a recovery plan to facilitate this.</p>	<p>We recommend the Council continues to review progress against the recovery plan and take further steps if the Council's compliance rate with statutory timescales does not sufficiently improve.</p>

## Other Reporting Issues

Description	Recommendation
<p><b>Useful lives of infrastructure assets</b></p> <p>In considering how the Council has applied the reporting framework amendments for infrastructure assets, we undertook a more detailed review of the useful lives applied to individual infrastructure assets.</p> <p>Our review noted that there is considerable variability in the useful lives applied and the useful lives adopted were not always in-line with the guidance ranges published by CIPFA or reflective of the different components of an asset which may exist.</p> <p>We are content that net valuations at 31 March 2021 are materially correct, in part because of the statutory presumption that balances at 1 April 2020 were correct, however the risk of misstatement in net valuations due to inappropriate useful lives being applied will increase year-on-year.</p>	<p>We recommend that management review the useful lives applied to infrastructure assets, including whether different useful lives should be applied to different components of each asset, against both the CIPFA guidance and the Council's own past experience of the frequency with which assets are replaced.</p>
<p><b>Allowances for bad and doubtful debt</b></p> <p>Our testing of the Council's allowances for bad and doubtful debt noted that key assumptions within the calculations, in particular around the recoverability of aged debt, have not changed for a number of years. Whilst management did include manual adjustments to account for the impact of the pandemic in specific circumstances, there was a limited evidence base for the size of these adjustments.</p> <p>There have been significant changes to the economic environment at both the macro and local level since many of the assumptions used were set, therefore there is a risk that these are no longer appropriate and the Council is not accurately calculating its exposure to irrecoverable balances..</p>	<p>We recommend that management review the assumptions used to inform the calculation of allowances for bad and doubtful debt to ensure they remain appropriate. Management should also ensure their calculations comply with the requirements of accounting standards, including the 'expected loss' model of IFRS 9 for non-statutory balances.</p>



Appendix A

## Audit Fees



## Audit Fees

We set out below a summary of our fees for the year ended 31 March 2021.

Description	Final Fee	Planned Fee	Final Fee
	2020/21	2020/21	2019/20
	£	£	£
Base scale fee – Council (note 1)	88,578	88,578	88,578
Base scale fee - Pension Fund (note 1)	21,972	21,972	21,972
Increase for changes in risk and regulatory environment – Council (notes 2,3,8)	81,850	-	53,960
Increase for changes in risk and regulatory environment – Pension Fund (notes 2,3,8)	39,359	-	14,033
<b>Revised base fee</b>	<b>231,759</b>	<b>110,550</b>	<b>178,543</b>
IAS 19 procedures (Code work) (notes 4,5)	8,500	N/A	6,000
IAS 19 procedures (non-Code work) (notes 4,5)	-	N/A	2,000
<b>Revised base fee (inc. IAS 19 procedures)</b>	<b>240,259</b>	<b>110,550</b>	<b>186,543</b>
Additional audit fee for response to specific audit findings – Council (notes 6,7,8)	184,572	-	20,745
Additional audit fee for response to specific audit findings – Pension Fund (notes 6,7,8)	5,000	-	5,202
<b>Total audit fee</b>	<b>429,831</b>	<b>110,550</b>	<b>212,490</b>
Non-audit services – Housing Benefit certification work	13,450	N/A	12,800
Non-audit services – Teachers Pension certification work	5,250	N/A	5,000
<b>Total fees</b>	<b>448,531</b>	<b>110,550</b>	<b>230,290</b>

### Notes

1. The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) in March 2020.
2. We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. In our Audit Planning Report we reported that we had submitted proposals of £64,381 for the Council and £33,602 for the Pension Fund to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2019/20 audits. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).

## Audit Fees

3. The amounts reported for 2020/21 are the amounts we have communicated to management and will submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2020/21 audits. In addition to the factors applicable to the 2019/20 audits, which remain relevant for the 2020/21 audits, the level of audit work required for 2020/21 was impacted by the adoption of the new auditing standard ISA 540: Auditing Accounting Estimates and Related Disclosures and the new framework applicable to our value for money assessment. Amounts for these factors have been based on anticipated fee impacts communicated by PSAA to auditors and audited bodies.
4. As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies.
5. In 2019/20, the provision of IAS 19 assurances to the auditor of the Care Quality Commission was not covered by the NAO Code of Audit Practice (2015) and we performed this work under a separate engagement agreement between ourselves and the Pension Fund. From 2020/21, this work is now covered by the new NAO Code of Audit Practice (2020) and the fee reflected within the fee for IAS 19 work performed under the Code of Audit Practice.
6. In 2019/20, we performed additional procedures over what we planned at the start of our audit, to respond to the impacts of the Covid-19 pandemic on the financial statements. This included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. In our Audit Planning Report we reported amounts of £24,750 for the Council and £12,455 for the Pension Fund as the additional fees we determined as commensurate with the additional work undertaken, which we had submitted to PSAA. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).
7. Where we identified significant risks and other areas of audit focus as part of our 2020/21 audits, as reported to the Corporate Affairs and Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. For 2020/21, this has included an exceptional level of audit effort to address the additional risk of significant weakness relating to member and senior officer relationships reported in section 5 which, due to its nature, has had to be performed by the most senior members of the audit team. Audit resources have also been required to respond to a very high level of correspondence we have received during the course of the 2020/21 audit, changes to the reporting framework for infrastructure assets and multiple extensions to management's going concern assessment. The amounts of £184,572 for the Council and £5,000 for the Pension Fund represents our assessment of the additional fees we have determined as commensurate with the additional work undertaken.
8. PSAA provided final additional fee determinations of £74,705 for the Council and £19,235 for the Pension Fund in respect of 2019/20 audits. These amounts were not broken down further by PSAA, therefore for the purposes of the table on the previous page we have apportioned these amounts between the increase for changes in risk and regulatory environment and additional audit fee for response to specific audit findings in proportion to the amounts originally requested.

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<b>Report of:</b>	Head of Internal Audit, Veritau
<b>Submitted to:</b>	Corporate Affairs and Audit Committee, 29 June 2023
<b>Subject:</b>	Internal audit and counter fraud work programme 2023/24

**Summary**

<b>Proposed decision(s)</b>
That the Committee: <ul style="list-style-type: none"> <li>approves the internal audit and notes the counter fraud work programme for 2023/24</li> </ul>

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>
Information	No	No

<b>Contribution to delivery of the 2020-23 Strategic Plan</b>		
<b>People</b>	<b>Place</b>	<b>Business</b>
Internal audit work contributes towards achieving the Council's priorities by identifying any potential control issues which may obstruct that achievement. The prevention and detection of fraud as well as the recovery of losses helps the Council to ensure the effective use of public funds for the benefit of residents and to achieve its strategic goals.	Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to enable delivery, ensure value for money and achieve better outcomes for local people.	Delivering balanced budgets, maintaining front line services, and addressing budget shortfalls are priorities for the Council. Ensuring appropriate controls are in place and preventing fraud from occurring and recovering loss helps the Council achieve these aims.

<b>Ward(s) affected</b>
None.

## **What is the purpose of this report?**

1. To seek Members' approval for the 2023/24 planned programme of internal audit, and to ask Members to note the counter fraud 2023/24 work programme.

## **Why does this report require a Member decision?**

2. Public Sector Internal Audit Standards require internal audit to develop risk-based plans to determine priorities for internal audit work. Plans are required to be approved by this committee as part of its responsibility for overseeing the work of internal audit.
3. The national Local Government Counter Fraud Strategy – Fighting Fraud and Corruption Locally – recommends that audit committees should receive an annual report on levels of counter fraud resource.

## **Report Background**

4. Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
5. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
6. The purpose of this report is to present the internal audit and counter fraud work programmes for 2023/24.

## **Internal Audit work programme**

7. Appendix 1 sets out proposed internal audit work for 2023/24. The planned work is based on an initial assessment of risk undertaken. The identification of risks included in the assessment has been informed in a number of ways. This includes 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 and other changes in Council services and systems.
8. The proposed areas of coverage have been subject to consultation with the Corporate Affairs and Audit Committee and senior officers including Directorate Management Teams.
9. To meet professional aims and objectives, good practice for internal audit requires us to adopt flexible planning processes. This helps to ensure that internal audit work undertaken during the year is adapted on an ongoing basis to reflect changing and emerging risks within the Council.
10. We will regularly discuss the scope and timings of work with officers and management to help ensure that we provide assurance in the right areas and at the right time. Further meetings will be held throughout the year to plan and confirm the scope and timings of audit work. We will also provide regular updates to the



Corporate Affairs and Audit Committee on the coverage, scope and findings of our work.

11. Total days allocated to internal audit assurance in 2023/24 are 555.

### **Counter Fraud work programme**

12. Proposed areas of counter fraud work in 2023/24 are set out in Appendix 2. No estimate of time is made for each area as this will depend on the levels of suspected fraud reported to the team. The priorities for the work programme are set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment which were most recently presented to the committee in September 2022.

13. Total days allocated to counter fraud work in 2023/24 are 150.

### **What decision(s) are being asked for?**

14. That the committee:

- approves the internal audit work programme and notes the counter fraud work programme for 2023/24

### **Why is this being recommended?**

15. Internal audit professional standards require that risk-based annual work programmes are approved by the Committee. The work programme has been produced following consultation with officers and members.

### **Other potential decisions and why these have not been recommended**

16. This report is for approval. There are no other options available.

### **Impact(s) of recommended decision(s)**

#### ***Legal***

17. There are no specific risks.

#### ***Financial***

18. There are no specific risks.

#### ***Policy Framework***

19. There are no specific risks.

#### ***Equality and Diversity***

20. There are no specific risks.

#### ***Risk***

21. The Council will be non-compliant with the Public Sector Internal Audit Standards if the internal audit work programme is not approved by the Committee, and it may be subject to increased scrutiny and challenge.

### **Actions to be taken to implement the decision(s)**

22. n/a

### **Appendices**

Appendix 1 – internal audit work programme 2023/24

Appendix 2 – counter fraud work programme 2023/24

### **Background papers**

No background papers were used in the preparation of this report

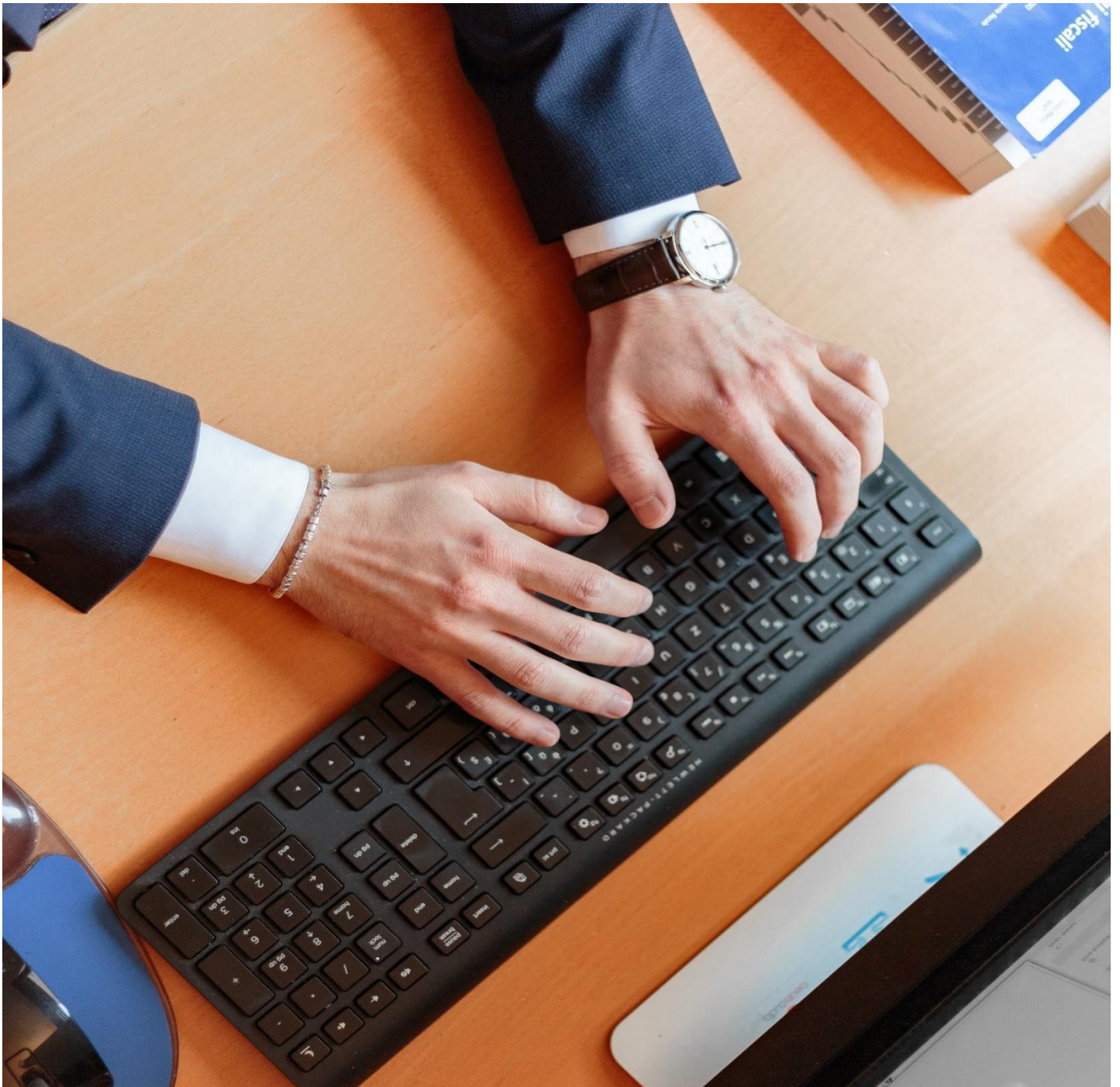
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# INTERNAL AUDIT WORK PROGRAMME 2023/24

Date: 29 June 2023


Annex 1





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Max Thomas  
Head of Internal Audit



Phil Jeffrey  
Assistant Director Audit Assurance

## INTRODUCTION

- 1 This document sets out the proposed 2023/24 programme of work for internal audit, provided by Veritau for Middlesbrough Council.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards and the Council's audit charter. In order to comply with those standards and the charter, internal audit work must be risk based and take into account the requirement to produce an evidence-based annual internal audit opinion. Accordingly, planned work should be reviewed and adjusted in response to changes in the business, risks, operations, programmes, systems and internal controls.
- 3 The Head of Internal Audit's annual opinion is formed following an independent and objective assessment of the effectiveness of the framework of risk management, governance and internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the Council, and to produce a body of work which allows us to provide that opinion.
- 4 Responsibility for effective risk management, governance and internal control arrangements remains with the Council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control nor can audit work cover all areas of risk across the organisation.

## APPROACH

- 5 In order to best meet professional standards, internal audit is required to adopt flexible planning processes that are sensitive to risk. This flexibility and risk-based approach are driving principles for delivery of Middlesbrough Council's 2023/24 internal audit work programme.
- 6 The Council is facing unprecedented financial pressures as a result of the continued increase in demand for its services and the impact of inflation and economic uncertainty. In setting the budget for 2023/24 there was a £14.9m budget deficit which requires delivery of £9.4m of savings in the next year. Children's social care has been identified by the Council as its most significant financial risk.
- 7 In addition, the Council has had a number of governance issues identified by Veritau and the external auditors, EY. This resulted in a government Best Value Improvement notice which was issued in January 2023. The Council is currently implementing an improvement plan to address these issues.
- 8 The combination of these pressures means that the Council needs to act to maintain a stable and resilient financial position while still delivering on the priorities set out in the Council's Strategic Plan. These priorities include improving outcomes for young people, tackling crime and anti-social behaviour, tackling climate change and transforming the town centre.



- 9 The work programme for 2023/24 represents a summary of the overall areas we currently believe will be the highest priority for work during the next year, based on our current risk assessment. This assessment involves giving careful consideration to:
- systems where the volume and value of transactions processed are significant, or the impact if risks materialise is very high, making the continued operation of regular controls essential
  - areas of known concern, where a review of risks and controls will add value to operations
  - areas of significant change which may include providing direct support / challenge to projects, reviewing project management arrangements, or consideration of the impact of those changes on the control environment, for example where reductions in resources may result in fewer controls.
- 10 Internal audit work covers a range of risk areas to ensure that, overall, the work undertaken will enable us to meet the requirement to provide an overall opinion on the Council's framework of risk management, governance and internal control.
- 11 We have defined 11 areas where we require assurance during the course of the year to help provide that opinion:
- strategic planning
  - organisational governance
  - financial governance
  - risk management
  - information governance
  - performance management and data quality
  - procurement and contract management
  - people management
  - asset management
  - programme and project management
  - ICT governance
- 12 The 11 assurance areas represent aspects of the Council's systems of internal control that need to be in good health and functioning correctly to maximise the likelihood that its objectives are achieved without undue exposure to risk.
- 13 The requirement to provide assurance across these areas to arrive at a strong, evidenced-based annual opinion is taken into account when identifying and prioritising work throughout the year. The process for developing the 2023/24 work programme has involved the following key steps:
- undertaking a detailed review of the Council's corporate risk register, including changes in risk profile over time, controls and actions



- understanding the Council’s longer- and shorter-term objectives through an extensive desktop review of committee reports, decisions, performance data, and Strategic Plan priorities
  - evaluating other known risk areas (for example, areas of concern highlighted by management or through our experience at other clients), and
  - considering fundamental controls, the results of recent audit work, outcomes from any external reviews, and changes in Council services and systems.
- 14 The results of these assessments and considerations have been combined to allow us to evaluate the impact and value each potential audit would bring. The proposed areas of coverage have already been subject to consultation with the Corporate Affairs and Audit Committee, as part of its 16 February 2023 meeting, and they continue to be subject to consultation and discussion with directors and senior officers from across the Council.
- 15 The overall programme, and the relative priorities for work within it, will be revisited and updated throughout the year. Work to be started will be based on the most immediate priorities at any point. We will regularly consult with officers on the priority, scope and timing of work to help ensure that we provide assurance in the right areas at the right time. We will also provide regular updates on the scope and findings of our work to the Corporate Affairs and Audit Committee throughout 2023/24.

## 2023/24 INTERNAL AUDIT WORK

- 16 The work programme is based on a total commitment of 555 days. Further details on the current priorities and expected timings for internal audit work during 2023/24 are provided in appendices A and B.
- 17 The programme is designed to ensure that limited audit resources are prioritised towards those areas which are considered to carry the most risk or which contribute the most to the achievement of the Council’s strategic priorities and objectives.
- 18 Functionally, the indicative programme is structured into a number of sections, as set out below. In assessing the work to be included in each section, consideration is given to the priorities listed at paragraph 8 and the areas set out in paragraph 10.
- **Strategic / corporate & cross cutting** – to provide assurance on areas which, by virtue of their importance to good governance and stewardship, are fundamental to the ongoing success of the Council.
  - **Technical / projects** – to provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the Council as the risks involved could detrimentally affect the delivery of services.
  - **Financial systems** – to provide assurance on the key areas of financial risk. This helps provide assurance to the Council that risks of loss or error are minimised.

- **Service areas** – to provide assurance on key systems and processes within individual service areas. These areas face risks which are individually significant but which could also have the potential to impact more widely on the operations or reputation of the Council if they were to materialise.
- **Other assurance areas** – an allocation of time to allow for continuous audit planning and information gathering, unexpected work, and the follow up of work we have already carried out, ensuring that agreed actions have been implemented by management.
- **Client support, advice & liaison** – work we carry out to support the Council in its functions. This includes the time spent providing support and advice and liaising with staff.

19 It is important to emphasise two important aspects of the programme. Firstly, the audit areas included in this programme and the indicative days assigned to each of the areas in appendix A are not fixed. As described in paragraph 14, work will be kept under review to ensure that audit resources continue to be deployed in the areas of greatest risk and importance to the Council. This is to ensure the audit process continues to add value.

20 Secondly, we will not carry out all of the audits listed in the programme. The programme has been intentionally over-planned, to build in flexibility from the outset while also providing an indication of the priorities for work at the time of assessment. Over-planning the programme enables us to respond quickly by commencing work in other areas of importance to the Council when risks and priorities change during the year.

## APPENDIX A: Indicative Internal Audit Work Programme 2023/24

Area	Indicative Days	Potential activity
<b>Strategic risks / Corporate &amp; cross cutting</b>	<b>126</b>	Savings plans and delivery Procurement Decision making and Council Governance Agency staff Information governance including Freedom of Information Risk management Health and safety Performance management Information security Corporate complaints Grant claims (including TVCA grants), trust funds and other related work
<b>Technical / projects</b>	<b>55</b>	Regeneration projects including Captain Cook Square Project management including Boho X and Transporter Bridge follow-ups IT applications IT asset management Cyber security

Area	Indicative Days	Potential activity
<b>Financial systems</b>	<b>69</b>	Main accounting Treasury management VAT accounting Payroll Teesside Pension Fund – investments and administration Debtors Council Tax and NNDR Benefits and Council Tax Support
<b>Service areas</b>	<b>202</b>	Schools themed audits Youth Justice Service (Turnaround scheme) Demand management and budget management (Children’s) Early years funding Ofsted Improvement Plan Housing development Commercial property income Anti-social behaviour management Use of residential care Social care transitions (Children to Adult) Continuing healthcare including hospital discharges

Area	Indicative Days	Potential activity
		Direct payments Supporting families Homelessness Financial assessments (Adult's) Climate change Burials (follow-up)
<b>Other assurance work</b>	<b>58</b>	Follow-up of previously agreed management actions Continuous audit planning and additional assurance gathering to help support our opinion on the framework of risk management, governance and internal control Continuous assurance work, including data analytics and data matching projects Attendance at, and contribution to, governance- and assurance-related working groups including Risk Management Group
<b>Client support, advice &amp; liaison</b>	<b>45</b>	Committee preparation and attendance Key stakeholder liaison Support and advice on control, governance and risk related issues
<b>TOTAL</b>	<b>555</b>	

## APPENDIX B: Rationale for inclusion in the work programme / expected timings

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
<b>Corporate &amp; cross cutting</b>			
<b>Category 1 (do now)</b>			
Procurement cards	Requested by Children's DMT as an area of high risk and spend.	April 2023	July 2023
<b>Category 2 (do next)</b>			
Agency staff	The Council has significant issues with recruitment and retention and subsequent spend on agency staff, particularly within Children's and Adult's Services	Q2 2023/24	Q3 2023/24
Health and safety	Proper arrangements for managing health and safety risks, and incident management, are essential. This area has not been audited for some time.	Q2 2023/24	Q3 2023/24
Procurement	Procurement is a key function of the Council and has high inherent risk.	Q2 2023/24	Q3 2023/24
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q3 onwards:		
Information governance including FoI	Key governance area and weaknesses in relation to responding to FoI Act requests have been identified by EY as part of their annual work.		



Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Savings plans and delivery	The Council has significant budget pressures and has agreed a further set of savings plans. The audit will review progress against plans and the reasonableness of assumptions made in calculating savings.		
Decision making and Council governance	The Council has had several governance related issues in recent years that have been reviewed by internal audit. We will put some time aside to review any emerging issues and to ensure previously agreed actions have been implemented.		
Risk management	This is a key area of governance for the Council and has not been audited for some time.		
Information security	Considered high risk due to external threats and continuing pace of technological change. The Council has also recently moved into new offices at Fountains Court.		
Corporate complaints	Essential for effective governance. This area has not been audited for some time.		
Project management	Sound project management arrangements are important because it helps every part of the Council run more efficiently and effectively. When done correctly, it enables leadership to plan and manage projects so that every objective and deliverable is completed on time and within budget. The Council has several projects in development or underway including Boho X and regeneration projects including the old Southlands Centre, Captain Cook Square, the former Crown site and housing regeneration in Gresham. This may include a follow-up of actions relating to Boho X.		
Performance management	A key assurance area reflecting its significant contribution to the achievement of the Council's objectives		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
<b>Financial / Corporate systems</b>			
<b>Category 1 (do now)</b>			
Council Tax/NNDR	This is a key financial system requiring effective internal controls.	February 2023	July 2023
Debtors	This is a key financial system requiring effective internal controls.	April 2023	July 2023
Teesside Pension Fund – Administration	This is a key financial system for the Teesside Pension Fund requiring effective internal controls.	May 2023	July 2023
Main accounting	This is a key financial system requiring effective internal controls.	June 2023	September 2023
<b>Category 2 (do next)</b>			
Benefits & Council Tax Support	This is a key financial system requiring effective internal controls.	July 2023	September 2023
Treasury management	Risks have increased in this area due to a number of factors including the tightening of PWLB lending criteria, increases to borrowing rates and ongoing concerns about the stability of some banks and money market funds.	Q2 2023/24	Q3 2023/24
VAT accounting	This area has not been reviewed for some time.	Q3 2023/24	Q4 2023/24
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls.	Q3 2023/24	Q4 2023/24

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q3 onwards:		
Payroll	This is a key financial system requiring effective internal controls.		
Creditors	This is a key financial system requiring effective internal controls.		
<b>ICT</b>			
<b>Category 1 (do now)</b>			
IT business continuity and disaster recovery	This is a key risk area for IT and there have been no recent audits in the area.	May 2023	August 2023
IT asset management	No recent audit coverage and a key area for information security as well as increased risks since Covid and as a result of more homeworking and more mobile assets.	Q2 2023/24	Q3 2023/24
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q3 onwards:		
IT Applications	This audit will review the clarity of system ownership for a selection of IT applications. If ownership is not clear, then risks may not be managed effectively.		
Cyber security	Cyber threats are a high risk for all organisations and it's essential that controls are in place to manage the risks they present.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
<b>Operational audits</b>			
<b>Category 1 (do now)</b>			
Children's Commissioning and Contract Management	Deferred from 2020/21. Links to the audit work carried out last year following the Ofsted inspection. There have been delays due to a lack of officer availability. This is now at the draft report stage.	March 2022	June 2023
Middlesbrough Development Company	Significant priority for the Council. This is now at the draft report stage.	August 2022	June 2023
Tees Community Equipment Service	A review of the service along with compliance with financial procedures.	October 2022	June 2023
Homecare	A review of homecare payments was identified as an area for audit following other work; we have identified issues at other Councils.	November 2022	June 2023
Schools themed audit – School's Financial Value Standard	There have been changes to the requirements relating to related party transactions for schools and this will be considered as part of the audit.	November 2022	June 2023
Regeneration projects	An action from the Boho X audit report was to review the project management of other regeneration projects.	January 2023	June 2023
Disabled Facilities Grant	This has been raised as an area for review by the relevant DMT.	February 2023	June 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Domestic abuse	The number of domestic abuse-related crimes recorded with the Police has increased by 7.7% in the year to 31 March 2022 according to the Office for National Statistics. It is therefore a priority area for the Council.	May 2023	July 2023
Supporting families	Quarterly review of grant claims.	Ongoing	Ongoing
<b>Category 2 (do next)</b>			
Selective landlord licensing	This has been raised as an area for review by the DMT. A specification has now been agreed with the service along with a start date of June 2023.	June 2023	September 2023
Early years funding	High potential risk due to the volume and value of transactions and no work has been undertaken in this area recently.	Q2 2023/24	Q3 2023/24
Ofsted Improvement Plan	This remains a high risk for the Council and progress is regularly reported to Executive. We have done work on this in the past and agreed with DMT that this would be a timely moment for some further work and review.	Q2 2023/24	Q3 2023/24
Use of residential care	The Council has a significant over-65 population. The audit will review the use of residential care and the decision-making processes.	Q2 2023/24	Q3 2023/24
Youth Justice Service (Turnaround scheme)	The South Tees Youth Justice Service is a multi-agency partnership serving the local authority areas of Middlesbrough and Redcar and Cleveland. The scheme receives funding from central government for early intervention for young people.	Q3 2023/24	Q4 2023/24
Commercial property income	The Council has a portfolio of commercial property which it leases out and it was raised as an area of risk by the DMT due to the increasing number of	Q3 2023/24	Q4 2023/24

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
	tenants. The audit would review the processes involved to acquire tenants, manage income and chase debts.		
Direct payments	High inherent risk due to potential fraud and the complexity of care packages. Has not been reviewed for some time.	Q3 2023/24	Q4 2023/24
Continuing healthcare	CHC is a key area for adult social care budget management. This includes the pressures caused from hospital discharges.	Q3 2023/24	Q4 2023/24
Social care transitions (Children's to Adult's)	This was identified as a significant risk at DMT due to the pressures on resources, the increasing number and the complexity of the individual cases. This may include several different aspects including financial and non-financial.	Q3 2023/24	Q4 2023/24
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q3 onwards:		
Schools themed audit	We set aside time as part of the audit programme to look at aspects of governance and financial management across schools, as part of a themed audit. Priorities for themed audits will be agreed with officers. One area being considered is management of school exclusions.		
Children's Services demand / budget management	The Council continues to face significant budget pressures within Children's Services. This audit would look at overall arrangements for managing demand for services and costs.		
Housing development	A review of the Council's arrangements to regenerate housing provision in the Council area.		
Regeneration projects	The Council has a number of high-profile regeneration projects underway including Captain Cook Square which are of strategic and reputational		



Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
(including Captain Cook Square)	importance to the Council. Audit work is currently ongoing on regeneration projects, and we will consider further work later in the year.		
Financial assessments (Adult's)	In the context of increasing financial pressure on care services, robust assessments can help the Council to accurately determine charges for care and work within financial constraints. This area has not been reviewed for some time.		
Climate change	Climate change is a Council priority in the Strategic Plan and the Council has a 2-year Green Strategy (2021-2023) with 3 overarching aims including to ensure the Council is a lead authority on environmental issues.		
Anti-social behaviour management	Reducing anti-social behaviour (and crime) is a Council priority in the Strategic Plan. We have conducted a recent audit and an audit would follow-up previously agreed actions.		
Homelessness	This is a high risk nationally with 271,000 people recorded as homeless in England. Middlesbrough has the highest rates of homelessness in Teesside according to the charity Shelter.		
Burials (follow-up)	An audit of the burials service was carried out in 2022/23 which provided an opinion of Limited Assurance. A follow-up review will be due towards the end of 2023/24 or early 2024/25.		
Transporter Bridge (follow-up)	This audit will follow-up the outstanding actions which remain to be implemented in relation to the maintenance of the Transporter Bridge. Implementation will depend on whether the bridge is returned to operational use.		

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# COUNTER FRAUD WORK PROGRAMME 2023/24



Date: 29 June 2023

Annex 2





**Jonathan Dodsworth**  
Assistant Director - Counter Fraud



**Max Thomas**  
Head of Internal Audit

## INTRODUCTION

- 1 Veritau undertakes counter fraud work on behalf of Middlesbrough Council. This document summarises the agreed areas of counter fraud work for 2023/24.
- 2 A total of 150 days of counter fraud work has been agreed for 2023/24. This work will comprise reactive investigations which are determined by referrals received from officers and the public about suspected fraud. Other work will be undertaken in accordance with priorities determined by the Counter Fraud Risk Assessment and Counter Fraud Strategy Action Plan (last presented to the Corporate Affairs & Audit Committee in September 2022).

## 2023/24 COUNTER FRAUD SUMMARY

- 3 A summary of planned areas of work is set out in the table below.

Area	Scope
<b>Counter Fraud General</b>	Monitoring changes to regulations and guidance, reviewing counter fraud risks, and support to the Council with maintenance of the counter fraud framework. Updates on significant fraud trends and counter fraud activities will be provided to the Corporate Affairs & Audit Committee during the year.

Area	Scope
<b>Proactive Work</b>	<p>This includes:</p> <ul style="list-style-type: none"> <li>• raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issues</li> <li>• targeted proactive counter fraud work - for example through local and regional data matching exercises</li> <li>• support and advice on cases which may be appropriate for investigation and advice on appropriate measures to deter and prevent fraud.</li> </ul>
<b>Reactive Investigations</b>	<p>Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to procedures to prevent fraud reoccurring.</p>
<b>National Fraud Initiative (NFI)</b>	<p>Coordinating submission of data to the Cabinet Office for the National Fraud Initiative (NFI) data matching programme and investigation of subsequent matches.</p>

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